Audit Committee – 25 February 2013

External Auditor's Financial Resilience Report 2011/12

1. Summary of report

1.1 This report details the External Auditor's Financial Resilience report 2011/12. 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 2012/13 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
18 January 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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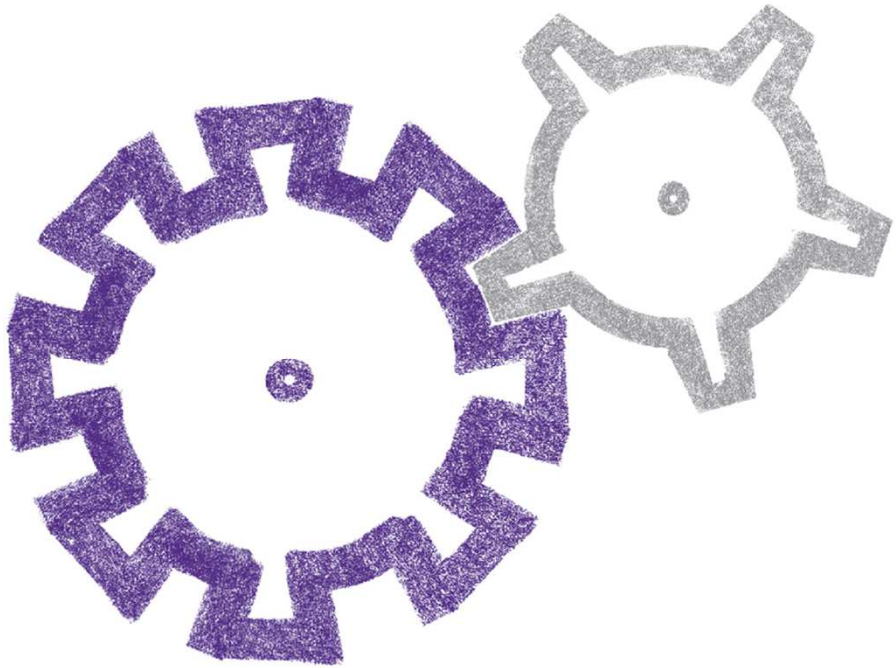
Walsall Metropolitan Borough Council

Review of the Council's Arrangements for Securing Financial Resilience

January 2013



Birmingham Public Sector Assurance

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Executive Summary

Our approach

Value for Money Conclusion

Under the Audit Commission's Code of Audit Practice we are required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion). Our work in this area includes a review to determine whether 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 with officers.

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:

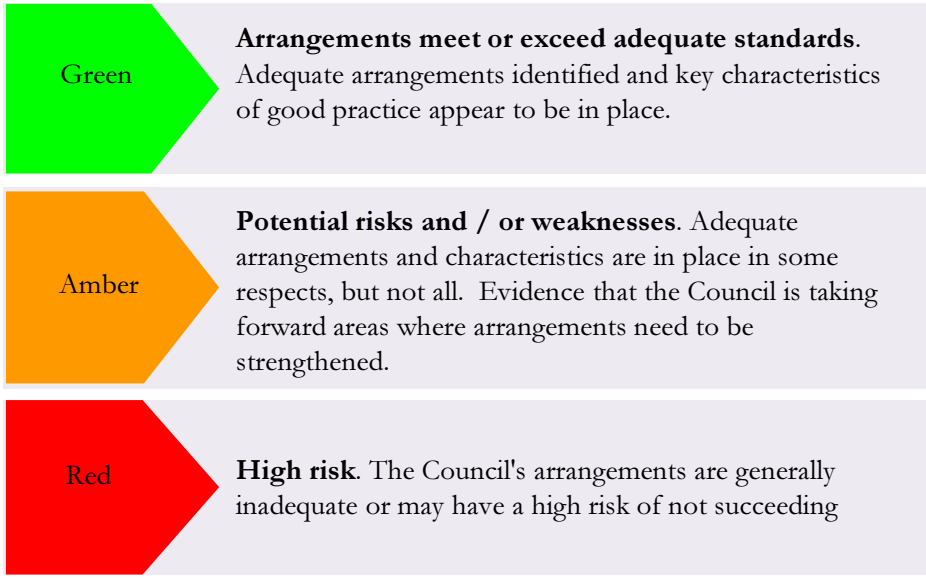
- Key indicators of financial performance;
- Its approach to strategic financial planning;
- Its approach to financial governance; and
- Its approach to financial control.

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

Our overall conclusion is that whilst the Council faces some significant risks and challenges during 2012/13 and beyond, its current arrangements for achieving financial resilience are adequate.

2011/12 is the first year of the four year Comprehensive Spending Review (CSR) period, where some of the potential risks and challenges over the medium term have yet to materialise. As a result, this report should be read in that context. Our assessment may change in future years.

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



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Executive Summary

National and Local Context

National Context

The Chancellor of the Exchequer announced the CSR to Parliament on 20 October 2010. This formed a central part of the Coalition Government's response to reducing the national deficit, with the intention to bring public finances back into balance during 2014/15.

The associated report published Government Departmental Expenditure Limits (DELs) for the four-year spending review period: 2011/12 to 2014/15. The Department of Communities and Local Government (DCLG) funding was reduced by 26% over that period.

The CSR represented the largest reductions in public spending since the 1920's. Revenue funding to local government will have reduced 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 have been frontloaded, with 8% cash reductions having been applied in 2011/12.

This follows a period of sustained growth in local government spending, which increased by 45% during the period 1997 to 2007. The funding reductions come at a time when demographic and recession based factors are increasing demand for some services and there is a decreasing demand in other areas, such as car parking, where customers pay a fee or charge.

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. Financial austerity will therefore 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 9.5% of the adult population is higher than the regional rate of 7.1% and 6.2% nationally.

This area has therefore been particularly affected by spending cuts and reduced income within a landscape of increased demand for public services.

Additionally, in line with a number of other councils, the Council has received a large number of claims for pack pay in relation to equal pay arising from the implementation of the 'single status' agreement. The equal pay provision for 2011/12 was £7.5m.

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Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Key Indicators of Performance	The Council has reported a surplus of £0.580m against budget for the year ended 2011/12. The general fund balance has increased by £0.411m. The Council has a balanced budget for 2012/13 and a comprehensive Medium Term Financial Forecast covering the next three years. Sickness absence levels have reduced in 2011/12 but are still above the Council's target. 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 have been strengthened in the light of the CSR, using a collaborative approach combined with scenario planning to aid the prioritisation of resources.	Green
Financial Governance	The governance arrangements are generally fit for purpose. The Council has good structures to promote its financial governance including risk management, internal audit and 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

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Executive Summary

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. Monitoring this in 2012/13 and beyond will be of paramount importance.	Assistant Director, Finance and S151 Officer (CFO)	On-going	• The Council monitors this on an on-going basis. It was in the position of being able to publish a balanced draft revenue budget for consultation, on 24 October 2012. Work in respect of modelling 2013/14+ is on-going and officers believe the Council is in a good position to meet the challenges that lie ahead.
Key Indicators of Performance	• As school balances rose again in 2011/12, the Council should ensure that this is closely monitored. Overall, the Council's schools balances as a percentage of income is 6.3%, which is in line with the West Midlands average (6.3%) and above the England average of 5.4%.	Assistant Director, Finance and S151 Officer (CFO)	On-going	• The Council will continue to monitor schools balances and work with schools to ensure they are adequate, but not excessive.
Key Indicators of Performance	• Sickness absence levels reduced in 2011/12 to an average of 9.13 days per FTE compared to 10.45 days in 2010/11. However this was above the Council's target of 8.00 days and, as a result, the Council should continue to monitor sickness absence levels closely.	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.

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Executive Summary

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Strategic Financial Planning	• The Council will need to continue to carefully monitor the MTFP to ensure it adequately reflects the financial uncertainty and the scale of savings required. The use of scenario planning and updated assumptions will be key to ensure that the MTFP remains realistic.	Assistant Director, Finance and S151 Officer (CFO)	On-going	• The Council is continuing to monitor the MTFP to ensure that it is fit for purpose.
Financial Governance	• The Council will need to target its use of benchmarking to ensure that it understands its cost base compared to other councils. This will enable it to identify further efficiencies.	Assistant Director, Finance and S151 Officer (CFO)	On-going	• The Council plans to target it use of benchmarking to identify further efficiencies.

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

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.

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Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Performance Against Budget	• In 2011/12 the Council exceeded its target in terms of cost savings and achieved a £0.580m underspend for 2011/12 which represents an underspend of 0.1 %. There was also an underspend in 2010/11.	Green
Reserve Balances	• The general fund balance increased by £0.411m. This included a transfer of £17.602m from earmarked reserves to match against related expenditure in the year. • The general fund balance at 31 March 2012 stands at £14.159m. • The Council's reserves are generally consistent with its statistical neighbours.	Green
Schools Balances	• Schools balances have risen by 8.6% during the year from £11.135m in 2010/11 to £12.095m in 2011/12. Overall, the Council's schools balances as a percentage of income is 6.3%, which is in line with the West Midlands average (6.3%) and above the England average of 5.4%. • The Council should continue to work with schools to reduce these balances.	Amber

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Key Indicators

Overview of performance (continued)

Area of focus	Summary observations	Assessment
Liquidity	• The working capital ratio indicates whether there are sufficient assets to cover immediate liabilities. The Council has increased its working capital ratio to 2.70 in 2011/12 compared to 2.28 in 2010/11. Liquidity is therefore not an issue. Surplus cash is rigorously invested subject to daily treasury management assessments.	Green
Borrowing	• The Council's long-term assets to long-term borrowing ratio is 1.89 in 2011/12 compared to 1.83 in 2010/11. As a result, there is a low risk attached to this aspect of its financial performance.	Green
Workforce	• The Council has continued to monitor sickness absence rates. In 2011/12 sickness absence was on average 9.13 days per FTE which is lower than the 2010/11 average of 10.45 days. This represents a significant improvement compared to the prior year but was outside the Council's target of 8.00 days per FTE. Consequently, the Council should continue to monitor this area closely.	Green

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Strategic Financial Planning

Key indicators 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 MTFS focuses resources on priorities.
- The MTFS 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 MTFS 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 MTFS 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 MTFS.

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Strategic Financial Planning

Medium Term Financial Strategy (MTFS)

Area of focus	Summary observations	High level risk assessment
Focus of the MTFS	• The Council has a well developed process which integrates with corporate and service planning within the context of the MTFS. The MTFS and Corporate Plan has been noted as best practice and sets out the financial framework and plan for the Council over the medium term. 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 MTFP which translates the strategy into a practical plan of action for the Council.	Green
Scope of the MTFS and links to annual planning	• The Council's MTFS is produced annually and covers a five year horizon. The current MTFS covers the period 2012/13 to 2016/17 and is reviewed by Cabinet regularly. It is the strategic framework within which the council's finances are constructed and managed, translating aims and objectives into plans for delivery. Cabinet review it routinely to ensure it remains current. • The Council is focusing on long term efficiencies which are sustainable such as deleting vacant posts which represent a recurring cost saving. • Stakeholders are consulted as part of the budget planning process.	Green
Adequacy of planning assumptions	• The various planning processes are interlinked, being the Sustainable Community Strategy, Corporate Plan, Service planning, financial planning, local area plans and employee performance assessments. • Assumptions around income are based on detailed analysis and track record. • The Council uses sensitivity analysis to support its actions.	Green

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Strategic Financial Planning

Medium Term Financial Strategy (MTFS)

Area of focus	Summary observations	High level risk 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 Audit Committee meets monthly. • Reserves and earmarked reserves are reviewed monthly by Finance. • 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.	 Green

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Financial Governance

Key indicators 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.
- 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).

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Financial Governance

Understanding and engagement

Area of focus	Summary observations	High level risk assessment
Understanding the Financial Environment	• There have been no significant controls issues raised by internal audit in relation to the financial environment. • 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 an Audit Committee, which has strengthened its arrangements in the last year. Councils generally are required to look at governance arrangements and opportunities to improve in advance of stricter monitoring measures being introduced. • The Council's budget consultation programme includes involvement from local residents, the voluntary sector, trades unions using a variety of consultation methods. Findings from these were fed into the budget setting process and MTFS documentation. • 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.	Green
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 has been strengthened following the introduction of Qlikview (a forecasting tool) which assists managers to more accurately predict monitoring positions.	Green

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Financial Governance

Area of focus	Summary observations	High level risk assessment
Review of accuracy of Committee/Cabinet Reporting	• The Council produces a financial monitoring report quarterly for review by the Corporate Management Team (CMT). • 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
Performance Management of Budgets	• A Corporate Financial Performance Report is taken to Cabinet every other month 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

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Financial Control

Key indicators 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.

Finance Department

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

Financial Systems

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

Internal Control

- Strength of internal control arrangements - 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 is how business risks are managed and controlled.
- The Annual Governance Statement gives a true reflection of the organisation.

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Financial Control

Internal arrangements

Area of focus	Summary observations	High level risk assessment
Performance Management of Budgets	• 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. • Cabinet provide 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.	Green
Performance against Savings Plans	• To date the Council has had a good track record in relation to meeting savings targets despite the challenges presented by austerity measures. • In 2011/12 the Council achieved its efficiency savings plans and has already made progress against its 2012/13 target. • Progress against efficiency targets is monitored monthly by senior management to ensure active monitoring of delivery. This includes any corrective action if savings are not on target. Additionally, savings are reported to CMT through the Working Smarter Programme Board.	Green
Finance Department resourcing and qualifications / experience	• There has been continuity of staff for key posts within the Finance department and, as a result, this has not represented a risk in 2011/12.	Green

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Financial Control

Internal and external assurances

Area of focus	Summary observations	High level risk assessment
Summary of 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 an Internal Audit review. • 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.	Green
Internal audit arrangements including compliance with CIPFA Code of Practice for Internal Audit	• Internal Audit is an in-house function. The audit plan is varied and tailored to meet the requirements of the Council arising from risk monitoring processes. 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 CMT review overarching risks. • The Core Risk Champions Group meets regularly to keep up to date with risks and best practice. This feeds into the general strategic direction in relation to risk management across the Council. • Reports of no and limited assurance are presented to each Audit Committee and actions followed up.	Green
External audit arrangements and programme of activities	• The main points from the 2010/11 Annual Audit Letter noted that the Council should take action in 2011/12 to further it arrangements to ➢ maintain its continued attention to the overall financial position and the quality of services that it provides ➢ reduce its sickness absence rate ➢ reduce the level of school balances. • As noted within this report, the Council has made good progress in addressing these issues in 2011/12.	Green

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