

Budget Savings 2013/14
City of York Council
Internal Audit Report

Business Unit: Customer & Business Support Services
Responsible Officer: Director - Customer & Business Support Services
Service Manager: Corporate Finance Manager
Date Issued: 24/02/2014
Status: Final
Reference: 19090/006

	P3	P2	P1
Findings	1	2	0
Overall Audit Opinion	Substantial Assurance		

Summary and Overall Conclusions

Introduction

As a result of the worldwide recession the government announced unprecedented cuts in public spending. For York this amounted to a reduction in government funding of 28% over four years which began with the council having to find savings of £21m in 2011/12 and £11m in 2012/13.

In February 2013 cabinet approved a budget that laid out a further £20m of cuts to take place over the next two years, with £9m to be saved in 2013/14 and £11m saved in 2014/15.

These extensive budget savings are combined with significant financial pressures, including the increased number of vulnerable people requiring care from the council, the reduction in people's disposable incomes, recent welfare reforms and new responsibilities such as public health.

Objectives and Scope of the Audit

The purpose of this audit was to provide assurance to management there are robust plans in place to achieve savings targets and to identify potential risks to achieving these targets.

A sample of 36 savings proposals from across the council, with a combined value of £4.13 million in 13/14 and £2.72 million in 14/15, were reviewed to ensure that:

- They have been accurately assessed both in terms of the costs that can be saved and the timescale within in which the savings are to be achieved;
- there are action plans in place to deliver the savings;
- savings proposals are monitored, and potential problems are reported promptly;
- the risks that might prevent these savings from being achieved are being appropriately managed in accordance with the risk assessment published as part of the 2013-18 Financial Strategy.

Key Findings

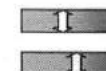
The savings reviewed were found to be well monitored and progress in achieving the savings was regularly reported. It was clear that delivery of agreed savings and identification of potential further savings are key priorities for managers across the council. Budget managers were aware of risks to delivering their savings however there is a risk to achieving recurring savings as areas of underperformance tend to be offset by identifying in year mitigation rather than always finding alternative recurring savings.

In the first 2013/14 finance monitor, pressures of £3,722k were reported. Over £2 million of this is as a result of unachieved or delayed savings. While the two year budget setting process should enable a greater emphasis to be placed on forward planning, this is not yet the case across the organisation. Early planning is not always taking place and many savings still appear to be approached on a year by year basis, with some service areas trying to catch up with unachieved savings from previous years.

However, given the pressures facing services and the scale of savings that need to be delivered, significant improvements have been made to the identifying and monitoring of budget savings since the last internal audit review undertaken in 2011/12.

Overall Conclusions

Based on the savings reviewed, it would appear that the arrangements for the monitoring and management of savings are good with few weaknesses identified. This would indicate that effective controls are in operation, but there is scope for further improvement in the areas identified. Our overall opinion of the controls at the time of the audit was that they provided Substantial Assurance.

Area Reviewed: Timescale within which the savings are to be achieved**Severity**
Probability

1	Issue/ Control Weakness	Risk
	There have been significant delays in implementing changes required to deliver some savings	Savings are not delivered due to delays in the implementation process, leading to the council overspending its budget

Findings

Seven of the savings reviewed will not be achieved in 13/14 due to delays in implementing changes. These delays were mainly due to consultations relating to changes in staffing structures, working patterns and redundancies. There was also one delay due to complexities in the procurement process. Where these delays are significant and are forecast to impact on the overall budget position, they have been reported to cabinet in the quarterly finance and performance monitoring report.

Despite the two year budget setting process, in many cases little action is taken until the approval of the budget in the February before the saving is due to be achieved; this frequently does not leave enough time to implement changes by April. A large proportion of the 2013/14 savings reviewed during the audit did not have an action plan in place until after their approval at the February 2013 council meeting and this has contributed to some savings being delivered late.

1.1 Agreed Action

Due to the political process and potential opposition party amendments it is considered sensible for officers to await formal sign off in February before starting any detailed action planning in some instances. However Finance will remind all officers responsible for delivering budget savings that appropriate action plans should be in place by April each year for all savings. Where it is not considered appropriate to do detailed delivery planning prior to Budget Council, this should be reflected in the level of saving achievable in the first year.

Priority	2
Responsible Officer	XXXXXXXXXXXXXXXXXXXX XXXXXXXX
Timescale	Feb 2014

Area Reviewed: Action plans for savings

Severity
Probability

11
11

2 Issue/ Control Weakness

Action plans are not all agreed far enough in advance and have not all been formally documented.

Risk

Potential delays in implementing savings or delays in identifying shortfalls, leading to not achieving the full saving in the first financial year, resulting in an overspend of the council's budget.

Findings

It was found that many of the savings reviewed did not have a clear action plan in place for their delivery. An action plan represents good practice and demonstrates whether a savings proposal has been accurately assessed and whether firm plans are in place for how it will be delivered. They enable monitoring and identification of possible delays and slippage. Discussions with officers revealed that although there was usually a plan for how the saving would be achieved, this was not always formally documented. This posed a particular risk to the saving when budget managers or responsible assistant directors had changed since the original proposal had been put forward, leaving it unclear how the proposed saving figure had been reached therefore how the saving would be achieved in full.

2.1 Agreed Action

Some savings require more planning than others and it must be left for individual managers and Directors to determine the level of documented action plan needed. All DMTs have Finance Manager representation who will raise this specific item and ensure that action plans are agreed at DMTs where appropriate.

Priority	2
Responsible Officer	XXXXXXXXXXXXXXXXXXXX XXXXXXXXXX
Timescale	Raise at DMTs in March / April 2014

Area Reviewed: Management of risks**Severity**
Probability**1**
1

3	Issue/ Control Weakness	Risk
	Risks to achieving savings are not managed in accordance with the risk assessment published as part of the 2013-18 financial strategy.	Potential overspend of the council's budget and added pressure from unachieved savings impacting on future years.

Findings

The risk assessment that accompanied the 2013-18 financial strategy stated that where savings cannot be delivered, one of the ways of managing this will be to ensure alternative savings are identified. It was found that where a saving would not be achieved, departments were meeting the shortfall from in year budgets rather than identifying alternative recurring savings. For example, the unachieved saving AC02a - Expansion of Reablement Services (£612K), has been mitigated by one off actions for the last two years rather than identifying an alternative recurring saving despite the expectation that this saving will not be achieved.

The risk assessment also states that the risk of increased costs of redundancy and retirement as a result of service changes will be managed by services making provisions for redundancy costs and incorporating these costs into savings calculations. It was found that there were inconsistencies across directorates regarding what provisions were made and in some cases no provision was made in the budget leading to projected overspends.

3.1 Agreed Action

Where a saving has not been achieved, it would be replaced by an alternative recurring saving if one were available. However, until a suitable proposal can be identified it will be mitigated by one off actions. The risk assessment wording will be reviewed to clarify this.

All savings proposals should include appropriate provision for redundancy costs and this will be checked and confirmed by finance managers.

Priority	3
Responsible Officer	XXXXXXXXXXXXXXXXXXXX XXXXXXXX
Timescale	March 2014

Audit Opinions and Priorities for Actions

Audit Opinions

Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit.

Our overall audit opinion is based on 5 grades of opinion, as set out below.

Opinion	Assessment of internal control
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Moderate assurance	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited Assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

Priorities for Actions

Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

