

## **Audit Committee – 26 September 2011**

### **Review of the Council's Arrangements for Securing Value for Money**


#### **Summary of report**

This report presents Grant Thornton's final report on its review of the council's arrangements for securing financial resilience and economy, efficiency and effectiveness which informs the auditor's value for money (VFM) conclusion for 2010/11

Audit Committee are requested to formally consider the attached document.

#### **Recommendations**

Audit Committee are requested to receive the external auditor's report on its review of the council's arrangements for securing financial resilience and economy, efficiency and effectiveness and note the council's response



**Vicky Buckley**

**Head of Finance**

**16 September 2011**

#### **Governance**

Grant Thornton, as the Council's external auditors, are required to undertake a value for money (VFM) review and issue a VFM audit opinion and report this alongside the financial statements opinion.

#### **Resource and legal considerations**

There has been a change to the VFM framework for the 2010/11 accounts. The use of Resources (UoR) framework has been abolished and a new and more focussed approach developed. The VFM work is focussed on key risks and the conclusion is now based on two criteria:

- 1 The organisation has proper arrangements in place for securing financial resilience
- 2 The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness

The focus of the two VFM criteria is:

- 1 For Financial Resilience: the organisation has robust financial 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.
- 2 For Securing the 3 E's: the organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

The attached report sets out the external auditor's findings.

### **Performance management and risk management issues**

In drawing their VFM conclusion, Grant Thornton reviews the Council's performance management and risk management arrangements and assesses their adequacy. The attached report sets out the external auditor's findings.

The council is assessed as "Green" overall for both aspects of the VFM criteria.

Out of 28 assessment areas, 26 were assessed as Green, 2 as amber:

- All 7 areas for securing the 3E's were assessed as green
- 19 out of 21 areas for Financial resilience were assessed as green
- The 2 amber items relate to levels of sickness absence and schools balances

However in respect of these 2 items, the council would emphasise the following:

- 1) Sickness Absence: as indicated in the report, the council has put in place arrangements to significantly improve its performance in respect of sickness absence, including procedural and reporting changes and revised accountability arrangements, which has resulted in the average number of days lost over the last 2 years reducing from 12.07 in 2009/10 down to 10.45 days per full time equivalent (FTE) in 2010/11. Furthermore, the figures just published for 2011/12 (April to August) indicate a pro-rated absence figure of 7.8 days (assuming levels continue at the same rate) which compares very favourably with the national average in the public sector which is 9.3 days per FTE (in the private sector the average is 6.6 days per FTE). The council is now better than average in terms of lost days and productivity costs of absence and is rolling out the approach council wide to affect further improvements.
- 2) Schools Balances: Schools balances have risen in 2010/11, following year-on-year reductions in balances. The Audit Commission's schools balances benchmark tool has shown that over the period of data available (2005/06 to 2008/09) the Council's balances have been higher than the statistical nearest

neighbour benchmark group average. However, during 2010/11 balances rose intentionally due to the need for schools to ensure sufficient funding to meet their equal pay obligations. As such, they are considered reasonable. We will continue to work with schools to ensure an appropriate level of reserves is held per school.

### **Equality implications**

There are no direct implications arising from this report.

### **Consultation**

The report is prepared in consultation with various managers and the chief finance officer.

### **Background papers**

Various report and working papers, statutory and other guidance.

### **Author**

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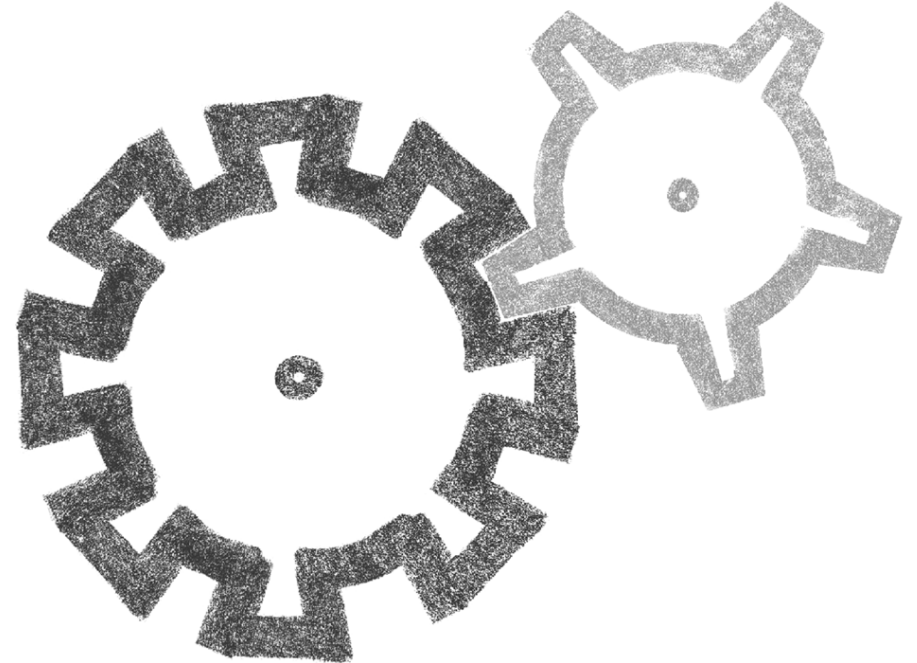
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# Walsall Metropolitan Borough Council

## Review of the Council's Arrangements for Securing Value for Money

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Final 20 September 2011



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# Executive Summary

## Our approach

### Value for Money Conclusion

Our work supporting our Value for Money conclusion, as part of the statutory audit, comprises a review to determine if the Council has proper arrangements in place for securing financial resilience and an assessment of the Council's arrangements to secure economy, efficiency and effectiveness.

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:

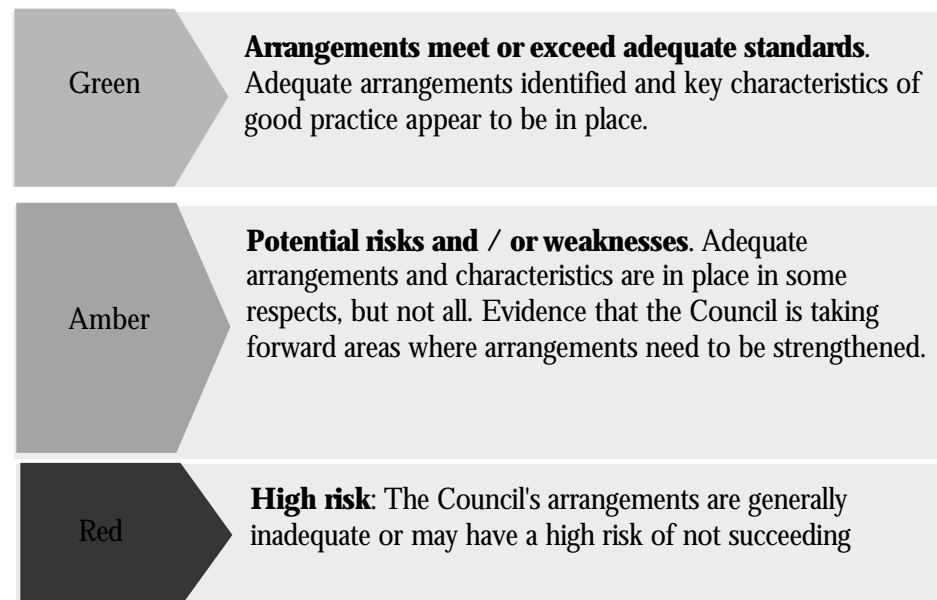
- Key indicators of financial performance;
- Its approach to strategic financial planning;
- Its approach to financial governance; and
- Its approach to financial control.

We have reviewed the ability of the Council to secure economy, efficiency and effectiveness by looking at:

- Its ability approach to prioritising resources; and
- Its approach to improving efficiencies.

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 significant risks and challenges in 2011/12 and beyond, its current arrangements for achieving financial resilience and securing economy, efficiency and effectiveness are adequate.

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



# Executive Summary

## National and Local Context

### Local Government Issues

The Chancellor of the Exchequer announced the 2010 Comprehensive Spending Review (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. CLG funding was reduced by 26% over the period.

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

The provisional Local Government Finance Settlement was announced on 13 December 2010. The final figures were announced on 31st January with the debate and approval by the House of Commons on 9th February. This represents a two year funding announcement, because the Government is delaying a decision on later years until after their review of local government finance.

This follows a period of sustained growth in local government spending, which

### Local Context

Walsall is a large town within the conurbation of the West Midlands with a population of approximately 174,994 (Office of National Statistics 2009). 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. It has therefore had to make a provision of £20.3m in the 2010/11 accounts.





# Executive Summary

## Overview of Arrangements

Risk area	Summary observations	High level risk assessment
<b>Financial Resilience</b>		
<b>Key Indicators of Performance</b>	<p>The Council is generally showing a strong position, particularly given the challenging economic circumstances it is currently operating within. Its implementation of the Working Smarter programme for efficiencies has delivered benefits.</p> <p>However, the following two areas are posing potential risks:</p> <ul style="list-style-type: none"> <li>•Sickness absence - the Council has put in place measures to tackle sickness absence levels and will be closely monitoring progress on these; and</li> <li>•School balances - these have risen in 2010/11, against a general trend of reducing balances in England. The Council is working with schools to address this.</li> </ul>	 <b>Green</b>
<b>Strategic Financial Planning</b>	<p>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 Comprehensive Spending Review, using a collaborative approach combined with scenario planning to aid the prioritisation of resources.</p>	 <b>Green</b>
<b>Financial Governance</b>	<p>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.</p>	 <b>Green</b>
<b>Financial Control</b>	<p>The Council has strong financial performance management and budgeting systems with an inclusive approach for all stakeholders. These underpin its financial control.</p>	 <b>Green</b>

# Executive Summary

## Overview of Arrangements

Risk area	Summary observations	High level risk assessment
<b>Securing Economy, Efficiency and Effectiveness</b>		
<b>Prioritising Resources</b>	The Council's leadership team encourage an environment of ensuring that resources are prioritised to meet the requirements of citizens. It encourages consultation with stakeholders to ensure views are gathered and acted upon. This is underpinned by the 'Systems Thinking' approach to resource prioritisation which the Council has developed through its Working Smarter Programme.	 <b>Green</b>
<b>Improving Efficiency and Productivity</b>	The Council has a good understanding of its costs, aided by the use of benchmarking tools. It also has in place procedures for challenging methods of service delivery to drive out further efficiencies.	 <b>Green</b>

# Executive Summary

## Next Steps

Area of review	Key points of consideration	Responsibility	Timescale	Management response
<p><b>Key Indicators of Performance</b></p>	<p>The Council should continue to maintain appropriate levels of reserves and monitor the Council's liquidity to ensure financial resilience is maintained in the continued turbulent economic climate.</p> <p>As school balances rose in 2010/11, the Council should ensure that this is closely monitored. Throughout England, the general trend is one of declining balances. Given the plans for some schools to become Academies in the near future, this provides a further need for the Council to address this issue as a priority.</p> <p>Sickness absence continues to be a prominent issue and we are pleased to note that the Council has reduced its sickness absence rate in 2010/11. It is important for this momentum to be continued.</p>	<p>James T. Walsh, Assistant Director, Finance and S151 Officer (CFO)</p>	<p>Ongoing</p>	<p>Reserves are monitored on a monthly basis. Quarterly financial health indicators are reported, including liquidity.</p> <p>School balances rose intentionally in 2010/11, as they included properly assigned sums for equal pay costs. They were within the national guidance set by CFS (balance control mechanism), however they will continue to be monitored to ensure they are adequate and at an appropriate level.</p> <p>Sickness absence performance has improved significantly and we are now better than average in terms of lost days/productivity costs. We will continue to monitor this.</p>
<p><b>Strategic Financial Planning</b></p>	<p>The Council will be under continued pressure to seek further efficiencies going forward. Zero Based Budgeting can help to improve the strategic prioritisation of resources during the financial planning cycle and drive out further savings. We are pleased to note that the Council undertakes aspects of this as part of its Working Smarter programme, which bases resource allocation on customer requirements. We encourage further use of this approach where possible subject to the constraints of reduced staffing.</p>	<p>James T. Walsh, Assistant Director, Finance and S151 Officer (CFO)</p>	<p>Ongoing</p>	<p>The Council has approved a Working Smarter programme and is implementing systems thinking to fundamentally change the way we do business. Where appropriate, this may include the use of zero based budgeting.</p>

# Executive Summary

## Next Steps

Area of review	Key points of consideration	Responsibility	Timescale	Management response
<b>Financial Governance</b>	In the context of continuous improvement and the profile of Audit Committees becoming more prominent in line with DCLG initiatives, it is important for all Councils to seek opportunities to strengthen arrangements in this regard. The Council has already taken steps to improve performance in this area, in particular through the Audit Committee self-evaluation process which was completed in 2009/10 from which actions arising have been implemented including the appointment of an independent member. We encourage the Council to continue to focus on this area and support Members in their development.	James T. Walsh, Assistant Director, Finance and S151 Officer (CFO)	Ongoing	The Council will continue to support Audit Committee, including implementing the changes arising from the recent consultation the “Future of Local Public Audit”.
<b>Financial Control</b>	The Council has had to cope with staff reduction across all areas including the Finance Department, in common with councils throughout the country as a result of the CSR. It is therefore important ensure that budget holders become increasingly less reliant on Finance staff. We are pleased to note that the Council has plans to implement a system (Qlikview) to help budget holders to review their own budgets. This is planned for release in April 2012. In the meantime, the Council should ensure, as part of its plans, that budget holders are prepared for this to maximise benefit from it upon implementation.	James T. Walsh, Assistant Director, Finance and S151 Officer (CFO)	1 April 2012 and ongoing monitoring	Finance are implementing Qlikview, a new reporting tool to assist managers in managing and forecasting budgets. Training has commenced and a number of managers have pilot access to the system. It is expected to be fully rolled out by 1 April 2012. Managers in the pilot have received initial training and a more comprehensive training programme will be in place to support managers as the system is rolled out.

# Executive Summary

## Next Steps

Area of review	Key points of consideration	Responsibility	Timescale	Management response
<p><b>Financial Control</b></p>	<p>In relation to the termination of the Serco schools contract, the Council should ensure that it has taken sufficient steps to understand and mitigate all related risks and ensure that it has a clear exit strategy in place.</p>	<p>Louise Hughes – Assistant Director Children’s Services</p>	<p>Ongoing. Phase 1 complete 1.04.2012.</p>	<p>The contract requires a detailed exit plan to be provided by Serco – which they have done prior to termination and this is subject to review. A risk register and transition plan is also in place, which will also be subject to regular review.</p> <p>The Council has set up a project team to manage the exit strategy and transition plan and appointed an exit manager</p> <p>The transition is to be managed in phases in order to spread the risk. Phase 1 takes place on 1 April 2012. This will enable any unforeseen risks and issues to be managed in future phases.</p> <p>Project governance has been established.</p> <p>A new operating model being developed to receive the services.</p> <p>Engagement with head teachers and other stake holders about future requirements is also underway.</p>

# Executive Summary

## Next Steps

Area of review	Key points of consideration	Responsibility	Timescale	Management response
<b>Prioritising Resources</b>	We are pleased to note that the Council has developed the 'Systems Thinking' approach to resource prioritisation which places customers at the heart of service planning decisions and has already delivered benefits. The Council's continued development of this approach is important for the continued identification of efficiencies.	Rory Borealis, Executive Director and Working Smarter Lead	Ongoing	3 of the Council's Executive Directors and 6 Assistant Directors are spending more than 50% of their working time fundamentally reviewing the majority of the Council's critical service areas. Their specific remit is to work with staff to make improvements for the customer and to find substantial savings to deliver the Council's medium term financial plan.
<b>Improving Efficiency and Productivity</b>	A key component of 'Systems Thinking' is the Working Smarter programme. We encourage the comprehensive implementation of this approach across the Council. However, it is important that the Council takes extra care to ensure that risk and controls are not compromised as a result of any savings initiatives.	Rory Borealis, Executive Director and Working Smarter Lead	Ongoing	The Vanguard method specifically provides for the piloting of any changes to be made, before full implementation. This ensures that any additional risks are fully understood before any redesign is implemented. Further, the Head of Internal Audit will be requested to advise on the potential impact of any proposed control changes prior to any changes being made.
	Internal Audit have submitted a number of limited assurance reports throughout 2010/11 which demonstrates strength in this function. Management should ensure that actions are followed up swiftly and effectively.	Head of Internal Audit	Ongoing	All no and limited assurance reports are subject to early and robust follow up by Internal Audit, to ensure that necessary assurances can be given. A new report format is currently being piloted by Internal Audit, focusing attention on assurance and incorporating systems thinking terminology.

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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
- 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

Further detail is provided in the appendix.

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
<b>Performance Against Budget</b>	<ul style="list-style-type: none"> <li>In 2009/10, the Council reported a £84m deficit. After statutory adjustments the Council showed an overall surplus to the general fund of £3.2m for the year.</li> <li>The Council has also out-turned within budget in 2010/11. There was an overall level of reserves of £5.481m. After taking into account planned transfer of reserves of £2.992m and an additional transfer to reserves of approximately £2.075m from unspent earmarked reserves allocations, the net underspend was £0.414m. This is consistent with the requirements of the MTFS.</li> </ul>	 <b>Green</b>
<b>Reserve Balances</b>	<ul style="list-style-type: none"> <li>Other earmarked reserves were 8.14% of total spend, compared to the nearest neighbours benchmark median of 7.02% and which equates to the MBC benchmark group 75th percentile figure. Unallocated reserves were 1.43% compared to the median of 1.4% for the nearest neighbour comparison group but lower than the median of the MBC group of 1.79%.</li> <li>Over time, high reserve levels may indicate poor financial management, particularly in unallocated reserves. However, the Council's levels of reserves are largely attributed to other earmarked reserves which increased from 1.38 % to 8.14% between 2008/09 and 2009/10 due to equal pay and pay and grading liabilities. Unallocated reserves rose from 0.33% to 1.43% in 2009/10.</li> <li>The Council's reserves are generally consistent with its statistical neighbours, with the exception of other earmarked reserves. This is a planned increase in reserves to meet the need for liquid funds as a result of the equal pay settlement.</li> </ul>	 <b>Green</b>
<b>Schools Balances</b>	<ul style="list-style-type: none"> <li>Schools balances have risen in 2010/11, following year-on-year reductions in balances. The Audit Commission's schools balances benchmark tool has shown that over the period of data available (2005/06 to 2008/09) the Council's balances have been higher than the statistical nearest neighbour benchmark group average. The Council is working with schools to reduce these balances.</li> </ul>	 <b>Amber</b>

## Key Indicators

Area of focus	Summary observations	Assessment
<b>Liquidity</b>	<ul style="list-style-type: none"> <li>• The working capital ratio indicates if an authority has enough current assets to cover its immediate liabilities. The Council's current assets exceed current liabilities at 2.4 which is above the 75th percentile of 1.5 for the nearest neighbour benchmarking group indicating a strong performance.</li> <li>• The Council is investing surplus cash, but due to the profile of investment rates availability, the expectation for interest rates to rise and continuing lack of confidence in the banking sector, the Council's average investment period is shorter.</li> <li>• The Council is also ensuring it has sufficient liquid funds in respect of equal pay liabilities.</li> </ul>	 <b>Green</b>
<b>Borrowing</b>	<ul style="list-style-type: none"> <li>• The Council's borrowing to tax revenue is around 1.5 which is consistent with a Council in a deprived area with consequently lower tax revenue.</li> <li>• Additionally, the Council uses the Prudential Indicator 2 Ratio of net financing costs to revenue stream which is around 9.5 %. From 2011/12 it will also use the Net Borrowing cost as a percentage of net budget requirement and it expects to achieve target of 4%, being less than the CIPFA local authority average (per CIPFA Treasury Management Risk Study 2010).</li> <li>• In line with its approved Treasury Management Strategy, the council took out £20m additional borrowing in June 2010 to minimise risk of borrowing increases and to manage equal pay costs. Subsequently the Government increased PWL rates by 1%. The Council is planning debt repayment once large payment commitments e.g. equal pay claims are fully known.</li> </ul>	 <b>Green</b>

# Key Indicators

Area of focus	Summary observations	Assessment
<p><b>Workforce</b></p>	<ul style="list-style-type: none"> <li>• Sickness absence creates additional costs and reduces productivity through lack of continuity. It has therefore become a prominent issue for all Councils in the current economic climate. The total cost of working days lost due to absence in 2010/11 was £1.7m, 65% of which related to long term sickness. Total sickness levels were 10.45 days per full time equivalent (FTE). This has reduced from 12.07 in 2009/10 demonstrating success from the Council's initiatives already in place to address this issue. Furthermore, the figures just published for 2011/12 (April to August) indicate a pro-rated absence figure of 7.8 days (assuming levels continue at the same rate) which compares very favourably with the national average in the public sector which is 9.3 days per FTE (in the private sector the average is 6.6 days per FTE).</li> <li>• An internal audit review to address sickness absence has been undertaken. Progress against the action plan is currently being monitored.</li> <li>• The use of consultants is monitored and reported quarterly to Members.</li> </ul>	<p style="text-align: center;">   <b>Amber</b> </p>

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Appendices

Appendix A - Key indicators of financial performance

# 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.


# Strategic Financial Planning

## Medium Term Financial Strategy

Area of focus	Summary observations	High level risk assessment
<b>Focus of the MTFS</b>	<ul style="list-style-type: none"><li>• 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.</li><li>• 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.</li><li>• Arising from the MTFS is the MTFP which translates the strategy into a practical plan of action for the Council.</li><li>• The Council has adopted the 'Systems Thinking' approach as a framework for identifying and delivering savings targets whilst maintaining service provision. A key component of this is the Working Smarter Programme which continues to identify efficiencies throughout the Council through improving service delivery from the customer perspective. Some examples and benefits from the Service Redesign Programme include:<ul style="list-style-type: none"><li>➢ Adult Social Care – increased from 2 care assessments per week to over 10, found over £200k of unnecessary care placements and identified £1.477m of efficiencies in access and care management processes</li><li>➢ Highway Maintenance – previously there was an 84% return rate to pothole repairs which is now 0%, £140k efficiency savings, over £200k of productivity improvements and a reduction of £200k in the Tarmac contract.</li></ul></li></ul>	 <p><b>Green</b></p>

# Strategic Financial Planning



## Medium Term Financial Strategy

Area of focus	Summary observations	High level risk assessment
<b>Scope of the MTFP and links to annual planning</b>	<ul style="list-style-type: none"><li>• The Council's MTFP is produced annually and covers a five year horizon. The current MTFP covers the period 2009-2013 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.</li><li>• The MTFP is part of the Council's Working Smarter programme. The budget will focus on a four year outcome and will integrate capital and revenue budgets. The budget process will consider how extra money could be generated through changing service delivery methods e.g. shared services.</li><li>• Budgets have been updated to take account of the recent government announcements. At year end the level of underspends will be assessed to determine whether or not finances have been planned effectively enough.</li><li>• The Council has a good understanding of its costs and how it compares to others and can demonstrate how this has been used in the budget setting process and to identify areas for efficiency savings. Investment decisions are made in the context of affordability, impact and deliverability of outcomes. Cost and performance information was used in the budget process to identify high and low cost services alongside performance and cost driver information.</li><li>• In compiling the plan, consideration is given to the national and local economic landscape and the impact of these on factors such as council tax collection rates.</li></ul>	 <p><b>Green</b></p>

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# Strategic Financial Planning

## Medium Term Financial Strategy

Area of focus	Summary observations	High level risk assessment
<b>Adequacy of planning assumptions</b>	<ul style="list-style-type: none"> <li>The various planning processes are interlinked, being the Sustainable Community Strategy, Corporate Plan, Service planning, financial planning, local area plans and employee performance assessments.</li> <li>Assumptions around income are based on detailed analysis and track record.</li> <li>The Council uses sensitivity analysis to support its actions.</li> </ul>	 <b>Green</b>
<b>Review processes</b>	<ul style="list-style-type: none"> <li>The Council has openly communicated medium to long term financial pressures and the likely consequences for staff.</li> <li>Senior Management review budgets and performance against them on a monthly basis.</li> <li>The MTFP is routinely reviewed and updated to reflect the current landscape.</li> <li>The Audit Committee meets monthly.</li> <li>Reserves and earmarked reserves are reviewed monthly by Finance.</li> <li>The benefits realisation plan (delivery of savings) is reported monthly to the Working Smarter Programme Board and corrective and alternative actions reviewed.</li> <li>Financial risk assessments are reviewed monthly and these are used to inform budgets and forecasting.</li> </ul>	 <b>Green</b>



# Strategic Financial Planning

## Medium Term Financial Strategy

Area of focus	Summary observations	High level risk assessment
<p><b>Responsiveness of the Plan</b></p>	<ul style="list-style-type: none"> <li>• Impact of the CSR has been analysed and built into the refreshed plan.</li> <li>• The Council has a well developed process which integrates with corporate and service planning. The MTFS and plan set out the financial framework and plan for the Council over the medium term. The framework and plan is flexible to allow resources to be targeted to changing priorities.</li> <li>• The MTFS is closely linked to corporate objectives, covering four years of revenue income and expenditure and five year capital programme.</li> <li>• Financial ratios are monitored on an ongoing basis and reported to cabinet. No major adverse ratios have been reported.</li> <li>• Supplementary to the MTFP is the annual budget which is updated on an ongoing basis to take account of emerging issues. Opportunities for additional savings are constantly being identified and brought before cabinet for consideration.</li> <li>• Benefits realisation is reported as part of each Corporate Finance Performance Report to Cabinet. It is also reported to the Working Smarter Board which comprises members of CMT and a number of senior managers.</li> <li>• The Council's Working Smarter programme is focused on benefits realisation. The Board comprises members of CMT and other representatives).</li> </ul>	<p style="text-align: center;">● <b>Green</b></p>

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Appendix - Key indicators of financial performance

# 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 Members 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).



# Financial Governance

## Understanding and engagement

Area of focus	Summary observations	High level risk assessment
<p><b>Understanding the Financial Environment</b></p> <p><b>The controls assurance performance monitoring focuses on financial management, governance and risk management</b></p>	<ul style="list-style-type: none"> <li>• The Council has adopted the CIPFA/SOLACE Governance framework and has strong arrangements in place to secure probity of its affairs to ensure that there is clarity of role and focus. These documents support and evidence local democracy and inspires confidence among the public and elected members in the decision making process and administration of the Council.</li> <li>• The Council provides training and development opportunities to ensure that roles of fulfilled.</li> <li>• Risk management is well embedded in the organisation. The corporate risk management strategy has been revised during the year and went to Audit Committee in January 2010. Risks covered are comprehensive.</li> <li>• The Council has an in-house internal audit function. In 2009/10 a change in leadership presented an opportunity to become more effective. It now issues reports on areas of no/limited assurance for scrutiny by Audit Committee and as these are public documents provide an incentive for these to be addressed.</li> <li>• 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.</li> <li>• Risks are scrutinised by the Audit Committee.</li> <li>• The Council has a good track record of delivering efficiencies and has identified £11m of savings to be delivered in 2010/11 with plans in place to monitor the achievement of these. The 3 years AES target of £20m was achieved. Furthermore, the Systems Thinking based approach to delivering efficiencies achieved savings.</li> <li>• Annual Governance statement is published in the accounts to facilitate the appropriate management of risks.</li> </ul>	<p style="text-align: center;">●</p> <p style="text-align: center;"><b>Green</b></p>

# Financial Governance

## Understanding and engagement

Area of focus	Summary observations	High level risk assessment
<b>Executive and Member Engagement</b>	<ul style="list-style-type: none"> <li>• There is an Audit Committee, which underwent a review in 2010/11 and an action plan to strengthen its arrangements is underway. Councils generally are required to look at governance arrangements and opportunities to improve in advance of stricter monitoring measures being introduced.</li> <li>• 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.</li> <li>• Decisions draw on a raft of information from various sources in order to determine local priorities.</li> <li>• 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.</li> </ul>	 <b>Green</b>
<b>Review of accuracy of Committee/Cabinet Reporting -eg reconciliation of Cabinet Reports to management accounts</b>	<ul style="list-style-type: none"> <li>• The Council prepares detailed monthly budget monitoring reports for Officers and Members. Quarterly reports provide an in-depth analysis of performance against budgets.</li> <li>• Reports are consolidated and reconciled by Corporate Finance from the ledger.</li> <li>• Budget monitoring is being strengthened via rollout of a new forecasting tool (Qlikview) which will assist managers to more accurately predict monitoring positions.</li> <li>• The chart of accounts has been reviewed and amended to ensure it remains fit for purpose.</li> </ul>	 <b>Green</b>

# Financial Governance

## Monitoring and review

Area of focus	Summary observations	High level risk assessment
<p><b>Performance Management of Budgets</b></p> <p><b>Overview of information reported at Cabinet in year and at year end.</b></p> <p><b>Commentary on in year variances against plan in addition to year end variances</b></p>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> <li>• Both in-year and high level variances are highlighted and action identified and reported regularly.</li> </ul>	<p style="text-align: center;">●</p> <p style="text-align: center;"><b>Green</b></p>

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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 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.





# Financial Control

## Internal arrangements

Area of focus	Summary observations	High level risk assessment
<p><b>Performance Management of Budgets</b></p> <p><b>Budget setting and budget monitoring and forecasting including detail of frequency of forecasting</b></p>	<ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>Executive and Assistant Directors and accountable budget holders are required to sign up to delivering their service on-budget.</li> </ul>	<p style="text-align: center;">●</p> <p style="text-align: center;"><b>Green</b></p>
<p><b>Performance against Savings Plans</b></p>	<ul style="list-style-type: none"> <li>The Council reported Value for Money gains in 2009/10 of £15m. This was slightly lower than the nearest neighbour benchmark group of £17m and MBC group of £18m. However, from 2010/11 significant efficiencies have been realised through the Working Smarter programme.</li> <li>22.4% of residents thought said that the Council provided good value for money, slightly below the median of 26% and 31% for MBCs.</li> <li>Savings are monitored by services on a monthly basis and reported to senior management teams. This includes any corrective action if savings are not on target. Additionally, savings are reported to CMT through the Working Smarter Programme Board.</li> <li>A RAG rating system has been developed to identify those savings already delivered, those on track, those requiring some internal corrective action and those requiring alternative action, along with the action required. This is to ensure early identification of slippage.</li> </ul>	<p style="text-align: center;">●</p> <p style="text-align: center;"><b>Green</b></p>

# Financial Control

## Internal and external assurances

Area of focus	Summary observations	High level risk assessment
<b>Finance Department resourcing and qualifications / experience</b>	<ul style="list-style-type: none"> <li>• There has been a reduction in the finance team by 25% at April 1st 2011. However, the most senior members of the team are unchanged ie Associate Director of Finance (S151 Officer).</li> <li>• The Council has put in place measures to ensure that this will not pose a threat to financial resilience which include 'Qlikview', a system for helping non-finance managers to review their own budgets and forecasting and rely less on Finance staff. This will be fully implemented from April 2012 and will require continual monitoring throughout the phased plan. There are interim plans in place in the meantime to ensure the transition of responsibility to budget holders is as smooth as possible.</li> </ul>	 <b>Green</b>
<b>Summary of key financial accounting systems</b>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> <li>• In the last financial year 2010/11 the Council has made significant improvements to its financial systems, such as an improved chart of accounts, and upgrade of the Oracle E- Business suite. Other improvements also include the development of a new budget reporting tool giving budget managers real time financial information enabling them to become more self sufficient and have greater autonomy.</li> </ul>	 <b>Green</b>

# Financial Control

## Internal and external assurances

Area of focus	Summary observations	High level risk assessment
<p><b>Internal audit arrangements including compliance with CIPFA Code of Practice for Internal Audit</b></p>	<ul style="list-style-type: none"> <li>• The Internal Audit is an in-house function. It had a change of leadership in 2009/10 which has seen improvements to its performance. The audit plan is now varied and is tailored to 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.</li> <li>• 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.</li> <li>• Reports of no and limited assurance are presented to each Audit Committee and actions followed up.</li> </ul>	<p style="text-align: center;">● <b>Green</b></p>
<p><b>External audit arrangements and programme of activities</b></p>	<ul style="list-style-type: none"> <li>• The conclusions from the most recent Annual Audit Letter noted that the Council will need to ensure that there are improvements to the effectiveness of:                             <ul style="list-style-type: none"> <li>➤ internal control arrangements to ensure this has a more strategic approach across the Council; and</li> <li>➤ governance arrangements to ensure that the Council's overall arrangements are fully effective.</li> </ul> </li> <li>• The Council has included responses to actions raised in our reports in previous years and have made good progress in implementing actions arising from the recommendations above.</li> </ul>	<p style="text-align: center;">● <b>Green</b></p>

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# Securing Economy, Efficiency and Effectiveness

## **Key indicators of securing economy, efficiency and effectiveness**

In conducting our review of securing economy, efficiency and effectiveness we have assessed the Council's performance against the following indicators:

### **Prioritising Resources**




- Leadership from senior management on prioritising resources and spending reductions.
- Review and challenge of corporate priorities and cost effectiveness, identifying where activities do not contribute sufficient value.
- Consultation with frontline staff and local residents.
- Decision making based on adequate information.
- Options appraisal.
- Consideration of alternative lower cost options.
- Justify spending compared to others.
- Cost reductions do not result in reduced efficiency or increased spending elsewhere.
- Record of spending in non priority areas.

### **Improving Efficiency and Productivity**

- Information on costs.
- Use of comparative data to challenge VfM practice.
- Efficiency plans.
- Evaluation of options.
- Input from staff into efficiency options.
- Challenge to service delivery.
- Monitoring achievements.
- Success in achieving efficiencies.





# Securing Economy, Efficiency and Effectiveness

## Prioritising Resources

Area of focus	Summary observations	High level risk assessment
<b>Leadership of Senior Management regarding prioritising resources</b>	<ul style="list-style-type: none"> <li>The framework and plan is flexible to allow resources to be targeted to emerging/changing priorities and is underpinned by robust procedures.</li> <li>The Council produces annual plans and budgets and has demonstrated that it is able to update them for emerging issues.</li> <li>Senior management produce reports and options in consultation with the portfolio holder for Cabinet to consider.</li> </ul>	 <b>Green</b>
<b>Consultation with stakeholders</b>	<ul style="list-style-type: none"> <li>The Council's budget consultation programme includes involvement from local residents. For the 2010/11 budget, consultation also included the voluntary sector, trades unions and Scrutiny. Various consultation methods were used including face to face household interviews, presentations, focus groups, web surveys, attendance at specific events and Area meetings. All these fed into the decision making process.</li> </ul>	 <b>Green</b>
<b>Cost analysis</b>	<ul style="list-style-type: none"> <li>Costs and benefits of investments are risk-assessed to understand the likely impact. This assists Cabinet to make informed decisions.</li> <li>Variations in costs are analysed and reported regularly with corrective action being taken where appropriate.</li> </ul>	 <b>Green</b>

# Securing Economy, Efficiency and Effectiveness

## Improving Efficiency and Productivity

Area of focus	Summary observations	High level risk assessment
<b>Information on costs</b>	<ul style="list-style-type: none"> <li>• Delivery plans include consideration of the impact of each action on other services the Council provides. The savings identified are specifically considered in the light of potential impact on partners and other Council areas.</li> </ul>	 <b>Green</b>
<b>Comparisons with benchmark partners</b>	<ul style="list-style-type: none"> <li>• The Council uses benchmarking tools including the Audit Commission's Value for Money toolkit to understand its relative position regarding costs.</li> </ul>	 <b>Green</b>
<b>Challenge to service delivery</b>	<ul style="list-style-type: none"> <li>• Delivery plans include projects specifically designed to provide services at lower unit cost for example in community services, the cessation of direct Council operation of Bentley Leisure Pavilion (savings £50k per annum) and the development of the third sector transport function within Walsall and the decommissioning of current transport contracts (with savings of £100k per annum).</li> </ul>	 <b>Green</b>
<b>Monitoring achievements</b>	<ul style="list-style-type: none"> <li>• Achievement of planned savings and efficiencies is reported formally to Cabinet as part of the monthly corporate financial performance reporting regime.</li> <li>• The Council has a good track record of delivering efficiencies and it has procedures in place for monitoring and delivering these. A 'delivering the budget savings' board was established to oversee this.</li> <li>• Progress on efficiencies is reported as part of each corporate performance report to Cabinet. New savings proposals for next year amount to just under £13m.</li> <li>• Internal Audit has produced a number of reports showing limited assurance throughout the year. This shows strength in internal audit arrangements and will only become a risk to value for money if actions points arising are not followed up by management.</li> </ul>	 <b>Green</b>

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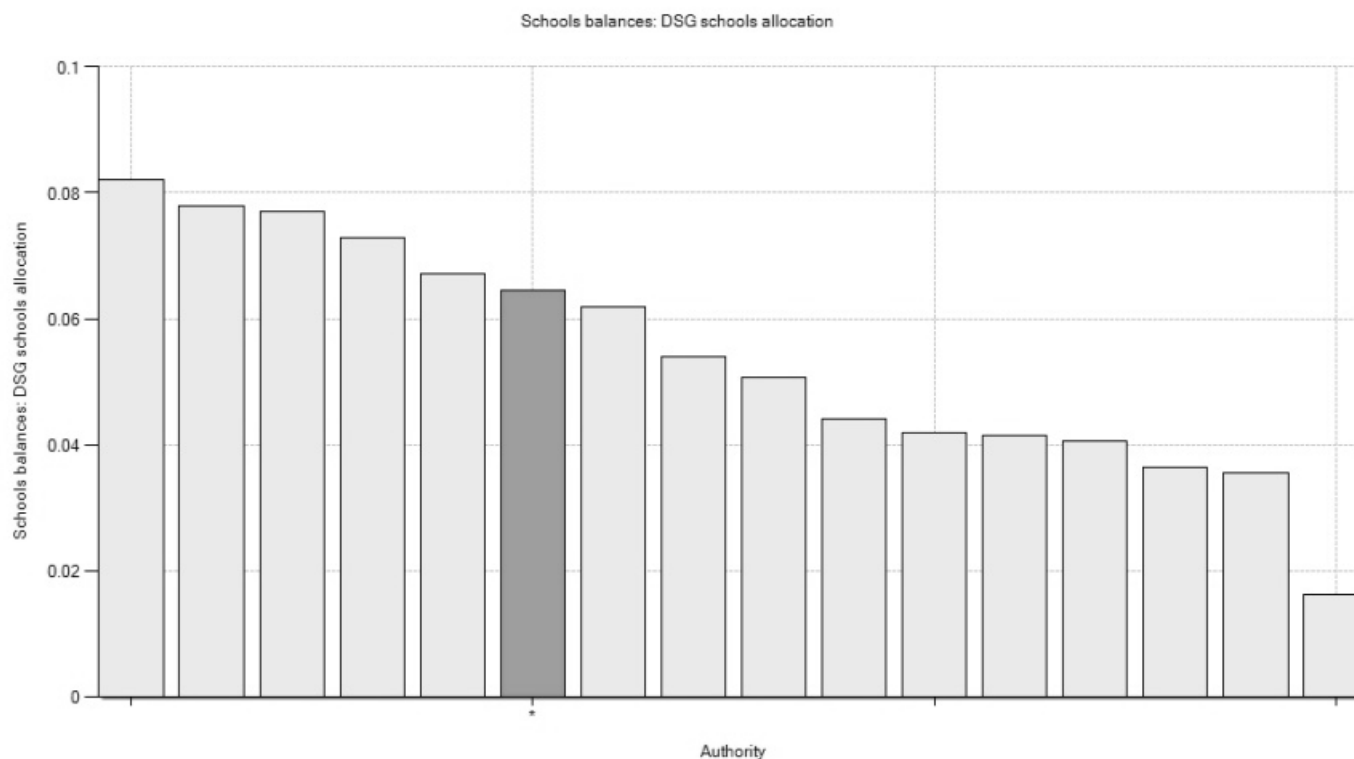
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# Key Indicators

## Key Indicators of Financial Performance



### School Balances to DSG Allocation (2009/10)

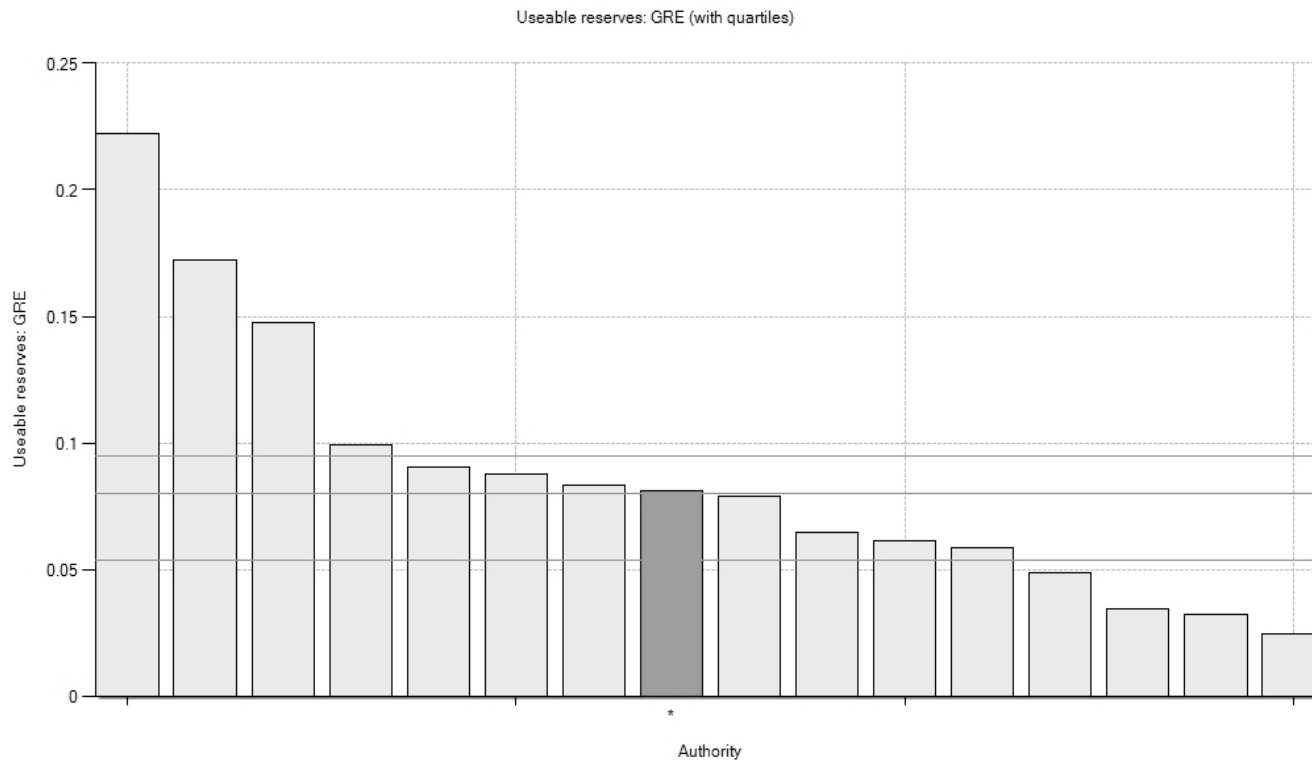
This chart represents the share of school balances in relation to the total DSG allocation in the nearest neighbour benchmark group. The Council's balance is shown by the highlighted column. This stood at 0.068 in 2009/10 meaning that 6% of total DSG allocation remained unspent at the end of the year compared with a benchmark median of 4%.

Findings: The Council's balances had been generally reducing over the period from 2005/06 to 2009/10 but still above the median for the group and balances have risen in 2010/11.

Source: Audit Commission Financial Ratios

# Key Indicators

## Key Indicators of Financial Performance



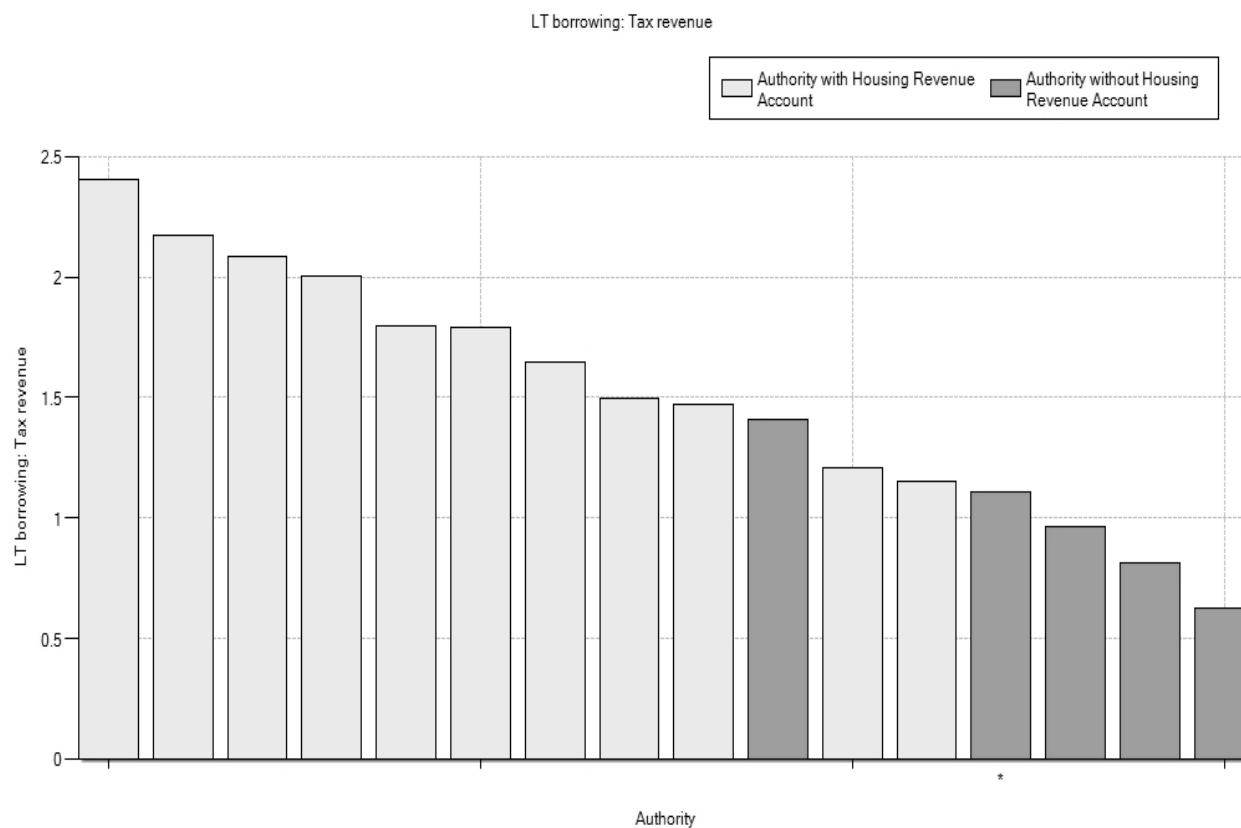
### Reserves: Useable Reserves to Gross Revenue Expenditure in 2009/10

This chart shows useable reserves as a share of expenditure. A ratio of 1 means that total reserves matches expenditure. The Council's figure of 0.08 (reserves account for 8% of expenditure) is highlighted and denoted with an asterisk, being around the median for the benchmark group (identified by the middle line).

Source: Audit Commission Financial Ratios

# Key Indicators

## Key Indicators of Financial Performance



### **Borrowing: Long Term Borrowing: Tax Revenue in 2009/10**

This chart represents long term borrowing as a share of tax revenue for the nearest neighbour benchmark group. A ratio of more than 1 means that long term borrowing exceeds council tax revenue. The Council is identified by the asterisk at just below 1.5 representing a satisfactory performance.

Source: Audit Commission Financial Ratios



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