Agenda Item No. 9

Audit Committee – 24 September 2014

External Auditor's Value for Money Report 2013/14

1. Summary of report

1.1 The attached report details the External Auditor's Value for Money report 2013/14. 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) and whether the council has proper arrangements in place for securing financial resilience. The review covered:

- Key indicators of financial performance;
- The Council's 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 2014/15 and beyond, our current arrangements are adequate.

2. Recommendations

2.1 Audit Committee is requested to note the report.

James Walsh, Chief Finance Officer
15 September 2014

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) and financial resilience. 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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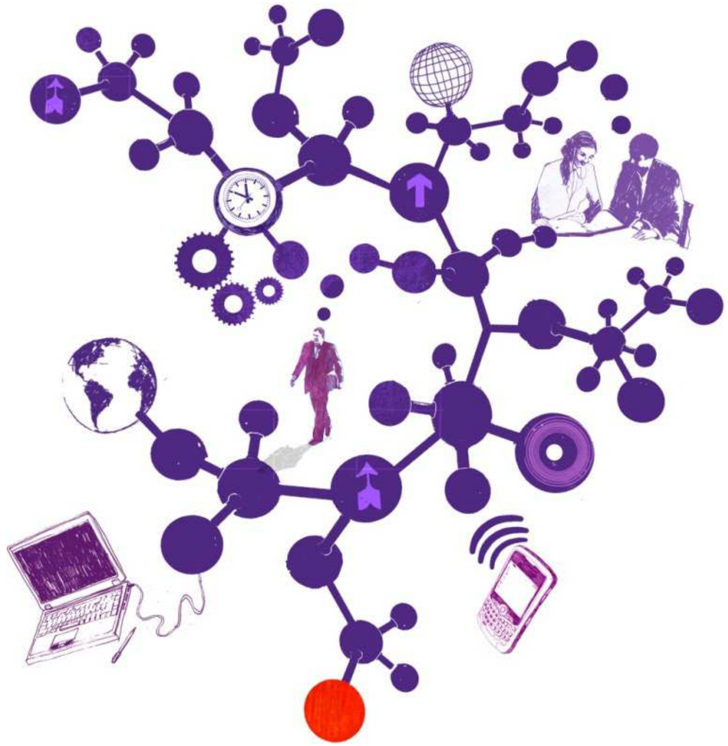
Grant Thornton

Report on Value for Money for Walsall Metropolitan Borough Council

Year ended 31 March 2014

24 September 2014



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Introduction

What is this report?

This report summarises the findings from our work supporting our Value for Money (VfM) conclusion, which is required as part of the statutory external audit responsibilities.

It compliments our Audit Findings Report, by providing additional detail on the themes that underpin our VfM conclusion.

Value for Money Conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VfM conclusion based on two criteria specified by the Audit Commission, which support our reporting responsibilities under the Code.

These criteria are:

The Council has proper arrangements in place for securing financial resilience: the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future (defined by the Audit Commission as "twelve months from the date of issue of the report".)

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness: the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

The Code requires auditors to identify significant risks to the VfM conclusion and to plan sufficient work to evaluate the impact of those risks, if any.

Our approach

The approach involves:

- desktop analysis of relevant documentation
- meetings with key internal stakeholders
- a risk assessment to identify any significant risks.

Our approach is designed to assess:

- arrangements in place related to the specified criteria
- performance during 2013/14 and what that says about those arrangements
- any significant risks that we have identified.

Introduction

What is this context?

Nationally

The 2010 Spending Review set the Coalition Government's financial settlement for the four years to 2014/15, and the 2013 Review then covered 2015/16. By the end of this period, central funding to local government will have reduced by 35%.

2013/14 is the third year of councils having to deliver efficiency savings in response to the 2010 Spending Review and, given the 2013 Review and the budget statement in 2014, this will need to continue for the foreseeable future. Delivering these efficiency savings and maintaining financial resilience is becoming increasingly difficult, even for top-performing councils. The challenges include:

- responding to welfare reform; and
- the drive towards more integrated health and social care.

Demand for many demography-driven council services is expected to rise, whereas demand for some income-earning services is falling.

To fulfil their statutory requirements, councils must continue to provide certain services. But the opposing trends in funding and demand will create a sizeable funding gap even if carefully managed. In short, the sector is working through its greatest financial challenge of recent times.

Locally

Walsall is a metropolitan borough within the conurbation of West Midlands with a population of approximately 269,300 (Census 2011). According to the Index of Multiple Deprivation (2010) Walsall ranked the 30th (49th in 2007) most deprived out of 330 local authorities in England. Economic inactivity at 28.9% of the working age population is higher than the regional and national rates of 24.8% and 22.7% respectively.

This area has therefore been particularly affected by spending cuts and reduced income within a landscape of increased demand for public services. This is emphasised even further as the Council must now 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 reduction of £21.55million for 2015/16 on 2014/15's funding allocation, with government funding for 2016/17 not yet known. The Council is aware, however, that the total savings required to be delivered over the next four years from 2015/16 are likely to amount to approximately a further £85 million.

Now, more than ever, it is important that councils have sound arrangements for securing Value for Money.

Executive Summary

Overall Risk Assessment

The following risks were identified during our VfM planning, which we needed to respond to in the course of our work:

- reduction in central government funding
- localisation of Council Tax Benefit and Welfare Reform and business rates retention scheme
- Adult Social Care managing its directorate within budget
- Uncontrollable demand of looked after children impacting on Children and Young People's services
- implementing the planning for the Better Care Fund
- the effective delivery of the Council's Regeneration Projects

We have identified residual risks in relation to Adult Social Care and Children and Young People. However, we do not consider the residual risks significant enough to impact on our overall VfM conclusion. This is detailed further on page 21 to 24.

Overall VfM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against key indicators of financial performance and the three expected characteristics of proper arrangements, as defined by the Audit Commission:

- strategic financial planning
- financial governance
- financial control.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

Over overall conclusions in respect of both securing financial resilience, and challenging economy, efficiency and effectiveness is consistent with prior years, in that, whilst the Council faces some significant challenges during 2014/15 and beyond, its current arrangements are adequate.

Executive Summary

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

Green	Adequate arrangements appear to be in place
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

Overview of arrangements

Risk area	Summary observations	High level risk assessment
Key Indicators of Financial Performance	After taking into account transfers to reserves, the net position for the Council is an overspend of £0.710 million. The general fund balance has decreased by £1.747 million. The Council has a balanced budget for 2014/15 and a comprehensive Medium Term Financial Strategy (MTFO) covering the next five years. Sickness absence levels have continued to decrease in 2013/14 from 8.95 per FTE to 8.87 per FTE and although they are still above the Council's target of 8, this was set as a challenging target. The Council continues to monitor progress against this.	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 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. The introduction of a Governance Forum this year is a further positive action in this area.	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
Prioritising Resources	There is leadership from senior management and members on prioritising resources and spending reductions and action taken to review and challenge strategic priorities and cost-effectiveness of existing activities in the context of the MTFO, and the impact of changing circumstances, to identify where activities do not contribute sufficient value	Green
Improving Efficiency & Productivity	The Council has appropriate understanding of its costs including what has driven changes in cost over time.	Green

Executive Summary

Next Steps

Area for consideration	Recommendation	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 where it can, in order to smooth the path ahead. Continuing to monitor this in 2014/15 and beyond, particularly in light of the unknowns in relation to funding settlements, will be pivotal.	James T. Walsh – Chief Finance Officer	On-going	The Council has a comprehensive medium term financial strategy which includes a recommended level of general reserves. It also makes provision for specific earmarked reserves, where required, and a prudent level of contingency to manage unforeseen events. The level of reserves is assessed and reported regularly to senior management and Cabinet and the level is set annually by Council and will continue to be so.
Looked After Children (LAC)	Overspends in the Children and Young People Directorate have been contributed to by increased number of looked after children (LAC), as well as increased staff and agency costs. The budgeted number of LAC was 541 in 2013/14 (rising to 575 in 2014/15), but given that actual numbers have been greater than this throughout recent years, and are currently in excess of 600, the Council should consider revisiting its budget assumptions, to ensure that they are realistic.	David Haley Executive Director – Children's Services and Vicky Buckley - Head of Finance	On-going and by February 2015 (for budget setting)	The budget is based on an estimated population of LAC. Numbers will fluctuate based on need. Numbers are kept under review and are risk assessed in year and during the budget setting process and an appropriate budget level established. The assessment of the required level of general reserves held by the Council also includes an assessment of the number of LAC. The Council considers its budgetary assumptions are realistic however they are kept under constant review as stated.

Key Indicators of Financial Performance

<table>
<tr><th>Area of focus</th><th>Summary observations</th><th>RAG-Rating</th></tr>
<tr><td>Liquidity</td><td>Cash position at year end is £26.243m which is a significant increase on the £3.885m as at 31 March 2013. This is due to an increase in short term deposits (£3.880m to £27.690m), due to the Council's treasury management strategy. A corresponding reduction can be seen in short term investments.
The Council's working capital ratio for 2013/14 is 2.80, 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, (£97.6 million) and interest income amounts to £6.7 million, which demonstrates that the Council is making its surplus cash work for it.</td><td>Green</td></tr>
<tr><td>Borrowing</td><td>The Council's Treasury Management Strategy is explicit in its requirement to adhere to the Prudential Code.
The 2013/14 outturn shows that three indicators have not been met, all of which are locally set indicators. The missed indicators are:
• Average interest rate of external debt outstanding excluding Other Local Authority debt: target 4.52%, actual 4.6%,
• Average interest rate of external debt outstanding including Other Local Authority debt, target 4.67%, actual 4.63
Management has explained these being slightly above target because there were no borrowing nor rescheduling activities due to the economic conditions in 2013/14. and therefore there was no opportunity to reduce the average borrowing rate. Additionally, the scheduled repayment of £10m PWLB has also had negative effect on this indicator.
• Average interest rate on long term investments. target 2%, actual 1.92%.
Management's explanation for this not being met was due to the unavailability of long term investment opportunities with sufficient credit worthiness during the financial year.
These explanations are deemed to be appropriate, especially given the performance of the Council's Treasury Management arrangements, and the slight differences between actuals and targets of these three indicators is considered outweighed by the fact that all twelve prudential indicators have been met, along with the majority of the local indicators, (nine from twelve).</td><td>Green</td></tr>
</table>

Key Indicators of Financial Performance

Area of focus	Summary observations	RAG-Rating
Workforce	The Council has continued to monitor sickness absence rates. In 2013/14 sickness absence was on average 8.87 days per FTE which is lower than the Council's 2012/13 average of 8.95 days. This represents a continuation to the previous four years' trend of decreases, although it is still above the local government norm as well as the Council's target of 8.00 days per FTE. The Council continues to monitor this area and seek ways to reduce the indicator.	Green
Performance against budgets (Revenue Capital & Savings)	In 2013/14 the Council reported a £0.710 million overspend against its gross revenue budget of £667.119 million. This represents 0.1% of the total budget, (a 0.2% £1.490 million underspend, was achieved in 2012/13 and a 0.1% £0.580 million underspend, was achieved in 2011/12).	Green
Reserves balances	The general fund balance decreased by £1.747 million. This included a transfer of £17.182 million to earmarked reserves to match against related expenditure in the year. The general fund balance at 31 March 2013 stands at £14.865 million, which is well in excess of the Council's stipulated minimum level of £6.3 million.. The Council's reserves are generally consistent with its statistical neighbours.	Green
Schools balances	Schools' balances have increased by 8.6% during the year, from £11.679 million in 2012/13 to £12.682 million in 2013/14. Overall, the Council's schools' balances as a percentage of income are 8.84%, which are in line with the Council's benchmarked comparator group, but are an increase on the prior year percentage of 7.94%. OFSTED have recently inspected school improvement and stated in their management letter," The local authority uses a range of methods, such as efficiency benchmarking, to ensure that budgetary decisions represent good value for money. School leaders are challenged to ensure financial control is robust and school balances are not excessive."	Green

Strategic Financial Planning

Area of focus	Summary observations	RAG-Rating
Focus of the MTFO	The Council's draft financial settlement for 2014/15 is known, with government grant announced at £146.51m, a reduction of £16.51m on 2013/14 funding. The Council's medium term financial plan has been updated to reflect this reduction and other known cost pressures (contractual inflation, pay and grading costs, pensions revaluation etc.) resulting in a forecast funding gap of £20m against the current net council tax requirement. Government funding is not yet known for 2015/16 and future years, therefore assumptions have had to be made. The total savings required to be delivered over the next 4 years are currently estimated to amount to approximately £85m. The Council has a well developed process which integrates with corporate and service planning within the context of the MTFO. The framework and plan are flexible to allow the Council to target resources at changing priorities and are 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 MTFO 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 MTFO is the Corporate Plan and Treasury Management Strategy, which is a corporate budget translating the strategy into a practical plan of action for the Council. The 2013/14 strategy includes narrative on the levels of central government funding and notes that Walsall is short of £13.9m, amounting to a 7.7% reduction on 2012/13 grant levels. This reduction has a significant impact on the level of services the Council can afford to provide. Any budget requirements over and above the level of grant have to be borne either via council tax payers and/or users/recipients of services. The economic climate can therefore be considered to have been taken into account appropriately by the Council in its forward plans. Walsall's plans are also informed by the Sustainable Community Strategy, which is the overarching strategy for the Borough, and has been developed in consultation with other local organisations, including the police, the NHS, local businesses and community & voluntary groups.	Green

Strategic Financial Planning

Area of focus	Summary observations	RAG-Rating
Adequacy of planning assumptions	In setting its annual and medium term budgets, the Council considers the national and local context to ensure that the assumptions made are appropriate. 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. Risks and economic and demographic changes and trends are modelled and included within the Corporate Budget Plan and Treasury Management strategies each year. Emerging pressures are also modelled. Plans and strategies are informed by an understanding of the people, nature and demographics of the Borough. This combines a range of primary data, analysis and stakeholder feedback, and has been used, with other information, to undertake needs analyses to support the design and delivery of the Council's services.	Green
Scope of the MTFO and Links to Annual Planning	The Council has an MTFO in place, which is updated on an on-going basis. Budget proposals and savings plans also incorporate a long term view by looking forward 3 years. The Council has a well-developed process which integrates with corporate and service planning. The medium term financial strategy (MTFO) and plan sets out the financial framework and plan for the Council over the medium term. The framework and plan are flexible to allow resources to be targeted to emerging/changing priorities, both in year and between years, and are underpinned by robust procedures. The proposals in the Council's medium term plans are adequately reflected in supporting plans, eg Housing Strategy, Asset Management Plan. Likewise the MTFO itself draws on wider strategies, such as the Sustainable Community Strategy which looks ahead to 2021, as they share overarching objectives.	Green
Review process	The Council has openly communicated medium to long term financial pressures and the likely consequences for staff. Senior Management review budgets and service performance against them on a monthly basis. The MTFO is routinely reviewed and updated to reflect the current landscape. The MTFO is reviewed and approved by Cabinet annually, but the Council's performance against this and the MTFO is considered at least quarterly by Cabinet. The Audit Committee meets monthly and receives the MTFO for review and comment as required. General Fund reserves and earmarked reserves are reviewed monthly by Finance and 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. Financial risk assessments are reviewed monthly and these are used to inform budgets and forecasting.	Green

Strategic Financial Planning

Area of focus	Summary observations	RAG-Rating
Responsiveness of the Plan	The Council has considered, reviewed and articulated the risks of non-achievement of budget and savings targets in the MTFO. The Council's senior management continues to monitor the progress of efficiency measures. The MTFO 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 (and latterly, Shaping the Future). Progress against the themes of the Working Smarter Programme are reported to and challenged by the Council's Corporate Scrutiny Committee.	Green

Financial Governance

Area of focus	Summary observations	RAG-Rating
Understanding of the financial environment	Corporate financial performance is reported to the Council's Cabinet on a quarterly basis. The reports identify any projected underspends or overspends on the revenue and capital programmes (identified separately), any windfall income, any amendments to the capital programme, and a series of financial health indicators. Variances in the capital programme are reported on a scheme by scheme basis, and variances in revenue budgets are reported on a directorate basis. In addition to members, we are also satisfied that officers are adequately financially aware. Directorates, along with the their service accountants produce the budget reports which feed into the quarterly performance reports. Services risk assess their financial position on a regular basis, and risks which have a high level of certainty of occurring and exceed £50k are separately identified and noted as being actively managed to minimise any impact on the financial forecast for the year. To assist with its understanding, the Council established a Governance Forum, which amongst other things, took forward the recommendation made in our Annual Audit Letter 2012/13, to review existing governance processes to provide assurance that the existing governance framework is fit for purpose and to investigate how governance is applied across the Council, to ensure that expected ethical standards are reinforced and that a culture of compliance is embedded throughout the organisation. We are satisfied that the Council has made appropriate progress on this agenda.	Green
Executive & Member Engagement	There is adequate internal and external engagement in the budget setting process: the Council is proactive in seeking the views of the electorate through the use of online budget simulators and leaflet distributions. The section 151 Officer reports to the Executive Director Resources, who reports to the Chief Executive. The section 151 Officer attends the Leadership Team (the corporate management team), has access to all confidential papers/matters, has direct and unfettered access to and meets frequently with the Chief Executive, and has direct and unfettered access to members, including Cabinet and Audit Committee'. 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. This has been reported to those charged with governance previously, who confirmed that they are satisfied with current arrangements, though will maintain a watching brief. 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

Financial Governance

Area of focus	Summary observations	RAG-Rating
Overview for controls over key cost categories	There is an understanding and awareness of the main risks which could impact upon the Council, whether this be for outstanding legal or regulatory proceedings, or as part of their general operations. The quarterly reports to Corporate Scrutiny and Performance Panel highlight the risks identified and estimate the Council's total financial exposure, based on the likelihood of the risk eventuating. CMT receives quarterly budget monitoring reports to give all of its members an understanding of the whole picture rather than just individual members' service lines. 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. Internal Audit have given a significant assurance opinion over the Council's Budget management arrangements for the year ending 31 March 2014, which is consistent with the 2012/13 result. An upgrade to the Council's financial reporting software, Qlikview, has been undertaken during the year, which has enabled the Council to further improve forecasting. This is aptly demonstrated by the Council reporting a outturn position which is just 0.1% off budget.	Green
Budget Reporting (Revenue & 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 appendices • an update on the year end forecast position • a review of capital expenditure against budget • treasury management updates.	Green
Adequacy of other Committee 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

Area of focus	Summary observations	RAG-Rating
Budget setting & monitoring – revenue & 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 (followed by Shaping the Future) (through targeting resources based on customer requirements) has 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.	Green
Savings plans setting & monitoring	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. 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. The corporate management team and Cabinet have continuously reviewed the evolving budget. All scrutiny panels received the draft revenue budget proposals in October 2012, with updates during January 2013. The draft revenue budget and draft capital programme 2013/14 was referred on to scrutiny panels in January 2013, where the draft programme has been noted, with no proposed amendments. New savings options for 2013/14 were identified of £13.04m in the Budget Book. The Council is transforming the way it undertakes its business through the Working Smarter programme, with a view to reducing overhead and transactional costs. This Budget Book presents the Council's revenue and capital budgets for 2013/14, as approved by Council on 21 February 2013. The savings plan ensures that a balanced budget can be achieved, and the monitoring of the budget is reported to Cabinet on a quarterly basis.	Green

Financial Control

Area of focus	Summary observations	RAG-Rating
Finance department resourcing	There have been limited changes in finance staff between 2012/13 and 2013/14. There has been continuity of staff for key posts within the Finance department and, as a result, this has not represented a risk in 2013/14.	Green
Assurance framework/risk management processes	The Council's 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 to CMT quarterly and to members twice yearly There has been a refresh of the corporate risk register during 2013/14 to ensure that it remains truly focussed on the strategic risks facing the Council.	Green

Prioritising Resources

Area of focus	Summary observations	RAG-Rating
Leadership and challenge in prioritising resources	The Shaping the Future programme is concerning itself with going back to basics, and challenging what's being done to see if it can be done better, (or even whether it needs to be done at all).This is an extension of the Working Smarter programme, which amongst other things, comprises systems thinking, precisely to identify those activity which do not contribute sufficient value on behalf of the customer. This is a standing agenda item for the Corporate Scrutiny and Performance panel as it is considered important that the Panel receive regular progress updates and have the opportunity to input into the Working Smarter agenda and work plan.	Green
Consultation with key stakeholders	The 2013/14 budget process involved consultation with local residents through a variety of methods such as invitation on the website, leaflet distribution, online budget simulator tool, discussions with service users such as young people and disabled people. Front line staff are involved in delivering the budget and also its construction through team meeting and brainstorming sessions. Budget holders can review spend throughout the year using the reporting function of the general ledger software to review spend and give greater ability to identify areas where spend could be reduced. The Council's online budget simulator allows local residents the opportunity to allocate the budget available across the different service areas, and assess the impact as they go. The proposals in the Medium Term Financial Strategy and the Corporate Financial Plan for 2013/14 are appropriately reflected in the various strategic documents, which means that the messages are consistent.	Green
Basis for decision making	Decision making is based on appropriate information: operational performance is assessed during the year through the quarterly performance monitoring reports, which are reviewed at Cabinet. All reports have a risk assessment as part of their introduction which summarises any impact that the report has on, for instance, quality, risk management and performance. The Working Smarter programme has a potential risk to governance, given that it may lead to potentially stripping out controls of there is no perceived "value" to the customer. However significant procurement, investment, divestment decisions include a business case and a whole life costing approach is used to inform decision making. Costs and benefits of investments are risk assessed, with identification of both financial cost and risk against the benefit of investment, and the likely impact of not investing on the Council and its partners. This allows Cabinet to make informed decisions.	Green

Prioritising Resources

Area of focus	Summary observations	RAG-Rating
Understanding impact and outcome of decisions	The Council has a track record in being able to deliver its savings programme. It is noted that there is a risk that unless it does things differently there may be an inability to deliver currently and into the future. The Council has acknowledged this in the implementation of its Working Smarter Programme. Additionally, performance reports are provided to individual scrutiny panels, as appropriate, that show performance where any detrimental impact on services, as a result of spending cuts, can be identified.	Green
Understanding costs	The Council uses benchmarking tools available such as information from the Audit Commission, to allow it to understand its costs in comparison with its peers. CMT assures itself that financial performance to date and forecast financial outturns are in line with the plan, including cash-flow and balance sheet projections. Variances are identified as soon as possible, so that management can either take corrective action to manage unfavourable variances or apply any favourable variances to corporate priorities. The underlying costs of the organisation's key activities and how these are profiled over time are also monitored and reviewed through quarterly performance reports to the various scrutiny panels. Financial information is integrated with non-financial performance and activity information. in the performance reports. Together, such information forms the basis for financial forecasts and enables value for money to be monitored. Financial monitoring reports to scrutiny are indicative of this as they identify reasons for the variances. Value for Money profiling has been carried out as part of our review; results of which can been seen in the Appendices. Explanations for any high cost areas have been obtained and discussed within this document.	Green
Delivery of savings and service re-design	The Council has a track record in being able to deliver its savings programme, including robust efficiency plans, with timescales, which set challenging targets and how they will be delivered. There are arrangements in place to monitor achievement of efficiencies and reductions in costs, and the impact on services and quality of provision.	Green

Improving efficiency and productivity

Area of focus	Summary observations	RAG-Rating
Understanding costs	The Council uses benchmarking tools available such as information from the Audit Commission, to allow it to understand its costs in comparison with its peers. CMT assures itself that financial performance to date and forecast financial outturns are in line with the plan, including cash-flow and balance sheet projections. Variances are identified as soon as possible, so that management can either take corrective action to manage unfavourable variances or apply any favourable variances to corporate priorities. The underlying costs of the organisation's key activities and how these are profiled over time are also monitored and reviewed through quarterly performance reports to the various scrutiny panels. Financial information is integrated with non-financial performance and activity information. in the performance reports. Together, such information forms the basis for financial forecasts and enables value for money to be monitored. Financial monitoring reports to scrutiny are indicative of this as they identify reasons for the variances. Value for Money profiling has been carried out as part of our review; results of which can been seen in the Appendices. Explanations for any high cost areas have been obtained and discussed within this document.	Green
Delivery of savings and service re-design	The Council has a track record in being able to deliver its savings programme, including robust efficiency plans, with timescales, which set challenging targets and how they will be delivered. There are arrangements in place to monitor achievement of efficiencies and reductions in costs, and the impact on services and quality of provision.	Green

Conclusion on specific risks identified in our audit plan

Risk identified	Assurances obtained	Conclusion on residual risk
Reduction in central government funding	Although central government funding has decreased (the 2013/14 settlement represented a reduction of £6.1m), we have gained assurances through our work on financial resilience (namely Key Financial Indicators) that the Council's performance remains strong.	Conclude that no residual risk remains.
Localisation of Council Tax Benefit and Welfare Reform and business rates retention scheme	Despite these reforms being new, and therefore potentially carrying inherent risk, for 2013/14, we have gained assurances through our work on financial resilience (namely Key Financial Indicators) that the Council's performance remains strong.	Conclude that no residual risk remains.
Better Care Fund The June 2013 Spending Round announced that the Government would put £3.8 billion into a pooled budget in 2015/16 to ensure closer integration between health and social care. The Council is working with other local stakeholders to improve integration	The Better Care Fund is what was previously known as the Integrated Transformation Fund. There were appropriate draft plans in place in the required timeframe and the final plan was submitted by the 4 April deadline. A Committee that reports into the Health and Wellbeing Board (HWB); the Integration Board, has been responsible for preparing the planning arrangements. Membership comprises: • Accountable Office to the CCG (Chair) • Interim Executive Director for Adult Social Care and Inclusion • Chief Executive of Walsall Healthcare NHS Trust • Chief Executive of Dudley & Walsall Mental Health Trust • Director of Public Health at Walsall Council KPIs have been compiled to monitor outcomes to enable a clear baseline to be identified against which to compare future performance. Although the plans are not yet fully costed clearly there will be an impact on the acute sector. The overall strategy proposed by the HWB is to reduce emergency admissions and improve care in the community. Therefore there will be less activity in the hospital and accordingly therefore less funding.	Conclude that no residual risk remains.

Conclusion on specific risks identified in our audit plan

Risk identified	Assurances obtained	Conclusion on residual risk
Social Services The Council is committed to the modernisation and transformation of adult social care in order to improve outcomes for adults in Walsall and particularly those who are vulnerable and in greatest need. As at the time of writing our audit plan, which identified this area as a risk, the directorate was predicting a £4 million overspend against budget, prior to the use of reserves.	We have reviewed the Council's plans to modernise and transform Adult Social Care in Walsall and review its progress against plan, including how to manage the directorate to within its budget. Actual outturn for 2013/14 in respect of adult social care was £72,584 million. This is against a target of £72.144 million, and therefore represents a variance of £0.439 million. This is net of use of earmarked reserves and carry forwards, without which the overspend position would be £2.5 million. For 2014/15 there is a current forecast overspend of £1.762 million. Steps taken to mitigate overspends during 2013/14 were: • Savings to be delivered in respect of mental health services and for adults with complex needs, through continuation of bringing some people from out of Borough placements back to the Borough and in both service areas making less use of residential care and reducing some contracts • Adopting a proposal to assist care homes with reclaiming VAT which will be used as part of the fee negotiations for next year • Securing a reduced overall average cost for Domiciliary Care through the current procurement process • Reduction in management and support posts within the Directorate and the use of vacancies to make permanent deletions of three/four additional posts. • Reduction in spend on training in the Directorate including reduced staffing.	This is an area with increasing demand against a backdrop of decreasing funding. While the Directorate has been able to make use of reserves during 2013/14, clearly this option will not always be available. There is also the risk of volatility as the success in some areas of the Directorate is reliant on Walsall NHS Trust also performing well. This therefore constitutes a residual risk, but given that the Council took mitigating and successful actions to control the outturn position for the year ending 31 March 2014, we are satisfied that this does not impact our overall VfM conclusion.

Conclusion on specific risks identified in our audit plan

Risk identified	Assurances obtained	Conclusion on residual risk
Children and Young People There are over 600 looked after children in Walsall. Because this is demand led, it puts strain on the Council's finances. The forecast revenue outturn in Children and Young People, at the time of writing our audit plan was an overspend against budget of over £2m, net of the use of earmarked reserves.	Our proposed response in our audit plan was to evaluate the impact of the Council's plans to monitor and react to the financial risks identified, as well as follow up the Council's progress following the Ofsted inspection. Actual outturn for 2013/14 in respect of Children's Services was an overspend against budget of £2.377m, net of the use of earmarked reserves/approved carry forwards). This included use of reserves of £2.563m and transfer to reserves of £6.265m, against an initial budget of £73.252 million. The biggest contributors to the overspend are: • Children's Management £658k: Increases in numbers of looked after children (LAC) have contributed to this as well as the associated additional staffing costs (including agency costs). • Corporate Parenting £992k: This is largely as a result of looked after children numbers being in excess of budget, generating direct extra costs of £610k. Associated additional staffing costs have also contributed (which include agency costs). • Vulnerable Children £1.526m: Staffing costs overspend, as a result of using agency staff. 2013/14 LAC numbers budgeted for were 541. However at its highest it has been 616. It is expected to return down to levels of 590 by the end of 2014/15. The Audit Commission's briefing, Councils' Expenditure on Looked After Children: Using Data from the Value for Money Profiles Tool, identified that councils spend between £40,000 and £60,000 on each child. Therefore when budgeting for 541 looked after children, it is not hard to see how costs can soon spiral for every additional child not budgeted for.	The action plan for 2014/15 has been approved by Full Council at its February meeting. The Children's Services Improvement Activity report notes the work that has been undertaken, while acknowledging that there is still much work to be done. Therefore, while the Council has risks, there are action plans in place to mitigate these. We conclude that a residual risk remain, given that the budget numbers for LAC are 541, but the actual numbers have been well in excess of this in recent years. The Council should consider whether its budgeting arrangements are adequate in this area.

Conclusion on specific risks identified in our audit plan

Risk identified	Assurances obtained	Conclusion on residual risk
Children and Young People Follow up the Council's progress following the Ofsted inspection	An Ofsted inspection report of the Council's safeguarding and looked after children services, which was published on 31 July 2012, concluded that safeguarding services and aspects of safeguarding outcomes for children and young people were inadequate. Services for looked after children were found to be adequate. On 23 July 2014, the Council was informed by the Secretary of State for Children & Families that the improvement notice had been lifted with immediate effect. This is therefore not considered to be an on-going risk in terms of our value for money opinion. However, an Ofsted inspection of the Council's school improvement service took place between 16 June 2014 and 20 June 2014, which concluded that arrangements in this area are ineffective. As part of its response, the Council plans to set up an independent education board, whose remit will be to oversee school improvement in Walsall.	Where there is a potential impact on the VfM Conclusion following an inspection by a regulator, such as Ofsted, the Audit Commission guidance states that auditors can draw assurance in relation to their responsibilities from other inspectorates and review agencies. Equally where they report that arrangements are inadequate, we are therefore required to consider the impact on our Value for Money conclusion. We note that the inspection was carried out in June 2014 but relates to the period under our review. We therefore consider that a residual risk remains, but we do not consider it significant enough to warrant a qualified value for money opinion, as the Use Of resources section within the Ofsted report contains wholly positive statements and the inspection does not cover the whole of the Children's Services.
Delivery of major regeneration projects • Old Square • Phoenix 10	We have considered the Council's plans for the regeneration of Walsall and its progress against plan, given the changing economic climate and reduction in central government funding. While there are still risks to the projects being completed, they are being actively managed and monitored, reported to CMT on a quarterly basis through the Corporate Risk Register, which is overseen by the Audit Committee.	Conclude that no residual risk remains to our value for money opinion.

Other risks identified

Risk identified	Assurances obtained	Conclusion on residual risk
Social Services In 2012/13 allegations (including whistleblowing) were received from different sources in respect of procurement practices, the management of appointeeships and systems to implement personalisation within social care and inclusion. This was reported and referred to in our 2012/13 Audit Findings Report.	While the independent investigation into these allegations is now complete, the Council is still in the process of dealing with the remaining issues with regard to appointeeships.	This therefore constitutes a residual risk, but we are satisfied that this does not impact our overall VfM conclusion. The Council has a project team, which is the process of putting corrective actions in place.

Appendix 1 – Benchmarking

Our approach

We have made use of the Audit Commission's Financial Ratios Analysis Tool and VfM Profiles Tool to benchmark the authority against its statistical nearest neighbours for relevant KPIs up to and including 2012/13.

We have also made use of published material on rates of sickness absence.

Key Indicators of Financial Performance

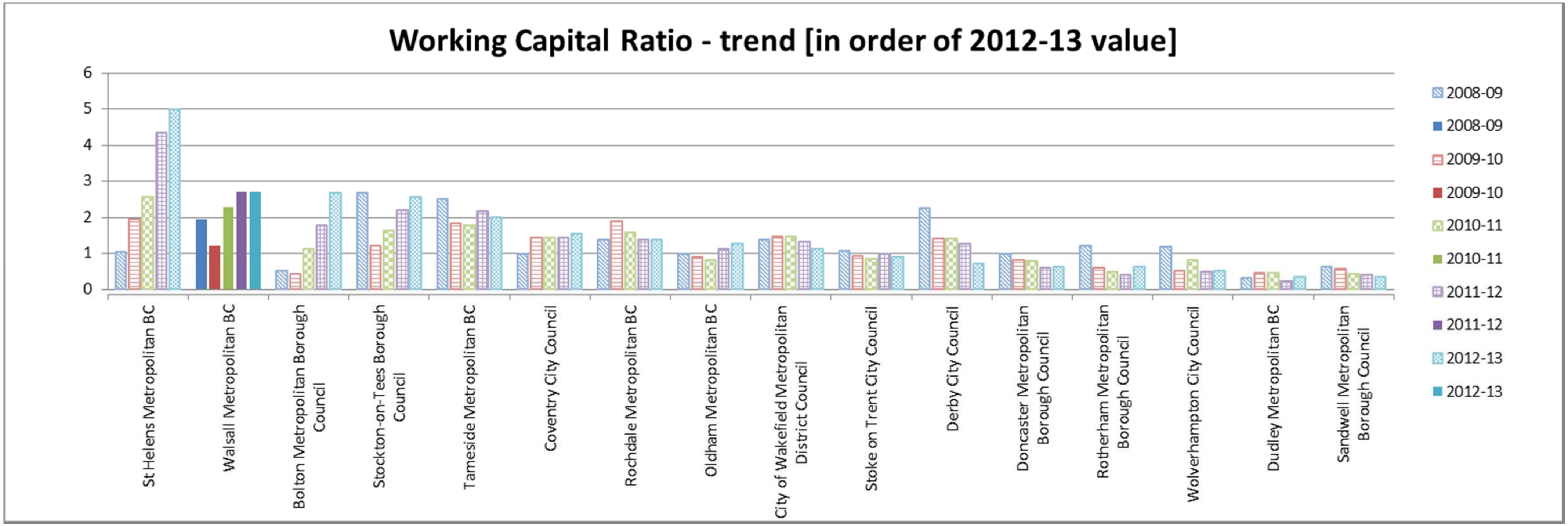
Working Capital - Benchmarked

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 2012/13. The 2013/14 results show a further increase to 2.80. 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

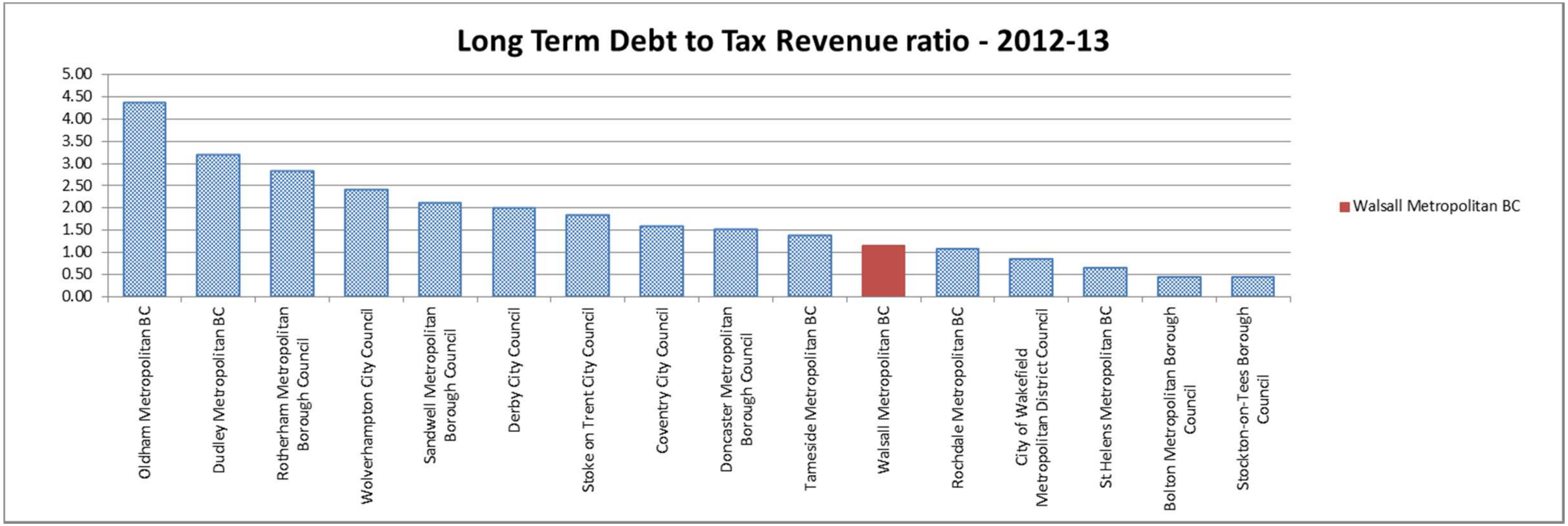
Long Term Borrowing to Tax Revenue - Benchmarked

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 1.65 for 2012/13 has decreased for 2013/14 to 0.97. This indicates that it has long term borrowing which does not exceed tax revenue. Walsall is comfortably within its comparator group which has ratios ranging from 0.44 to 4.37.



Source: Audit Commission's Technical Directory

Key Indicators of Financial Performance

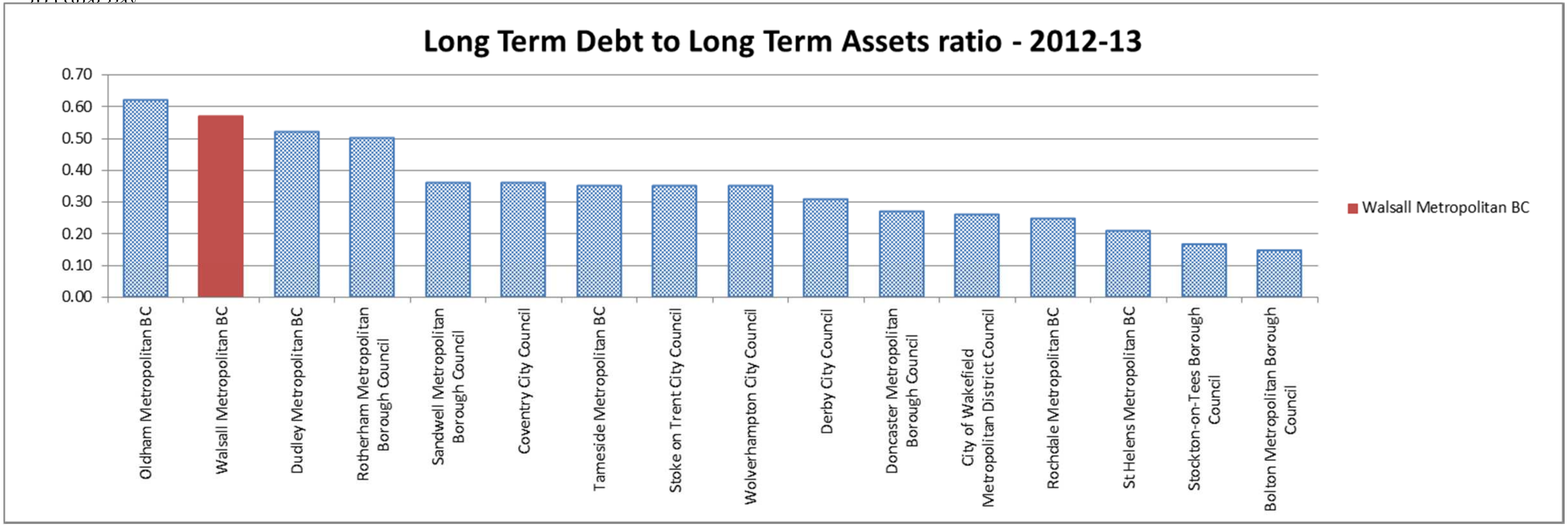
Long-term borrowing to Long-term assets - Benchmarked

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 2012/13 ratio of 0.52 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 increased slightly in 2013/14 to 0.54. In comparison to other authorities in this benchmarked group, Walsall has the second highest long term borrowing to long term assets ratio. This is consistent with previous years, as the Council have been at, or near, 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

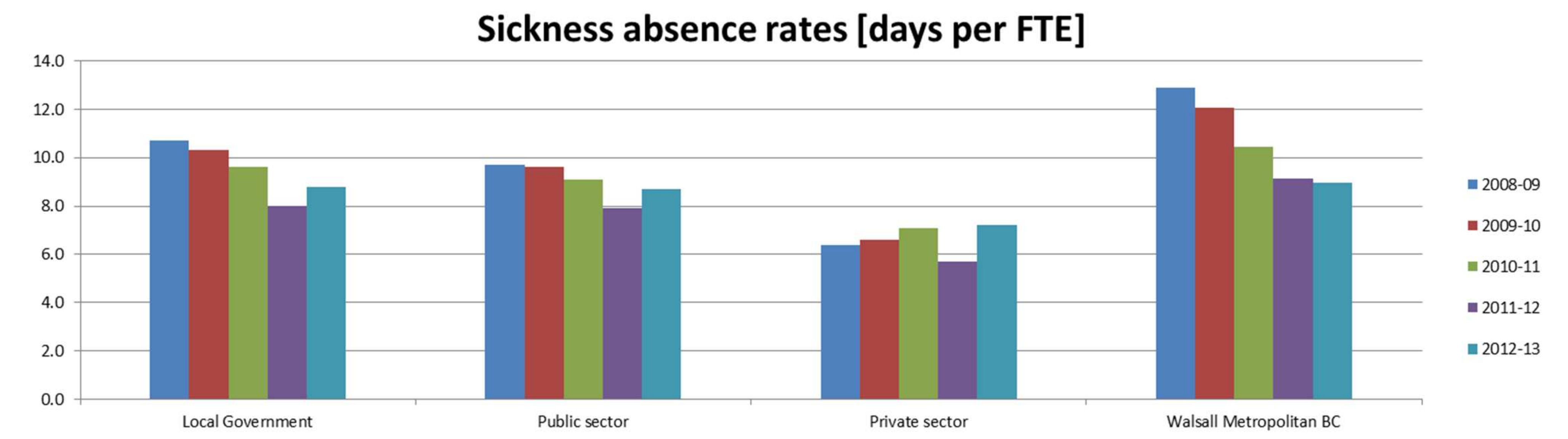
Sickness Absence Levels

Background

The average sickness absence level for the public sector in 2012/13 was 8.7 days per FTE, whilst the private sector average is 7.2. 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 five years due to significant investment in and monitoring of this area. The Council's absence level during 2012/13 of 8.95 per FTE, was both above the Council's target of 8.0, and the local government average of 8.8. This trend has continued for 2013/14, as the absence level is now 8. days per FTE.



Source: CIPD Annual Survey Reports

Key Indicators of Financial Performance

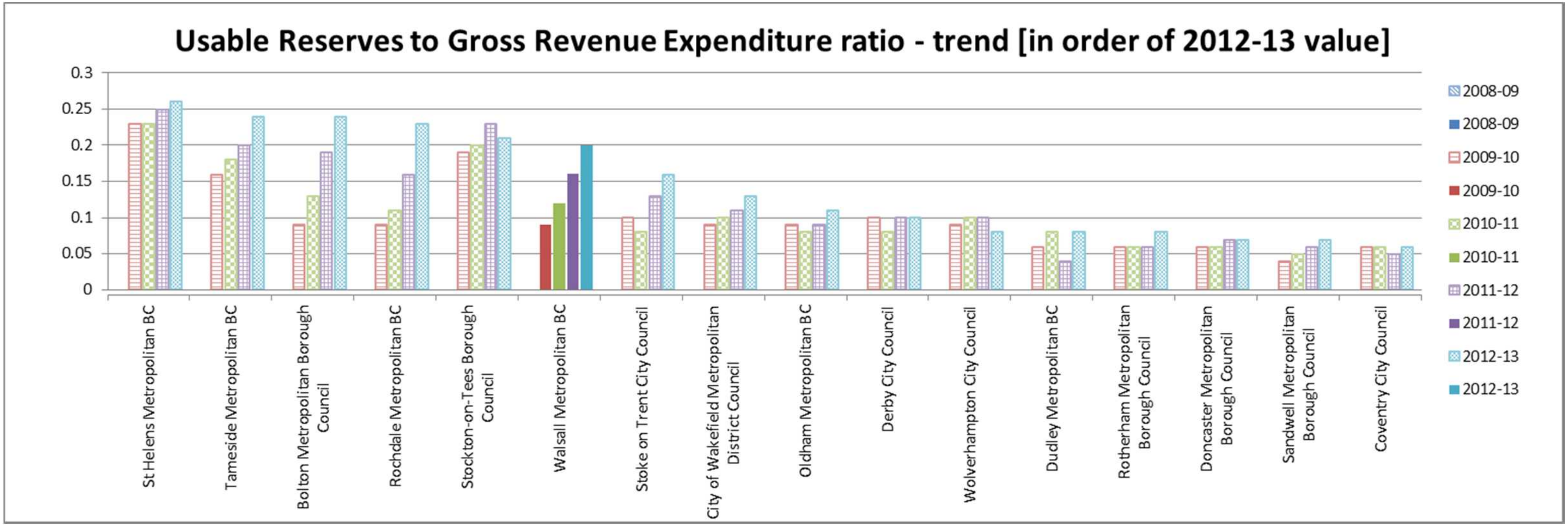
Useable Reserves - Benchmarked

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 2012/13 Walsall have increased the value of its useable reserves, from 0.06 to 0.20. Analysis of the 2013/14 outturn shows that this has increased for a further year to 0.23. 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

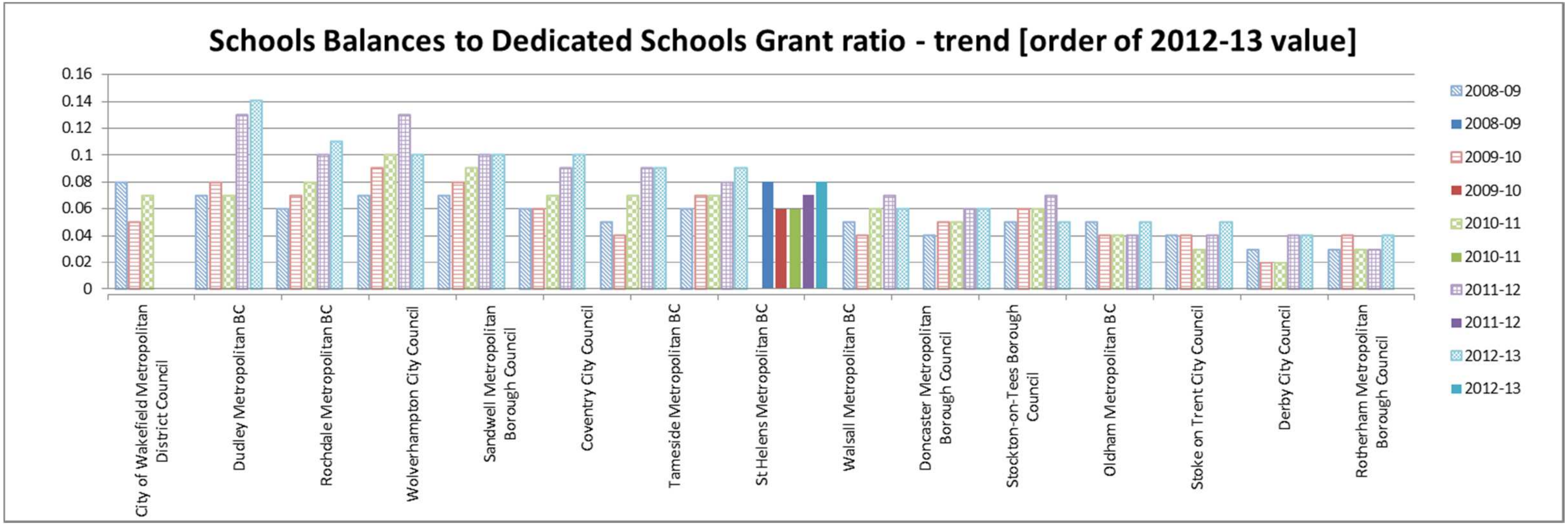
Schools balances to DSG allocation - Benchmarked

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 five years, between 6% and 9%. The 2013/14 ratio of 8.84% is also within this range, but is indicative of increases in this ratio for the past three years. It is in line with the broad trend of the benchmark group, and the Council continues to monitor the schools balances to ensure that funds being allocated are being spent on the needs of students today.



Source: Audit Commission's Technical Directory

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