Agenda Item No. 8

Audit Committee – 25 September 2013

External Auditor's Financial Resilience Report 2012/13

1. Summary of report

1.1 This report details the External Auditor's Financial Resilience report 2012/13. Under the Audit Commission's Code of Audit Practice Grant Thornton are required to reach a formal conclusion on whether Walsall Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion). Their work in this area includes a review to determine whether the council has proper arrangements in place for securing financial resilience. The review covered:

- Key indicators of financial performance;
- Our approach to strategic financial planning;
- Our approach to financial governance; and
- Our approach to financial control.

1.2 Grant Thornton's overall conclusion is that whilst the council faces some significant risks and challenges during 2013/14 and beyond, our current arrangements for achieving financial resilience are adequate.

2. Recommendations

2.1 Audit Committee is requested to note the report.

James Walsh, Chief Finance Officer
16 September 2013

3. Governance

3.1 Each year the council's External Auditors, Grant Thornton, are required to report to the Audit Committee on the council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion). The report highlights several key points for the council to consider and includes the council's management response to these.

4. Resource and legal considerations

4.1 None directly relating to this report.

5. Performance and risk management issues

5.1 Performance and risk management is embedded in the council's processes.

6. Equality implications

6.1 None directly associated with this report.

7. Consultation

7.1 The report is prepared in consultation with finance and senior officers across the council.

8. Background papers - Various financial working papers.

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Grant Thornton

Review of the Council's Arrangements for Securing Financial Resilience for Walsall Metropolitan Borough Council

Year ended 31 March 2013

September 2013

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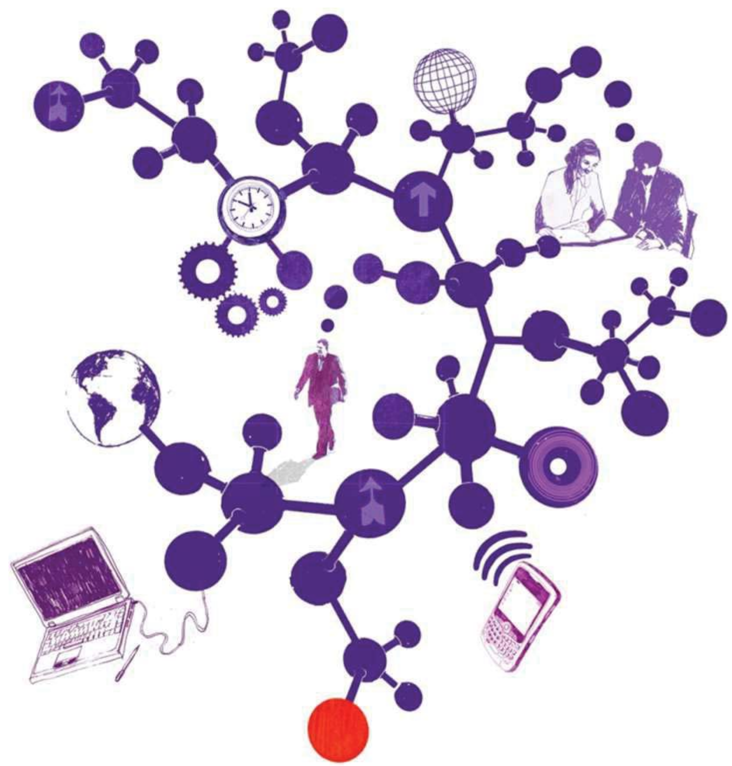

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Our approach

Value for Money Conclusion

Our work supporting our Value for Money (VfM) conclusion, as part of the statutory external audit, includes a review to determine if the Council has proper arrangements in place for securing financial resilience.

In so doing we have considered whether the Council has robust financial systems and processes in place to manage its financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. We have carried out our work in discussion and agreement with officers and completed it in such a way as to minimise disruption to them.

The definition of foreseeable future for the purposes of this financial resilience review is 12 months from the date of this report.

We have reviewed the financial resilience of the Council by looking at:

- Key indicators of financial performance;
- Its approach to strategic financial planning;
- Its approach to financial governance; and
- Its approach to financial control.

Further detail on each of these areas is provided in the sections of the report that follow.

Our overall conclusion is consistent with prior years in that whilst the Council faces some significant challenges during 2013/14 and beyond, its current arrangements for achieving financial resilience are adequate.

We have used a red/amber/green (RAG) rating with the following definitions.

Green	**Arrangements meet or exceed adequate standards**. Adequate arrangements identified and key characteristics of good practice appear to be in place.
Amber	**Potential risks and/or weaknesses**. Adequate arrangements and characteristics are in place in some respects, but not all. Evidence that the Council is taking forward areas where arrangements need to be strengthened.
Red	**High risk**: The Council's arrangements are generally inadequate or may have a high risk of not succeeding

Executive Summary

National and Local Context

National Context

The Chancellor of the Exchequer announced the current Spending Review (SR10) to Parliament on 20 October 2010. SR10 represented the largest reductions in public spending since the 1920s. Revenue funding to local government was to reduce by 19% by 2014-15 (excluding schools, fire and police). After allowing for inflation, this equates to a 28% reduction in real terms with local government facing some of the largest cuts in the public sector. In addition, local government funding reductions were frontloaded, with 8% cash reductions in 2011-12. This followed a period of sustained growth in local government spending, which increased by 45% during the period 1997 to 2007.

The Chancellor of the Exchequer, in his Autumn Statement in November 2011, announced further public spending reductions of 0.9% in real terms in both 2015-16 and 2016-17. In his Autumn Statement on 5 December 2012, the Chancellor reinforced austerity measures announcing a further £6.6bn of savings during 2013-14 and 2014-15. Whilst health and schools will be continue to be protected in line with the Government's policy set out in SR10, local government will continue to face significant funding reductions. The Department for Communities and Local Government will contribute £470m of these additional savings, £445m of which will come from local authority funding during 2014-15, with local authorities being exempt from additional savings in 2013-14. In his March 2013 Budget the Chancellor announced further departmental 1% savings during each of 2013-14 and 2014-15. The NHS and schools remain protected, but police and local government will need to find an additional 0.5% over both years.

The next spending round period, 2015-16, was announced by the Chancellor on 26 June 2013, and stated that the local government will face a further 10% funding reduction for this period. Figures from the Local Government Association however, put this figure closer to 15%.

These funding reductions come at a time when demographic and recession based factors are increasing demand for some services, and there is a decreasing demand for some services, such as car parking, where customers pay a fee or charge.

Financial austerity is expected to continue until at least 2017.

Local Context

Walsall is a large town within the conurbation of the West Midlands with a population of approximately 269,300 (Census 2011). According to the Index of Multiple Deprivation (2007) Walsall ranked the 45th most deprived out of 354 local authorities in England. Economic inactivity at 17.6% of the working age population is higher than the regional and national rates of 13.7% and 11.9% respectively.

This area has therefore been particularly affected by spending cuts and reduced income within a landscape of increased demand for public services. This will be emphasised further over the coming months, as the Council will bear the financial impact of any non-collection of business rates since the introduction of the Business Rates Retention scheme. Furthermore, the indicative allocation for Walsall in respect of future funding is a baseline reduction of 10.2% in 2014/15 and just under 25% for 2015/16.

Additionally, in line with a number of other councils, the Council has received a large number of claims for back pay in relation to equal pay arising from the implementation of the 'single status' agreement. While the equal pay provision is reducing over time (in 2013/14 it is £6.271m down from £7.519m in 2011/12), the Council continues to incur significant legal costs, both in the time spent dealing with the cases by the in-house team, as well as payment to the Council's external advisors.

Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Key Indicators of Performance	After taking into account transfers to reserves, the net position for the council is an underspend of £1.494 million. The general fund balance has increased by £2.453 million. The Council has a balanced budget for 2013/14 and a comprehensive Medium Term Financial Strategy covering the next five years. Sickness absence levels have reduced in 2012/13 from 9.13 per FTE to 8.95 per FTE but are still above the Council's target of 8. The Council should continue to monitor this area.	Green
Strategic Financial Planning	The Council maintains up to date corporate plans which are regularly reviewed and challenged, enabling swift responses to external factors. These are closely linked to budgets. Planning arrangements are collaborative with scenario planning to aid the prioritisation of resources.	Green
Financial Governance	The governance arrangements in respect of finance are generally fit for purpose. The Council has good structures to promote its financial governance including risk management, internal audit and strong engagement with CMT and Members.	Green
Financial Control	The Council continues to maintain strong financial performance management and budgeting systems with an inclusive approach for all stakeholders. These underpin its financial control.	Green

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Key Indicators of Performance	The Council is aware of the challenges ahead in respect of maintaining sufficient levels of reserves as austerity measures continue. It continues to increase its level of reserves in order to smooth the path ahead. Continuing to monitor this in 2013/14 and beyond, particularly in light of the unknowns in relation to the volatility of the business rates retention scheme, will be pivotal.	Assistant Director, Finance and S151 Officer (CFO)	On-going	Reserves are monitored on an on-going basis by the Head of Finance and CFO. Modelling up to and beyond the next 5 year period is undertaken to ensure reserves remain at an adequate level. The Council is in a strong position to meet the challenges ahead. Business rate collection is monitored monthly and modelled within the Medium Term Financial Plan (MTFP).
Key Indicators of Performance	As schools balances have increased each year as a percentage of Dedicated Schools Grant, since 2010/11, the Council should continue to work with schools to ensure its schools' balances are adequate, but not excessive. It is noted that the Council is in line with the broad trend of its benchmark group, see Appendices.	Assistant Director, Finance and S151 Officer (CFO)	On-going	We note that Walsall school balances are in broad line with the trend of its benchmark comparator group. The Council continues to work with schools to ensure balances are adequate but not excessive.
Key Indicators of Performance	The Council should be congratulated for the fifth successive year in which its sickness absence levels have fallen. However, it still remains above the local government norm and should continue to monitor this to endeavour to meet its target of 8.0 days.	Corporate Management Team (CMT)	On-going	Sickness absence levels continue to be monitored on a monthly basis. The target of 8.00 days was intended to be a challenging target.

Executive Summary

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Financial Governance	The section 151 officer is not a full member of the leadership team. Best practice in accordance with CIPFA's "A Statement on the Role of the Finance Director in Local Government" advised that to fulfil the role effectively, the finance director should be a member of the authority's corporate management team. A direct line of reporting from the statutory officer roles to the Chief Executive, will become ever more important as the Council comes under increasing pressure from funding reductions. The Council should consider the structure of its statutory roles in accordance with best practice.	Chief Executive	-	The council needs an organisational design that meets the challenges it faces. There is no shortage of advice from professional bodies about how this can be achieved. The appropriate test is 'does the current arrangement work'. The available evidence would suggest the current arrangements do work. The S151 officer has direct access to the Chief Executive and this is regularly used. The S151 officer has the right to attend corporate management team meetings. This is also regularly exercised. There is no contra-indicator that suggests that organisational design changes with potentially significant non financial implications are currently required. Should this situation change the issue would of course be reviewed.

1 Executive Summary
2 Key Indicators
3 Strategic Financial Planning
4 Financial Governance
5 Financial Control

Appendix - Key indicators of financial performance

Key Indicators

Introduction

This section of the report includes analysis of key indicators of financial performance, benchmarked where this data is available. These indicators include:

- Working capital ratio
- Long term borrowing to tax revenue
- Long term borrowing to long term assets
- Sickness absence levels
- Out-turn against budget
- Useable Reserves: Gross Revenue Expenditure
- Schools Reserves - Balances to DSG allocations

We have used the Audit Commission's nearest neighbours benchmarking group comprising the following authorities:

Swindon Borough Council
Stockton on Tees
Dudley Metropolitan Borough Council
Doncaster Metropolitan Borough Council
Darlington Borough Council
Kirklees Metropolitan Borough Council
Calderdale Metropolitan Borough Council
Bolton Metropolitan Borough Council
Peterborough City Council
Stoke on Trent City Council
St. Helens Metropolitan Borough Council
Rotherham Metropolitan Borough Council
Coventry City Council
Walsall Metropolitan Borough Council
Wolverhampton City Council

We have also made some comparisons between the Council and the Metropolitan Borough Council benchmark group.

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Liquidity	• The Council's working capital ratio for 2012/13 is 2.73, which means its current assets are in excess of its current liabilities. A high working capital ratio is not always a good thing, for example, it could indicate that an authority is not investing its excess cash. However, the Treasury Management performance is strong, as the surplus cash is rigorously invested subject to daily treasury management assessments. • A large amount of the current assets held by Walsall is short term investments, (£120.4 million) as opposed to cash and cash equivalents (£3.9 million). Interest income amounts to £4 million, which demonstrates that the Council is making its surplus cash work for it.	Green
Borrowing	• The Council's long-term assets to long-term borrowing ratio is 0.52 in 2012/13 compared to 0.55 in 2011/12. As a result, there is a low risk attached to this aspect of its financial performance. • The Council monitors its Treasury Management performance against prudential indicators as well as locally set indicators and has met all such requirements for the 2012/13 financial year.	Green
Workforce	• The Council has continued to monitor sickness absence rates. In 2011/12 sickness absence was on average 8.95 days per FTE which is lower than the 2011/12 average of 9.13 days. This represents a significant improvement in comparison to previous years, but is above the local government norm and outside the Council's target of 8.00 days per FTE. Consequently, the Council should continue to monitor this area closely.	Amber
Performance Against Budgets: revenue & capital	• In 2012/13 the Council achieved a £1.49 million underspend against a gross revenue budget of £663.35 million. This represents 0.2% of the total. (0.1% underspend achieved in 2011/12 of £0.580 million).	Green

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Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Reserve Balances	• The general fund balance increased by £2.453 million. This included a transfer of £17.021 million from earmarked reserves to match against related expenditure in the year. • The general fund balance at 31 March 2013 stands at £16.612 million. • The Council's reserves are generally consistent with its statistical neighbours.	Green
Schools Balances	• Schools balances have reduced by 3.4% during the year from £12.095 million in 2011/12 to £11.679m in 2012/13. Overall, the Council's schools balances as a percentage of income is 7.94%, which is in line with the Council's benchmarked comparator group, but is an increase on the prior year percentage of 6.3%. • The Council should continue to work with schools to reduce these balances.	Green

Strategic Financial Planning

Key characteristics of good strategic financial planning

In conducting our review of strategic financial planning we have assessed the Council's performance against the following indicators:

- Focus on achievement of corporate priorities is evident through the financial planning process. The MTFP focuses resources on priorities.
- The MTFP includes outcome measures, scenario planning, benchmarking, resource planning and details on partnership working. Targets have been set for future periods in respect of reserve balances, prudential indicators etc.
- Annual financial plans follow the longer term financial strategy.
- There is regular review of the MTFP and the assumptions made within it. The Council responds to changing circumstances and manages its financial risks.
- The Council has performed stress testing on its model using a range of economic assumptions including CSR.
- The MTFP is linked to and is consistent with other key strategies, including workforce.
- KPIs can be derived for future periods from the information included within the MTFP.

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Focus of the MTFP	• The Council has a well developed process which integrates with corporate and service planning within the context of the MTFS. The framework and plan is flexible to allow the Council to target resources at changing priorities and underpinned by robust procedures. risks and economic and demographic changes and trends are modelled and included. Emerging pressures on resources are also identified and quantified. • The MTFS demonstrates that the Council has given detailed thought to how it will achieve its priorities and has actions linked to these taking into consideration resources available. • Arising from the MTFS is the Corporate Plan and Treasury Management Strategy which is a corporate budget plan translating the strategy into a practical plan of action for the Council.	Green
Adequacy of planning assumptions	• In setting the corporate budget plan, the Council considers the national and local context to ensure that the assumptions made are appropriate in setting the revenue and capital budgets. The key assumptions are in relation to the council tax freeze grant and the Business Rates Retention Scheme. The Council has rightly recognised that one of the key drivers over the medium term will be to monitor the business rates collected, as this is likely to be subject to volatility.	Green
Scope of the MTFP and links to annual planning	• The Council's MTFS is produced annually and covers a five year horizon. The current MTFS covers the period 2013/14 to 2018/19 and is reviewed by Cabinet at least annually, but more regularly if updates are required. It is the strategic framework within which the council's finances are constructed and managed, translating aims and objectives into plans for delivery. • The Council is focusing on long term efficiencies which are sustainable such as deleting vacant posts which represent a recurring cost saving, and systems rethinking through the Working Smarter programme. • Stakeholders are consulted as part of the budget planning process. • The proposals in the MTFS and the MTFP are adequately reflected in supporting plans, eg Housing Strategy, Asset Management Plan. Likewise the MTFS itself draws on wider strategies such as the Sustainable Community Strategy which looks ahead to 2021, as they share overarching objectives.	Green

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Review processes	• The Council has openly communicated medium to long term financial pressures and the likely consequences for staff. • Senior Management review budgets and performance against them on a monthly basis. • The MTFP is routinely reviewed and updated to reflect the current landscape. The MTFS is reviewed and approved by Cabinet annually, but the Council's performance against this and the MTFP is considered at least quarterly by Cabinet. • The Audit Committee meets monthly and receive the MTFS for review and comment as required. • Reserves and earmarked reserves are reviewed monthly by Finance any requests for earmarked reserves and capital or revenue carry forwards at the end of the financial year are required to be authorised by both the Head of Finance and the Chief Finance Officer. • The benefits realisation plan (delivery of savings) is reported monthly to the Working Smarter Programme Board and corrective and alternative actions reviewed. • Financial risk assessments are reviewed monthly and these are used to inform budgets and forecasting.	Green
Responsiveness of the Plan	• The Council has considered, reviewed and articulated the risks of non-achievement of budget and savings targets in the MTFP. • The Council's senior management continue to monitor the progress of efficiency measures. • The MTFP is reviewed regularly to ensure that it reflects the current challenges faced by the Council. • The Council is seeking innovative ways to change its service delivery by employing systems thinking and applying the Working Smarter programme. The Council acknowledges the need to monitor the benefits realisation of this programme, and therefore reports to the Programme Board monthly so that corrective and alternative plans can be discussed and reviewed.	Green

Financial Governance

Key characteristics of effective financial governance

In conducting our review of financial governance we have assessed the Council's performance against the following indicators:

Understanding

- There is a clear understanding of the financial environment the Council is operating within:
  - Regular reporting to Members. Reports include detail of action planning and variance analysis etc.
  - Actions have been taken to address key risk areas.
  - Officers and managers understand the financial implications of current and alternative policies, programmes and activities.

Engagement

- There is engagement with stakeholders including budget consultations.

Monitoring and review

- There are comprehensive policies and procedures in place for Members, Officers and budget holders which clearly outline responsibilities.
- There is a low number of internal and external recommendations overdue for implementation.
- Committees and Cabinet regularly review performance and it is subject to appropriate levels of scrutiny.
- There are effective recovery plans in place (if required).

Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
Understanding the Financial Environment	• The Cabinet is made aware of financial matters on a timely basis, by review of Corporate Financial Performance against budget at least quarterly. • The financial instructions and standing orders cover financial management responsibilities. • Members and Officers are adequately financially aware and have an understanding of the main risks which face the Council. The main risk is highlighted as being the uncertainty surrounding the funding reductions in coming years and this is adequately expressed in both the MTFS and Corporate Budget Plan and Treasury Management Strategy. • Similarly they are aware of the on-going legal proceedings being undertaken by the Council in respect of equal pay claims. • The Head of Internal Audit's Opinion for 2012-13 is that the Council's overall system of internal control provides a significant level of assurance regarding the effective, efficient and economic exercise of the Council's functions. • The Council continues to take a long term approach to efficiency planning. This is made possible by having a strong understanding of both internal and external factors affecting the Council. • There is a strong risk management framework in place and high level risks are reported to Audit Committee at each meeting. The corporate risk management methodology is updated to reflect current risks. • Risks are scrutinised by the Audit Committee.	Green
Executive and Member Engagement	• There is adequate internal and external engagement in the budget setting process: the Council are proactive in seeking the views of the electorate through the use of online budget simulators and leaflet distributions. • The section 151 officer has a presence on the leadership team and in accordance with the Council's Rule of Procedures, (paragraph 21), is entitled to attend any meeting of the Executive and its Committees. However, the section 151 officer is not a full member of the leadership team. Best practice in accordance with CIPFA's "A Statement on the Role of the Finance Director in Local Government" advised that to fulfil the role effectively, the finance director should be a member of the authority's corporate management team. • Decisions draw on a raft of information from various sources in order to determine local priorities. • To achieve the nine priorities identified in the corporate plan, cabinet members have each identified their own portfolio of objectives and have worked together with directorates to develop a number of key actions / initiatives as set out in the plans. • There is an Audit Committee, which continues to be proactive in seeking to strengthen its arrangements. During the year the Committee resolved to increase its independent membership from 1 to 3 members. • The Audit Committee meets with internal and external audit privately in order to raise any concerns it might have.	Amber

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Understanding and engagement

Area of focus	Summary observations	Assessment
Overview for controls over key cost categories	• The Finance Department has a sound system of financial control which is fit for purpose and reliance can therefore be placed on it to produce accurate financial reports. • Budget monitoring continues to improve following the introduction of Qlikview (a forecasting tool) which assists managers to more accurately predict monitoring positions. An upgrade to Qlikview is planned for the coming year, which will enable the Council to further improve forecasting.	Green
Budget reporting: revenue and capital	• The Council produces a financial monitoring report quarterly for review by the Corporate Management Team (CMT) and Cabinet. • The financial reporting is designed to help officers and members identify issues and includes: ➢ a high level summary of the current position against budget supported by detailed appendixes ➢ an update on the year end forecast position ➢ a review of capital expenditure against budget ➢ treasury management updates.	Green
Adequacy of other Committee/ Cabinet Reporting	• A Corporate Financial Performance Report is taken to Cabinet every other committee cycle as a minimum. This highlights financial pressures and variances worthy of scrutiny together with any mitigating actions taken. It includes both revenue and capital spend. • Capital programme data includes new/amendments to grants and changes to the capital programme. • There is a comprehensive system of performance monitoring and reporting which takes place at service management, executive and member level which includes scrutiny committees, performance panels and cabinet. Challenge and corrective action is undertaken and monitored. • Both in-year and high level variances are highlighted and action identified and reported regularly.	Green

Financial Control

Key characteristics of effective financial control

In conducting our review of financial control we have assessed the Council's performance against the following indicators:

Budget setting and budget monitoring

- Budgets are robust and prepared in a timely fashion.
- Budgets are monitored at an officer, member and Cabinet level and officers are held accountable for budgetary performance.
- Financial forecasting is well-developed and forecasts are subject to regular review.

Savings Plans

- Processes for identifying, delivering and monitoring savings plan schemes are robust, well thought through and effective.

Financial Systems

- Key financial systems have received satisfactory reports from internal and external audit.
- Financial systems are adequate for future needs.

Finance Department

- The capacity and capability of the Finance Department is fit for purpose.

Internal Control

- There is an effective internal audit which has the proper profile within the organisation. Agreed Internal Audit recommendations are routinely implemented in a timely manner.
- There is a an assurance framework in place which is used effectively by the Council and business risks are managed and controlled.

Financial Control

Internal arrangements

Area of focus	Summary observations	Assessment
Budget setting and monitoring - revenue and capital	• The annual budget is created on an incremental basis (using historic baselines with adjustments for inflation, growth and current savings pressures), drawing upon various stakeholders in order to ensure that relevant data is gathered and used to inform decision making. Furthermore, it builds on this to include the financial implications of future and planned service changes, changes to charging mechanisms (such as benefits based charging). The Working Smarter Programme (through targeting resources based on customer requirements) had led to a move from incremental budgeting towards budgeting based on customer requirements and the costs of meeting these. • The Cabinet provides challenge to the budget assumptions at private budget meetings. Monthly meetings are also held with the portfolio holder for Finance, who, during the year, has received analytical reviews of Council-wide monitoring and forecasting and challenges variations from budgets. • Executive and Assistant Directors and accountable budget holders are required to sign up to delivering their service on-budget. Services risk assess their financial position on a regular basis, and risks which have a high level of certainty of occurring in the region of £50k are separately identified and noted as being actively managed to minimise any impact on the financial forecast for the year.	Green
Performance against Savings Plans	• The Council is seeking to transform the way it undertakes its business through the Working Smarter Programme, with a view to reducing overhead and transactional costs. Service managers of all levels are responsible for delivering targets and service outputs on time, to standard and within budget. With their teams, they are involved in budget construction, bidding for investment and working up savings options, both independently from, and as part of, the Working Smarter Programme. The CMT and Cabinet have continuously reviewed the evolving budget. • New savings options for 2012/13 were identified of £11.80m. Those savings requiring executive approval to proceed were approved by Cabinet on 9 November 2011 and 14 December 2011. Further full year effect savings of £1.04m are included relation to decisions taken with regard to the 2011/12 budget and details are outlined in each portfolio plan, which form part of the MTFP. • The savings plan ensure that a balanced budget can be achieved, and the monitoring of the budget is reported to Cabinet on a quarterly basis.	Green

Financial Control

Internal arrangements

Area of focus	Summary observations	Assessment
Key Financial Accounting Systems	• The Council has well established procedures and systems to ensure quality of financial information to ensure decision making is made with correct information. This has been verified by Internal Audit. • The Council's financial system is based on the Oracle E-business suite. The major modules are the General Ledger; Accounts Payable for paying the Council's invoices; Accounts Receivable for raising invoices to debtors; and I-Proc for raising orders with the suppliers. Oracle links with other Council Finance systems, some through automated interfaces in areas such as Cash Income, others through an element of automation and manual intervention such as Payroll, and Social Care Client payments. All these are subject to in depth checks to ensure the integrity of the systems and feeders. • During 2011/12 the Council moved to Qlikview, which aids managers to more accurately predict monitoring positions. An upgrade to Qlikview is planned for the coming year, which will enable the Council to further improve forecasting. • The Council has purchased an asset management system. This was run parallel to the previous spreadsheet database for the purposes of the 2012/13 financial statements, but will become standalone for 2013/14. This will enable the Council to more readily and easily account for its non-current assets.	Green

Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
Finance Department Resourcing	• There has been continuity of staff for key posts within the Finance department and, as a result, this has not represented a risk in 2012/13. • Finance staff within directorates have been shuffled recently, giving finance team members exposure to different areas of the Council. This gives comfort over succession planning, and the requirement of the finance team as a whole to be able to cover if key members of staff are absent.	Green
Internal audit arrangements	• Internal Audit is an in-house function, (with the exception of elements of Information Technology audits, which are outsourced to a private provider). The audit plan is varied and tailored to meet the requirements of the Council arising from risk monitoring processes and the identification of the "audit universe" as it applies to each directorate and function. • A comprehensive set of risk registers is maintained. The Corporate Risk Register is reported to the Audit Committee which selects risks for further scrutiny. Directorate risks are reviewed at performance boards and the CMT reviews overarching risks. • Reports of no and limited assurance are presented to each Audit Committee and actions followed up.	Green
External audit arrangements	• The main points from the 2011/12 Financial Resilience Report noted that the Council should take action in 2012/13 to further its arrangements to: ➢ maintain its continued attention to holding sufficient levels of reserves as austerity measures continue ➢ closely monitor the Council's schools balances ➢ reduce sickness absence days in line with the challenging target the Council has set itself of 8.00 days per FTE. ➢ Carefully monitor the MTFP to ensure it adequately reflects the financial uncertainty and the scale of savings required ➢ Target the use of benchmarking to ensure that it understands its cost base compared to other councils, to enable it to identify further efficiencies • As noted within this report, the Council has made good progress in addressing these issues in 2012/13.	Green
Assurance framework/risk management	• The councils approach to risk management is set out in its corporate risk management strategy which designates responsibility for the management of risk across all members and officers of the council. • Services identify and monitor service risks, which feed into directorate risk registers. Each directorate risk register is then used to inform the overarching Corporate Risk Register which is reported on twice a year to officers and members.	Green

Appendix - Key indicators of financial performance

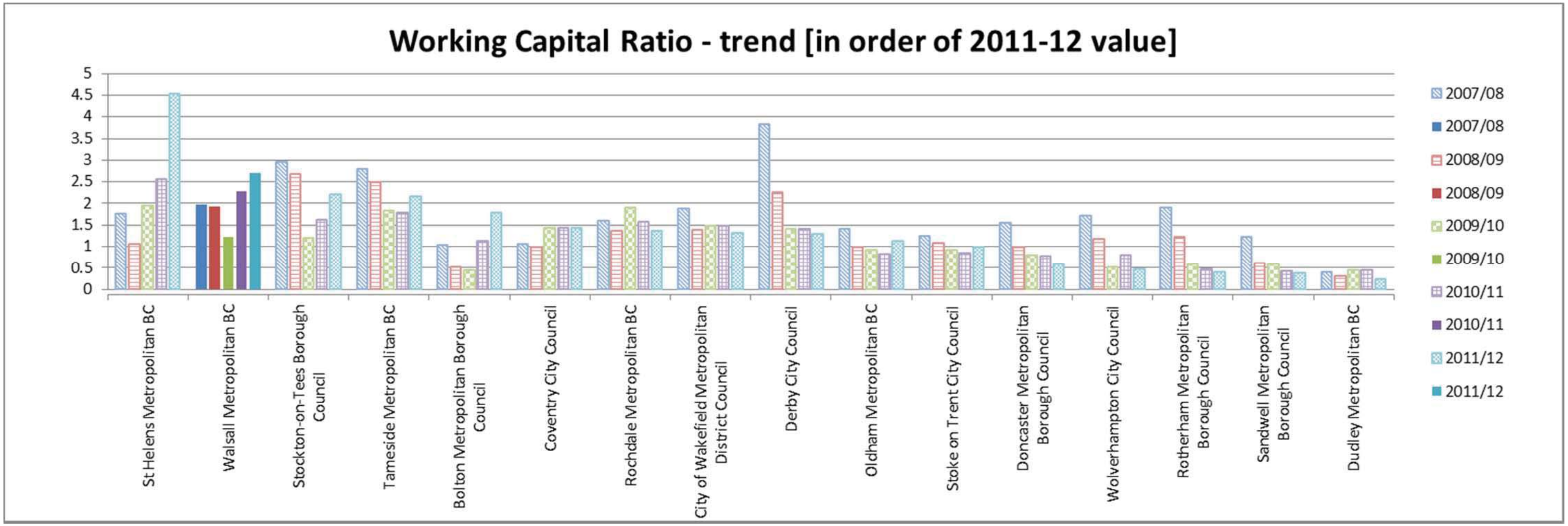
Working Capital - Benchmarked

Definition

The working capital ratio indicates if an authority has enough current assets, or resources, to cover its immediate liabilities - i.e. those liabilities to be met over the next twelve month period. A ratio of assets to liabilities of 2:1 is usually considered to be acceptable , whilst a ratio of less than one - i.e. current liabilities exceed current assets - indicates potential liquidity problems. It should be noted that a high working capital ratio isn't always a good thing; it could indicate that an authority is not effectively investing its excess cash.

Findings

Walsall's working capital ratio continues to increase from 1.97 in 2007/08 to 2.70 in 2011/12. The 2012/13 results show a further increase to 2.73. This means the Borough is comfortably above the preferred range of 2:1 and it compares favourably to its comparative group..



Source: Audit Commission's Technical Directory

Key Indicators of Financial Performance

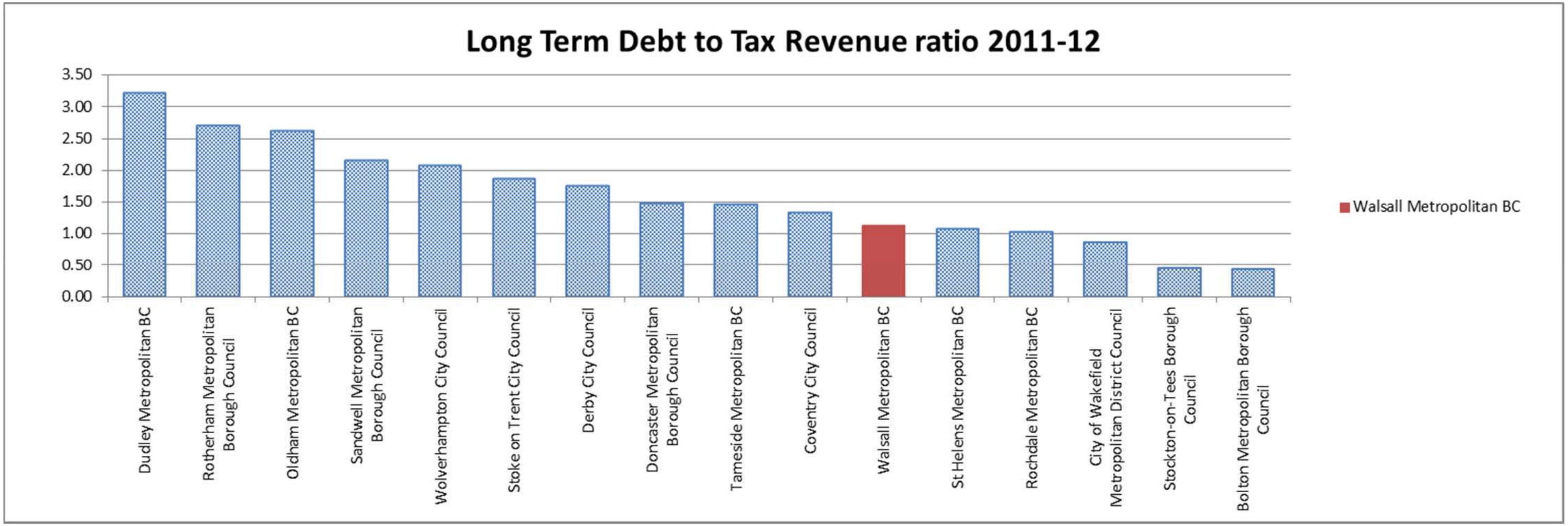
Long Term Borrowing to Tax Revenue - Benchmarked

Definition

Shows long tem borrowing as a share of tax revenue. A ratio of more than one means that long term borrowing exceeds council tax revenue.

Findings

Walsall's ratio of 1.13 for 2011/12 . This has increased for 2012/13 to 1.65. This indicates that it has long term borrowing which exceeds tax revenue. However, Walsall is comfortably within its comparator group which has ratios ranging from 0.44 to 3.21.



Source: Audit Commission's Technical Directory

Key Indicators of Financial Performance

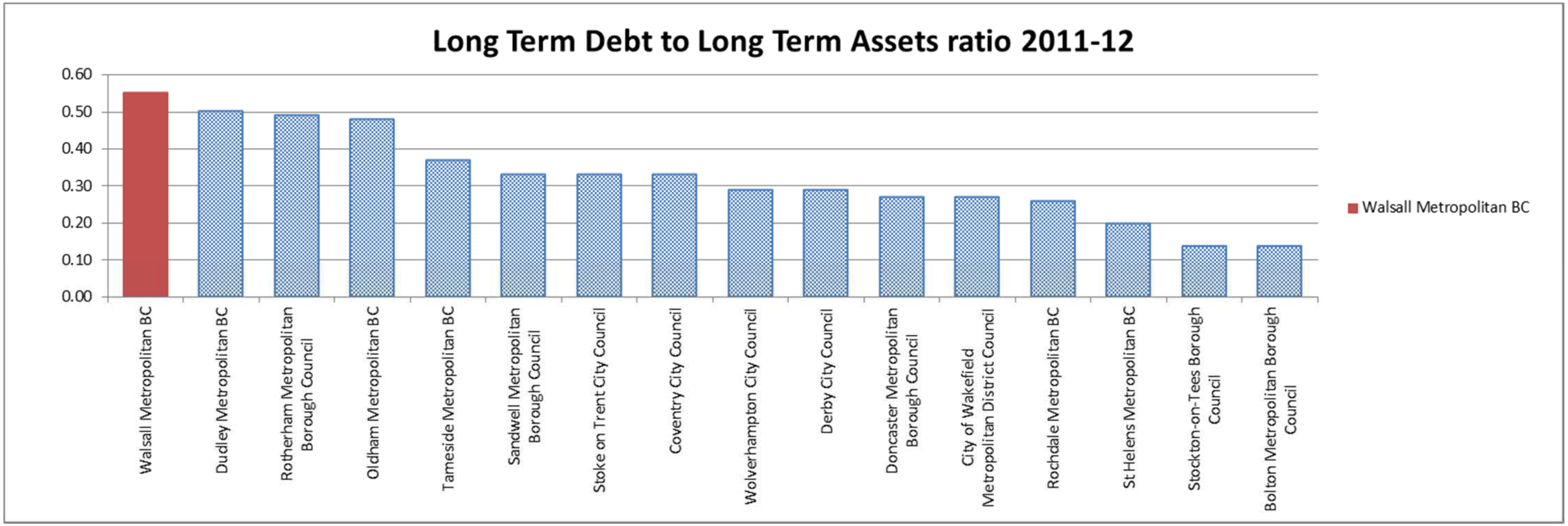
Long-term borrowing to Long-term assets - Benchmarked

Definition

This ratio shows long tem borrowing as a share of long term assets. A ratio of more than one means that long term borrowing exceeds the value of long term assets.

Findings

Walsall's 2011/12 ratio of 0.55 shows that the Council's long term borrowing represents approximately one half of its long term assets - i.e. long term borrowing does not exceed its long term assets. This has reduced in 2012/13 to 0.52. In comparison to other authorities in this benchmarked group, Walsall has the highest long term borrowing to long term assets ratio. This is consistent with previous years, as the Council have been at the top end of the comparator group, but this has been due to a level of forward planning by the Council with regard to equal pay.



Source: Audit Commission's Technical Directory

Key Indicators of Financial Performance

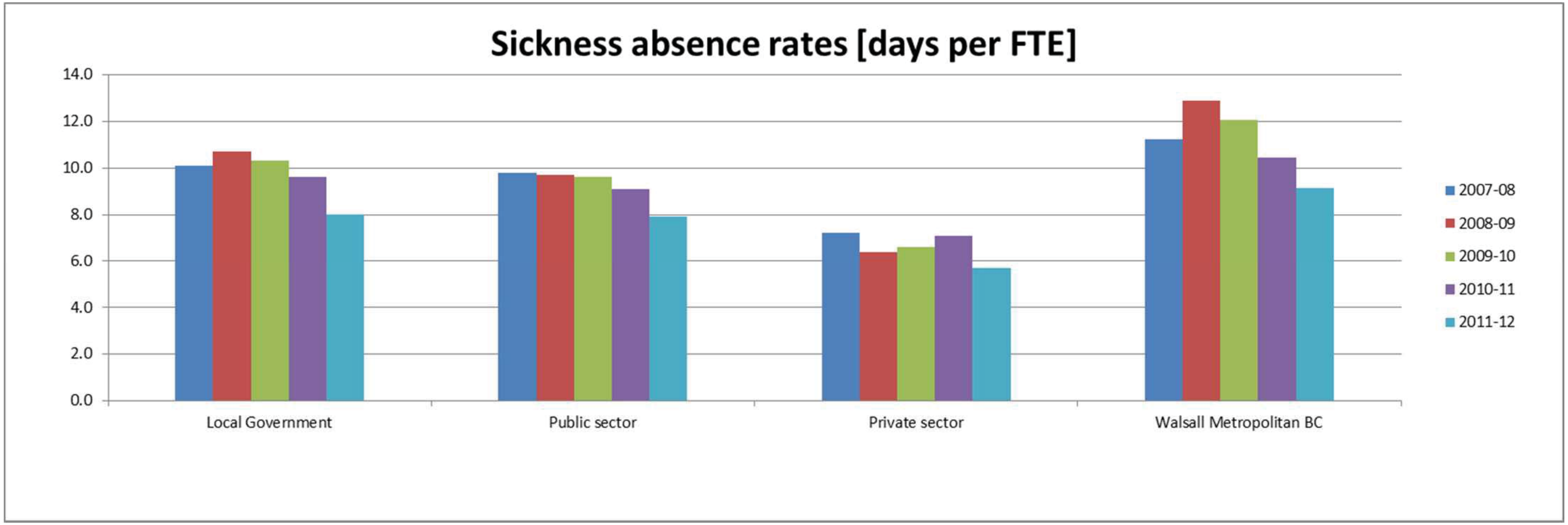
Sickness Absence Levels

Background

The average sickness absence level for the public sector in 2011/12 was 7.9 days per FTE, whilst the private sector average is 5.7. Many councils have taken a proactive approach to reducing the number of days lost to sickness each year. Costs that accrue from sickness absence relate to the hiring of agency staff to cover staff gaps, or from holding a larger workforce complement than is desirable. Absence also damages service levels either through staff shortage or lack of continuity. Reducing absenteeism saves money, improves productivity and can have a positive customer benefit. Absence management will continue to be a particular challenge for all authorities during the continued austerity pressures, given the context of significant pressures on staff to deliver "more for less".

Findings

Walsall's has seen a marked improvement in its sickness absence levels over the past four years due to significant investment in and monitoring of this area, due to the improvement to investment and monitoring in this area. The Council's absence level during 2011/12 of 9.13 per FTE, was both above the Council's target of 8.0, and the local government average of 7.9. The Council has made further headway towards this during 2012/13 with an absence level of 8.95 days per FTE.



Source: CIPD Annual Survey Reports

Key Indicators of Financial Performance

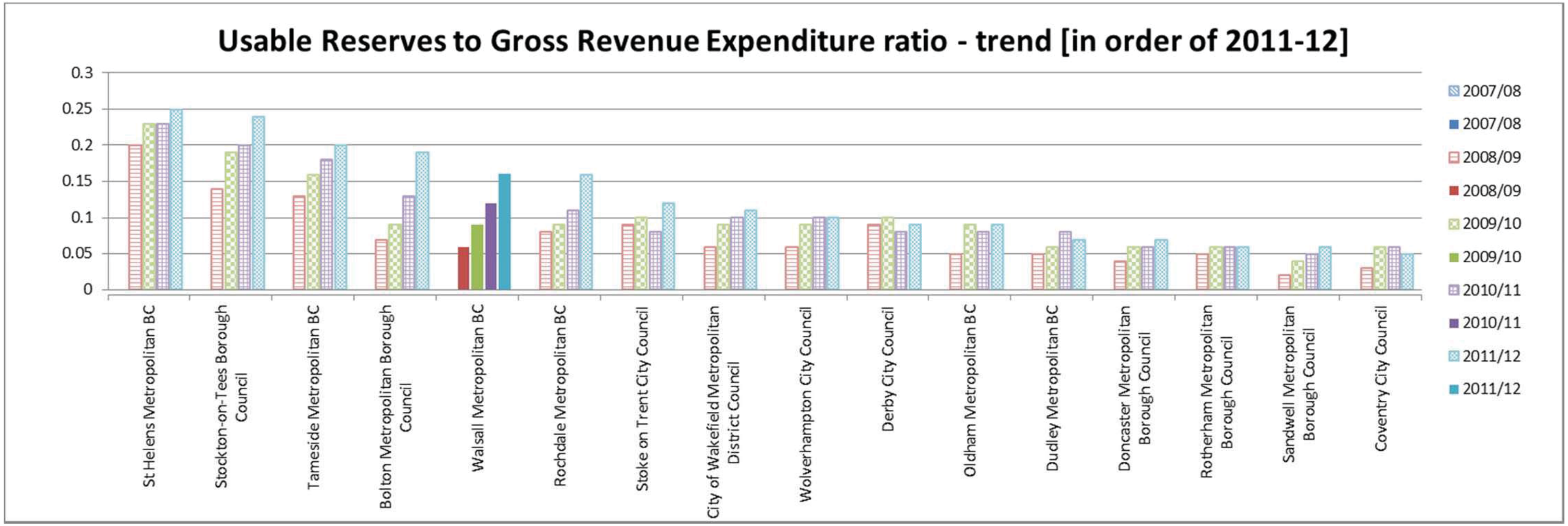
Useable Reserves - Benchmarked

Definition

This shows useable capital and revenue reserves as a share of expenditure. A ratio of one means the total reserves matches the level of expenditure.

Findings

Between 2008/09 and 2011/12 Walsall have increased the value of its useable reserves, from 0.06 to 0.16. Analysis of the 2012/13 outturn shows that this has increased for a further year to 0.20. This increase follows the trend of half of the Council's comparator set, whilst the remaining half have kept the value of their reserves relatively equal across the years, or have even reduced. This demonstrates that Walsall performs reasonably favourably in this regard.



Source: Audit Commission's Technical Directory

Key Indicators of Financial Performance

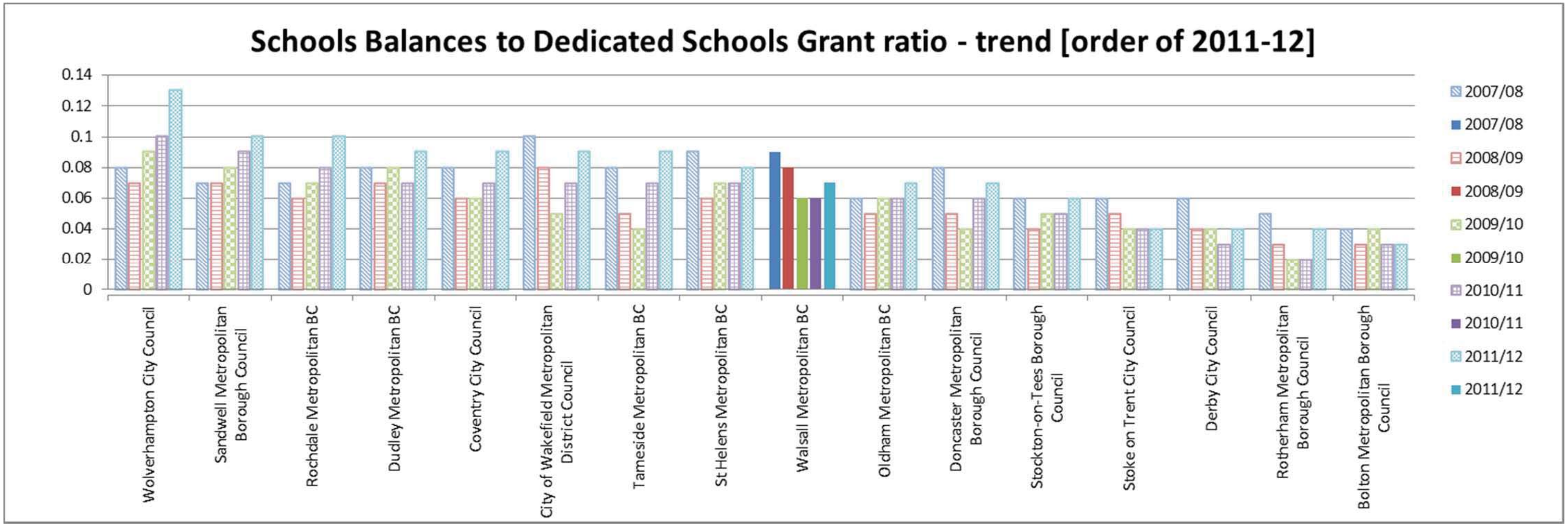
Schools balances to DSG allocation - Benchmarked

Definition

This shows the share of schools balances in relation to the total DSG allocation received for the year. For example a ratio of 0.02 means that 2 per cent of the total DSG allocation remained unspent at the end of the year.

Findings

Walsall's ratio has fluctuated over the last four years, between 6% and 9%. The 2012/13 ratio of 8% is also within this range, but is indicative of increases in this ratio for the past two years. Although this is in line with the broad trend of the benchmark group, it is important that the Council continues to monitor the schools balances to ensure that funds being allocated are being spent on the needs of today.



Source: Audit Commission's Technical Directory

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