



Business Efficiency Board

**Wednesday, 18 September 2013 at 6.30
p.m.
Civic Suite, Town Hall, Runcorn**



Chief Executive

BOARD MEMBERSHIP

Councillor Alan Lowe (Chairman)	Labour
Councillor Martha Lloyd Jones (Vice-Chairman)	Labour
Councillor Arthur Cole	Labour
Councillor Mike Fry	Labour
Councillor Darren Lea	Labour
Councillor Tony McDermott	Labour
Councillor Andrew MacManus	Labour
Councillor Norman Plumpton Walsh	Labour
Councillor Joe Roberts	Labour
Councillor Gareth Stockton	Liberal Democrat
Councillor Kevan Wainwright	Labour

Please contact Michelle Simpson on 0151 511 8708 or e-mail michelle.simpson@halton.gov.uk for further information.

The next meeting of the Board is on Wednesday, 27 November 2013

**ITEMS TO BE DEALT WITH
IN THE PRESENCE OF THE PRESS AND PUBLIC**

Part I

Item No.	Page No.
1. MINUTES	
2. DECLARATION OF INTEREST	
Members are reminded of their responsibility to declare any Disclosable Pecuniary Interest or Other Disclosable Interest which they have in any item of business on the agenda, no later than when that item is reached or as soon as the interest becomes apparent and, with Disclosable Pecuniary interests, to leave the meeting during any discussion or voting on the item.	
3. FRAUD AND CORRUPTION - ANNUAL UPDATE	1 - 5
4. ANNUAL GOVERNANCE STATEMENT 2012/13	6 - 22
5. EFFICIENCY PROGRAMME UPDATE	23 - 27
6. 2012/13 STATEMENT OF ACCOUNTS, AUDIT FINDINGS REPORT AND LETTER OF REPRESENTATION	28 - 73
7. ARRANGEMENTS FOR SECURING FINANCIAL RESILIENCE	74 - 121
8. 2012/13 GRANT CERTIFICATION WORK PLAN	122 - 131
9. SCHEDULE 12A OF THE LOCAL GOVERNMENT ACT 1972 AND THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985	

PART II

In this case the Board has a discretion to exclude the press and public and, in view of the nature of the business to be transacted, it is **RECOMMENDED** that under Section 100A(4) of the Local Government Act 1972, having been satisfied that in all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information, the press and public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in paragraphs 3 of Part 1 of Schedule 12A to the Act.

In accordance with the Health and Safety at Work Act the Council is required to notify those attending meetings of the fire evacuation procedures. A copy has previously been circulated to Members and instructions are located in all rooms within the Civic block.

REPORT TO:	Business Efficiency Board
DATE:	18 September 2013
REPORTING OFFICER:	Strategic Director – Policy & Resources
SUBJECT:	Fraud & Corruption – Annual Update
PORTFOLIO:	Resources
WARD(S):	Borough-wide

1.0 PURPOSE OF REPORT

The Business Efficiency Board is responsible for monitoring and reviewing the adequacy of the Council's anti-fraud and corruption arrangements. The purpose of this report is to update the Board with details of developments in regard to those arrangements.

2.0 RECOMMENDATION: That the Business Efficiency Board is asked to note the report and endorse the actions being taken to counter fraud and corruption.

3.0 THE COUNCIL'S COUNTER FRAUD FRAMEWORK

3.1 The Council has a well-established framework of policies, procedures and functions that collectively help to manage the risk of fraud and corruption. Key elements of this framework include:

- The Anti-Fraud and Anti-Corruption Strategy;
- The Fraud Response Plan;
- The Confidential Reporting Code (Whistleblowing Policy);
- Standing Orders relating to Finance;
- Procurement Standing Orders;
- The Scheme of Delegation;
- Members' Code of Conduct;
- Employees' Code of Conduct;
- Registers of Interests;
- Registers of Gifts & Hospitality;
- The work of internal audit;
- The work of the Benefits Investigation Unit;
- Participation in the National Fraud Initiative;
- Communication systems to raise awareness of the risk of fraud.

3.2 Following a self-assessment of the Council's counter fraud arrangements further work has been undertaken to improve awareness and understanding of fraud and corruption risks across the Council. This has led to:

- A fraud awareness e-learning module being developed, which will be made available to all Council employees and members. The module will update the content of the previous fraud awareness training that was successfully rolled out across the Council in 2010.
- An e-learning module has also been developed to raise awareness of the Bribery Act 2010, which came into force in July 2011. The module has initially been rolled out to elected members and officers in the Procurement Division. It will however be made available to all Council employees.
- A review of the Council's whistleblowing procedures is planned following a number of recent changes to whistleblowing legislation, which came into effect on 25 June 2013 as a result of the Enterprise and Regulatory Reform Act 2013. These changes provide an ideal opportunity to review and re-launch the Council's whistleblowing policies and procedures.

4.0 REPORTING FRAUD AND CORRUPTION

4.1 The Council has a number of mechanisms which allow both staff and members of the public to raise their concerns regarding benefit fraud allegations and other concerns. These mechanisms include:

- Benefit Fraud Online Form
- Confidential Fraud Hotline Freephone
- 'Report It' facility on the Council's Website

4.2 In 2012/13 the Council received 115 referrals via the 'Report It' facility, of which 45 were related to alleged benefit fraud. The remaining 70 referrals related to issues ranging from fly tipping, noise pollution and anti-social behavior. Each referral was passed to the relevant Council department for further investigation.

4.3 A further 61 referrals were received during the year from the Fraud Hotline and the Benefit Fraud Online form. All referrals are followed up and investigations undertaken where appropriate. One of the referrals received in 2012/13 resulted in the identification of a £10k fraudulent overpayment and the case is currently pending prosecution.

5.0 IDENTIFIED FRAUD – 2012/13

5.1 In 2012/13 the Council did not identify any non-benefit related fraud. However, this does not necessarily mean that no fraud was present. Management is ultimately responsible for identifying fraud and corruption but the risk of fraud is also considered by both internal audit and external audit when planning and undertaking audit work.

5.2 Nationally, the biggest fraud risk to local authorities continues to be in respect of claims for Housing Benefit and Council Tax Benefit. The Council's Benefit Investigation Unit (BIU) therefore has an important role to play in the Council's overall counter fraud arrangements.

5.3 The BIU has continued to work closely with the Department of Work and Pensions (DWP) Fraud Investigation Service and successfully prosecuted 21 joint working cases in 2012/13.

5.4 The BIU also received 487 referrals, of which 295 were investigated and closed. These investigations led to:

- 31 formal cautions
- 22 administrative penalties
- 39 cases taken to court
- 37 successful prosecutions

5.5 The value of the overpayments identified in the cases where sanctions have been imposed is as follows:

Overpayment Type	£
Housing Benefit	168,285
Council Tax Benefit	44,239
DWP Benefit	352,110
Total	564,634

5.6 In recent months there have been a number of high profile fraudulent benefit claimants going before the courts resulting in penalties ranging from a suspended prison sentence to 120 hours unpaid work. Publicity arising from such prosecutions assists the Council in sending out a clear message that fraud will not be tolerated.

6.0 SINGLE FRAUD INVESTIGATION SERVICE (SFIS)

6.1 The Coalition Government’s strategy for tackling welfare fraud and error, published in October 2010, set out a commitment to create the Single Fraud Investigation Service (SFIS) to investigate benefit and tax credit fraud and Universal Credit. SFIS would be part of the DWP and was intended to bring together investigation staff from local authorities, DWP and HMRC.

6.2 Development of SFIS is continuing, and a number of pilot schemes are running across the country with further pilots planned for later in the year. Initial feedback from the pilots indicates that co-location has provided a more supportive learning environment for staff than separate sites. However, IT solutions have taken longer than anticipated to implement.

6.3 At present it remains unclear as to whether or not local authority benefit staff will transfer to SFIS, as options for its future organisation are still under consideration. Until any changes are made SFIS will remain a partnership. If the partnership continues as a long-term option, staff will remain employed by their existing employer.

6.4 Further details on the development of SFIS will be reported to the Board as they emerge.

7.0 NATIONAL FRAUD INITIATIVE

7.1 The Council participates in the Audit Commission’s National Fraud Initiative (NFI). This is a data matching exercise which takes place every year with different data

sets being submitted. The exercise is designed to assist participating bodies in detecting fraud, overpayments and errors.

7.2 In 2012/13, the Council submitted the following datasets:

- Payroll
- Pensions (provided by Pensions Authority)
- Trade creditors' payment history and standing data
- Housing Benefits (provided by DWP)
- Electoral Register
- Students eligible for a loan (provided by Student Loan Company)
- Private supported care home residents
- Blue Badges/Concessionary Travel
- Insurance claimants
- Licences – market traders/operator, taxi driver and personal licences to supply alcohol

7.3 The matches for investigation were made available in March 2013 and the Council was recommended to review 1,270 data matches across all datasets. This work is still in progress and ongoing enquiries are being made in regard to 72 data matches, which potentially could lead to further action.

7.4 External Audit has reviewed the Council's progress in regard to the investigation of the matches and has confirmed that it is satisfied with the progress achieved to date.

7.5 In July the Government announced that NFI will continue after the Audit Commission closes in 2015. The Cabinet Office is to take on responsibility for NFI, which will become part of the Fraud Error and Debt Taskforce.

8.0 POLICY, FINANCIAL AND OTHER IMPLICATIONS

8.1 There are no specific policy implications arising from this report.

8.2 There are no direct financial implications arising from this report. Further development of the Council's counter fraud arrangements will be met from within existing resources.

9.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

9.1 The maintenance of an effective framework to minimise the risk of fraud and corruption contributes to the achievement of all the Council's priorities.

10.0 RISK ANALYSIS

10.1 This report highlights specific actions that the Council has already taken, and continues to take, to minimise the risk of fraud. Failure to maintain effective counter fraud measures would result in the Council being susceptible to an increased risk of financial loss.

11.0 EQUALITY AND DIVERSITY ISSUES

None identified

12.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972

None

REPORT TO:	Business Efficiency Board
DATE:	18 September 2013
REPORTING OFFICER:	Strategic Director – Policy & Resources
SUBJECT:	Annual Governance Statement 2012/13
PORTFOLIO:	Resources
WARD(S):	Borough-wide

1.0 PURPOSE OF REPORT

The Board considered the draft Annual Governance Statement for 2012/13 at its meeting on 26 June 2013. At that meeting a number of changes to the document were agreed by the Board. The purpose of this report is to enable the Board to further review and approve the updated Annual Governance Statement for 2012/13.

2.0 RECOMMENDATIONS:

The Board is asked to review the Annual Governance Statement (AGS) and:

- (i) Confirm that it accurately reflects the amendments agreed at the Board's meeting on 26 June 2013;**
- (ii) Approve the Annual Governance Statement to be signed by the Council Leader and Chief Executive.**

3.0 SUPPORTING INFORMATION

- 3.1 The draft Annual Governance Statement for 2012/13 was presented to the Board on 26 June 2013. At that meeting some amendments to the document were proposed and agreed by the Board.
- 3.2 An updated version of the Annual Governance Statement for 2012/13 reflecting the changes agreed is attached to this report in Appendix 1. The only amendments from the draft document presented to the Board on 26 June are in regard to sections 3.1 and 4.3.

4.0 POLICY, FINANCIAL AND OTHER IMPLICATIONS

- 4.1 The Accounts and Audit Regulations 2011 include a statutory requirement to prepare a statement on internal control in accordance with 'proper practice'. Proper practice is defined by the CIPFA/SOLACE Framework as an Annual Governance Statement.

4.2 The powers and duties of the Business Efficiency Board include responsibility for considering the Council's corporate governance arrangements and agreeing necessary actions to ensure compliance with best practice. The draft AGS contains an action plan setting out how the Council intends to strengthen its overall governance arrangements.

4.3 There are no direct financial implications arising from this report. However, the AGS does make reference to the key financial challenges faced by the Council and how they are being managed.

5.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

5.1 Children and Young People in Halton

Good governance leads to good management, good performance and good stewardship of public money. It therefore enables the Council to implement its vision in accordance with its values and to engage effectively with its citizens and service users and ensure good outcomes for them.

5.2 Employment, Learning and Skills in Halton

See 5.1 above.

5.3 A Healthy Halton

See 5.1 above.

5.4 A Safer Halton

See 5.1 above.

5.5 Halton's Urban Renewal

See 5.1 above.

6.0 RISK ANALYSIS

6.1 Under the Accounts and Audit Regulations 2011 the Council is legally required to 'conduct a review at least once a year of the effectiveness of its system of internal control'. Following the review, the Council must approve an annual governance statement, prepared in accordance with proper practices in relation to internal control.

6.2 The processes followed in reviewing the system of internal control aim to ensure that an accurate statement can be produced in line with the requirements of the Act. Part of the review process includes consultation with the Business Efficiency Board, which is responsible for ensuring that the Council's governance arrangements comply with best practice.

7.0 EQUALITY AND DIVERSITY ISSUES

7.1 The Council has to have regard to the elimination of unlawful discrimination and harassment and the promotion of equality under the Equalities Act 2010 and related statutes. Proper governance arrangements will ensure that equality and diversity issues are appropriately addressed.

8.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972

Document	Place of Inspection	Contact
CIPFA / SOLACE – Delivering good governance in Local Government: Framework (2007)	Kingsway House, Widnes	Merv Murphy
CIPFA / SOLACE - Delivering good governance in Local Government: Guidance note for English authorities (2007)		
The Accounts and Audit (England) Regulations 2011		

HALTON BOROUGH COUNCIL 2012/13 ANNUAL GOVERNANCE STATEMENT

1. Scope of Responsibility

- 1.1 Halton Borough Council is responsible for ensuring that:
- its business is conducted in accordance with the law and proper standards;
 - public money is safeguarded and properly accounted for; and
 - public money is used economically, efficiently and effectively.
- 1.2 Halton Borough Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.3 In discharging this overall responsibility, Halton Borough Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
- 1.4 The Council has adopted a local code of corporate governance, which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives and Senior Managers (SOLACE) Framework '*Delivering Good Governance in Local Government*'.
- 1.5 This statement explains how Halton Borough Council has complied with the principles of good governance and reviews the effectiveness of these arrangements. It also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) Regulations 2006, in relation to the publication of a statement on internal control.

2. The Purpose of the Governance Framework

- 2.1 The governance framework comprises the systems and processes, and culture and values by which the authority is directed and controlled, and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives, and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Halton Borough Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 2.3 The governance framework has been in place at Halton Borough Council for the year ended 31 March 2013 and up to the date of approval of the statement of accounts.

3. The Council's Governance Framework

A brief description of the key elements of the Council's governance framework is described below. Documents referred to may be viewed on the Council's website and are available from the Council on request.

3.1 Communicating the Council's vision

- a) The long-term vision for Halton is set out in the Sustainable Community Strategy and the Council's own Corporate Plan.
- b) The Sustainable Community Strategy outlines how the Halton Strategic Partnership intends to transform Halton and is supported by 3 five year delivery plans.
- c) The Council's Corporate Plan sets out how the Council will deliver its contribution to achieving the Sustainable Community Strategy. It sets out the following strategic priorities and key themes that underpin all aspects of the Council's work:
- A Healthy Halton
 - Environment & Regeneration in Halton
 - Children & Young People in Halton
 - Employment, Learning and Skills in Halton
 - A Safer Halton
 - Corporate Effectiveness & Business Efficiency
- d) The Council's Corporate Planning Framework is the means by which the Council's objectives are delivered. It consists of a hierarchy of plans that are directly aligned to ensure that the corporate priorities and strategic objectives of the Council are cascaded down the organisation through properly outcome-focused targets.

- e) The Council has a range of performance indicators used to measure progress against its key priorities in the Corporate Plan. Quarterly monitoring reports record progress against key service plan objectives and targets. These are reported to the Management Team and to the Policy and Performance Boards.
- f) The Council seeks to use its resources efficiently and obtains value for money via a number of arrangements. These include:
- A medium term financial strategy, capital programme and annual budget process that ensures that financial resources are directed to the Council's priorities;
 - A co-ordinated and structured approach to procurement across the Council;
 - The delivery of a well-established Efficiency Programme to identify and implement efficiency savings across the organisation in a systematic and considered manner;
 - Partnership working with a range of organisations where there are shared objectives and clear economic benefits from joint working.

3.2 Members and officers working together to achieve a common purpose with clearly defined roles and functions

- a) Roles and responsibilities for governance are defined and allocated so that accountability for decisions made and actions taken are clear. The Executive Board is the main decision-making body of the Council and is made up of ten members who have responsibility for particular portfolios.
- b) The Council also appoints a number of committees to discharge the Council's regulatory and scrutiny responsibilities. These arrangements, and the delegated responsibilities of officers, are set out in the Council's Constitution.
- c) The Constitution also includes a Member/Officer protocol which describes and regulates the way in which members and officers should interact to work effectively together.
- d) There is a well-established overview and scrutiny framework with six Policy and Performance Boards (PPBs) aligned to the Council's six corporate plan priorities. They hold the Executive to account, scrutinise performance and develop policy proposals for consideration by the Executive.
- e) The Business Efficiency Board is designated as the Council's Audit Committee. Its core functions are consistent with those identified in the CIPFA publication 'Audit Committees – Practical Guidance for Local Authorities'. It provides assurance to the Council on the effectiveness of its governance arrangements, risk management framework and internal control environment. The Board regularly reviews the resourcing of the internal audit

function, the internal audit work programme, the results of internal audit work and management's implementation of audit recommendations.

- f) The Chief Executive (and Head of Paid Service) is accountable for the delivery of the Council's diverse services, its budget, the work of the Council's employees, the borough's community schools, and the work done for the Council by a variety of agencies and contractors who deliver a wide range of services to the community. The Chief Executive represents the Council and the borough on local and regional partnerships and at regional and national levels. The role of Chief Executive is a permanent appointment, which requires the approval of the full Council following the recommendation of a candidate for the role by the Appointments Committee.
- g) The Operational Director – Finance, as the s151 Officer appointed under the 1972 Local Government Act, is the Council's Chief Financial Officer and carries overall responsibility for the financial administration of the Council. The Council's governance arrangements relating to the role of the CFO overall comply with those arrangements set out in the CIPFA statement on the role of the Chief Financial Officer (CFO) in Local Government (2010).
- h) Section 5 of the Local Government and Housing Act 1989, as amended by paragraph 24 of schedule 5 Local Government Act 2000, requires the Council to designate one of its senior officers as the Monitoring Officer. This role is undertaken by the Operational Director – Legal and Democratic Services, who is responsible for:
- Ensuring that the Council acts and operates within the law. He or she has a duty to report to the whole Council if the Council has broken or may have broken the law;
 - Maintaining arrangements to support the Council's functions and activities, including regular reviews of the Council's Constitution;
 - Supporting the Council's Standards Committee and helping promote and maintain high standards of conduct by Council members, officers, partners and contractors;
 - Establishing and maintaining a register of interests (including receipts of gifts and hospitality) for elected and co-opted members;
 - Receiving reports and taking action under the Council's Confidential Reporting Code, which supports whistleblowing by staff.
- i) The Operational Director – Finance and the Operational Director – Legal and Democratic Services are both members of the Council's Management Team. Both officers also have explicit direct access to the Chief Executive outside of the Management Team.
- j) The Children Act 2004 requires every upper tier local authority to appoint a Director of Children's Services and designate a Lead Member for Children's Services. The Strategic Director – Children and Enterprise is designated as the Council's Director of Children's Services. He or she works together with

the Lead Member for Children's Services to provide strategic leadership for local authority education and social care services for children. The responsibilities of the Director of Children's Services and Lead Member extend to all children receiving services in the borough, irrespective of the type of school they attend, or their home local authority area. This is complemented by an independently chaired Local Children Safeguarding Board that has a high level of multi-agency cooperation in safeguarding children in the borough.

- k) All local authorities with social services responsibility in England are required to appoint an officer as the Director of Adult Social Services. This role has been designated to The Strategic Director – Communities. This statutory role is accountable for the delivery of local authority social services functions listed in Schedule 1 of the Local Authority Social Services Act 1970 (as amended) in respect of adults (other than those services for which the Director of Children's Services is responsible). This is complemented by an Adults Safeguarding Board that has a high level of multi-agency cooperation in safeguarding vulnerable adults in the borough. There is a multi-agency safeguarding unit which reports to the Safeguarding Board.
- l) The Council is now responsible for Public Health and the appointment of a Director of Public Health who is statutorily responsible for health and wellbeing services within Halton Borough Council and reports directly to the Chief executive.
- m) The Strategic Director – Policy and Resources is designated as the Council's Statutory Scrutiny Officer as required under Section 31 of the Local Democracy, Economic Development and Construction Act 2009. The functions of the Statutory Scrutiny Officer are to:
- Promote the role of the authority's Overview & Scrutiny Committees;
 - Provide support to the authority's Overview & Scrutiny Committees and the members of those committees;
 - Provide support and guidance to Members of the authority, members of the Executive and officers in relation to the functions of the authority's Overview & Scrutiny Committees.
- n) The role of Head of Internal Audit is assigned to the post of the Divisional Manager – Audit & Operational Finance. This role is responsible for the Council's internal audit service, including drawing up the internal audit strategy and annual plan and giving the annual audit opinion. The Council's arrangements substantially comply with the CIPFA Statement on the role of the Head of Internal Audit in public service organisations (2010). The post of Divisional Manager – Audit & Operational Finance does however have operational responsibilities assigned to it. To address this issue, alternative assurance and reporting arrangements have been agreed with the Operational Director – Finance for those non-audit functions for which the Divisional Manager – Audit & Operational Finance has managerial responsibility.

- o) All employees have clear conditions of employment and job descriptions which set out their roles and responsibilities.
- p) The Council has clearly set out terms and conditions for the remuneration of members and officers and there is an effective structure for managing the process. A Scheme of Members' Allowances has been set by the Council having regard to a report of an Independent Panel made up of non-Councillors. The Council published its first 'Pay Policy Statement' in March 2012, which provides transparency with regard to the Council's approach to setting the pay of its employees. The 'Pay Policy Statement' is reviewed annually.

3.3 Promoting values and upholding high standards of conduct and behaviour

- a) The Council has a Standards Committee to promote high standards of member conduct. Elected members have to agree to follow a Code of Conduct to ensure high standards in the way they undertake their duties. The Standards Committee trains and advises them on the Code of Conduct.
- b) Officer behaviour is governed by the Employees' Code of Conduct. The Code has been formulated to provide a set of standards of conduct expected of employees at work and the link between that work and their private lives.
- c) The Council takes fraud, corruption and maladministration seriously and has established policies and processes which aim to prevent or deal with such occurrences. These include:
 - Anti-Fraud and Anti-Corruption Strategy;
 - Fraud Response Plan;
 - Confidential Reporting Code (Whistleblowing Policy);
 - HR policies regarding discipline of staff involved in such incidents.
- d) The Business Efficiency Board is assigned with responsibility to monitor and review the adequacy of the Council's anti-fraud and corruption policies and arrangements. This responsibility is met by the Board receiving regular reports providing details of developments relating to the Council's counter fraud and corruption arrangements.
- e) A corporate complaints procedure exists to receive and respond to any complaints received.
- f) Arrangements exist to ensure that members and employees are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders. These include:
 - Registers of disclosable pecuniary interests and disclosable other interests;

- Declarations of disclosable pecuniary interests and disclosable other interests at the start of each meeting in which discussions involve a matter in which a member has an interest;
- Registers of gifts and hospitality, which are available for public inspection;
- Equal opportunities policy.

3.4 Taking informed and transparent decisions and managing risk

- a) The Council's decision-making processes are clear, open and transparent. The Council's Constitution sets out how the Council operates and the processes for policy and decision-making. Key decisions are published in the Council's Forward Plan. Agendas and minutes of all meetings are published on the Council's website.
- b) The Council provides decision-makers with full and timely access to relevant information. The executive report template requires information to be provided explaining the legal, financial and risk implications of decisions, as well as implications for each of the corporate priorities and any equality and diversity implications.
- c) The Council has a Risk Management Policy and Toolkit and regularly reviews its corporate and directorate risk registers. The management of risk is monitored through the Council's quarterly performance monitoring arrangements. The Business Efficiency Board also reviews the risk management process and corporate risk register twice yearly. The directorate and corporate risk registers outline the key risks faced by the Council, including their impact and likelihood, along with the relevant mitigating controls and actions, and they form the basis of the internal audit planning process.
- d) The Halton Strategic Partnership is the Local Strategic Partnership (LSP) for the borough of Halton. The Halton Strategic Partnership Board has established five Specialist Strategic Partnerships (SSPs) – one for each of the borough's priorities. Each of the five SSPs has conducted a risk assessment of its objectives to form a Partnership Risk Register.
- e) The Business Efficiency Board approves and reviews the internal audit work programme and oversees management's implementation of audit recommendations.

3.5 Developing the capacity and capability of Members and Officers

- a) The Council recognises that the success of its business is built upon the knowledge, expertise and commitment of its workforce. Development and retention of staff therefore remains a priority for the Council. The Council first

received accreditation as an Investor in People in 1997, with it being renewed for the fourth time in 2010.

- b) The Council has developed a People Plan (2012-2015) to assist the organisation in addressing leadership, skills development and recruitment and retention, in a structured and coordinated way. This will also help the Council plan for the future by providing a framework to assess its current workforce and people management activity and to identify any gaps that need to be filled.
- c) The Council's training and development programme stretches right across the organisation to include members and employees. The Council has recently been reaccredited with the NW Charter for Elected Member Development Exemplar Level status.
- d) Newly elected members attend a three-day induction programme with follow-up mentoring and all members are offered a personal development interview.
- e) All new employees attend an induction programme with a more detailed programme for new managers.
- f) The Council has an annual Employee Development Review (EDR) process to identify key tasks and personal development needs linked to delivering our priorities. Training needs identified in this way are used to design the corporate training programme. They are also used to identify specialised professional training needs.

3.6 Engagement with local people and other stakeholders to ensure robust public accountability

- a) The Council's planning and decision-making processes are designed to include consultation with stakeholders and the submission of views by local people.
- b) Arrangements for consultation and for gauging local views include both formal and informal arrangements:
 - Formal arrangements include the Halton 2000 Citizens' Panel, the seven Area Forums, and the Youth Forums;
 - Informal arrangements include contact via our website, Halton Direct Link and magazine based customer surveys.
- c) The community and voluntary sector are represented on the Halton Strategic Partnership Board and on all its SSPs.

- d) The Executive Board has adopted an approach to locality working, which each Local Area Forum is using to encourage greater participation and involvement.
- e) Within the Halton Strategic Partnership (HSP), responsibility for quarterly performance management of the five priorities rests with the five thematic partnerships (SSPs). A performance management framework is in place to ensure that a consistent approach is taken by the SSPs and exceptions are reported to the Strategic Partnership Board.
- f) The HSP produces an annual report and stages a whole partnership event each year where progress against the Community Strategy is reported and achievements are celebrated.
- g) The Council publishes a summary of performance information and its financial statements in the Council newspaper, which is distributed to every household in the Borough.
- h) Council agendas, minutes and performance information are published on the Council's website. The website also provides details of:
 - Allowances and expenses paid to elected members;
 - The Council's senior officer structure including post titles and salary ranges;
 - Council contracts and tenders awarded over £50,000;
 - All financial payments made by the Council that are equal to or greater than £500.

4. Review of Effectiveness

- 4.1 Halton Borough Council annually reviews the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by managers within the Council who have responsibility for the development and maintenance of the governance environment, the work of internal audit and by comments made by the external auditors and other inspection agencies.
- 4.2 The processes applied in maintaining and reviewing the effectiveness of the system of governance include:
 - The work of the Business Efficiency Board as the Council's Audit Committee;
 - The work of the Standards Committee;
 - The role of the Policy and Performance Boards in holding the Executive to account;

- The operation of the Council's risk management and performance management frameworks;
- The work of Internal Audit as an assurance function that provides an independent and objective opinion to the Council on its control environment.
 - External Audit has reviewed the Council's internal audit function and concluded that the function operates in accordance with the standards set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government.
 - The effectiveness of internal audit has also been formally reviewed by the s151 Officer who considers internal audit to be effective and fit for purpose.
- The Annual Governance Report issued by the Audit Commission, which reports on issues arising from the audit of the Council's financial statements and the results of the work undertaken to assess how well the Council uses and manages its resources to deliver value for money and better and sustainable outcomes for local people;
- The external auditor's opinion report on the Council's financial statements;
- The corporate complaints procedure;
- The roles of the Council's Statutory Officers;
- The work of the Information Governance Group, which provides overall strategic guidance and direction to information governance, security, risks and incidents;
- The anti-fraud and corruption and whistleblowing framework;
- The results of external inspections by independent review bodies.

4.3 The Council has implemented the actions agreed in the 2011/12 Annual Governance Statement. A summary of action taken is listed below:

- Funding pressures

Despite facing a significant reduction in funding the Council set a balanced budget for 2012/13. A robust budget setting process ensured that available resources were aligned to corporate objectives and strategic priorities. Council spending in year was controlled within budget.

- Resilience

The Council has taken a range of actions to develop its ICT infrastructure to improve overall resilience. Advances in technology have also provided the opportunity for employees to work more effectively and be less reliant on

working from particular locations. The Council has established a Corporate Business Continuity Plan and separate Directorate Business Continuity Plans. All the plans are subject to regular review and updating.

- Localism Act

Processes have been developed to deal with the community right to challenge and assets of community value. The role of the Standards Committee and arrangements for dealing with Code of Conduct complaints have also been updated.

- Public Health

A Health & Wellbeing Board has been established and a Director of Public Health appointed in response to the new public health responsibilities that the Council assumed in April 2013. The Council's Constitution has also been updated to reflect new roles, responsibilities and governance arrangements arising from these new responsibilities.

- Income control

Delays that occurred in reconciling the Council's bank statements following a restructuring of the Council's income control function have been addressed. Operational procedures have been strengthened and comprehensive support and training has been provided to staff. Internal audit has recently reviewed this function and concluded that there is a sound system of control in operation.

4.4 The Business Efficiency Board has been advised on the implications of the review of the effectiveness of the governance framework and a plan to further develop the Council's governance framework is in place.

4.5 The Council proposes over the coming year to take the steps identified in the Development Plan at the end of this document to further enhance its governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

David Parr - Chief Executive

Rob Polhill - Leader of the Council

Governance Arrangements – Development Plan

Issue	Actions	Responsible Officer
<p>1. With the economic outlook likely to result in very challenging financial settlements in the coming years, and the demand for some services likely to increase, the Council's finances will need to be kept under close review. The Council will therefore need to take appropriate action to ensure that it maintains its record of achieving a balanced budget and aligns its resources to corporate objectives and strategic priorities.</p>	<ul style="list-style-type: none"> • Link the budget process to service planning; • Maintain a robust overview of statutory obligations and prioritise accordingly; • Review of Corporate Priorities/Community Plan; • Communication of Priorities to Staff/Members/Managers to achieve buy-in; • Medium Term Financial Strategy; • Budget Risk Register; • Smarter procurement to generate savings; • Efficiency Programme; • Explore the potential for collaboration with neighbouring local authorities; • Equality Impact Assessment process. 	<p>Strategic Director – Policy & Resources</p>
<p>2. As the Council faces continuing funding pressures there is a risk that resilience in key areas of the organisation may be weakened through staffing reductions and the loss of key personnel.</p>	<ul style="list-style-type: none"> • Service reviews around more efficient ways of working, including the greater use of technology; • Focus the delivery of services on priorities and legal responsibilities through effective service planning; • Delivery of training courses in Stress Management and Managing Resilience to Change; • Risk assessing, monitoring and support mechanisms for work related stress; • Agile Working policy; • Business Continuity Planning; • A new Employee Development Forum is being established to take forward Learning and Development issues from across the Council. 	<p>Strategic Director – Policy & Resources</p>

Governance Arrangements – Development Plan

Issue	Actions	Responsible Officer
<p>3. In the course of discharging its duties the Council is required to obtain and hold a wide range of personal information. As a public body the Council is legally obliged to protect all personal information it holds. The Council understands that information breaches may lead to a loss of confidence amongst the people it serves and is continuing to take action to further develop its information security and governance framework.</p>	<p>The Council has a well-established Information Governance Group which has developed policy and guidance on information security matters. Work currently being undertaken by the Group includes:</p> <ul style="list-style-type: none"> • A corporate roll out of an E-learning training module is being undertaken to raise employee awareness of information governance and security issues; • Development of a Data and Quality Strategy to set out the Council’s approach to managing data quality. The Strategy will be designed to help secure improvement in the way the Council collects, collates, reports and uses data, maintaining the highest possible standards throughout; • Implementation of an Electronic Social Record Project, which will provide full electronic storage of all clients’ social care records. 	Strategic Director – Policy & Resources
<p>4. Following the formal establishment of Halton Clinical Commissioning Group (HCCG) from 1 April 2013, the Council has been working to develop an integrated approach to the delivery of health and adult care related services with the HCCG. As part of this an integrated Complex Care Pooled Budget of over £30m has been established between the Council and HCCG from 1 April 2013.</p>	<ul style="list-style-type: none"> • A seconded post of Operational Director - Integration has been established between the Council and HCCG to drive the development of an integrated approach to the delivery of health and adult care services across the Borough. • Governance arrangements for the Complex Care Pooled Budget have been put in place, which include Member and Senior Officer involvement, to oversee and manage the arrangements for delivery of services jointly by the Council and HCCG via the Pool. 	Strategic Director - Communities
<p>5. An independent subsidiary of the Council is to be established to manage the delivery of the construction contract for the new Mersey crossing (the Mersey Gateway). This body will be known as the Mersey Gateway Crossings Board (MGCB). The MGCB will be a limited liability company but 100% subsidiary of Halton Borough Council. In addition to managing the contract for the construction of the bridge MGCB will also manage the tolling operations of both the Mersey Gateway bridge and the existing Silver Jubilee Bridge.</p>	<ul style="list-style-type: none"> • A governance agreement is being developed between the Council and the MGCB which will set out the rights, obligations, payment terms and approval processes; • Membership of the MGCB is to include executive and non-executive directors who will be appointed by Halton Borough Council. There will also be independent executive directors who will not be members, officers or employees of the Council; • To satisfy the funding conditions the Council will need to establish the Mersey Crossings Board structure and execute the governance agreement between the Council and the MGCB before the project can achieve Financial Close; • To ensure a smooth transition a ‘Shadow executive’ of the MGCB will be established until the MGCB comes into being at Financial close. 	Chief Executive

REPORT TO: Business Efficiency Board

DATE: 18 September 2013

REPORTING OFFICER: Strategic Director, Policy & Resources

PORTFOLIO: Resources

SUBJECT: Efficiency Programme Update

WARDS: All

1.0 PURPOSE OF THE REPORT:

To inform the Board of progress made to date with the Efficiency Programme (refer to Appendix 1).

2.0 RECOMMENDATION:

The board is asked to note the contents of the report.

3.0 SUPPORTING INFORMATION

Up to date workstream information is available via the Efficiency Programme Office's team site at: <http://hbc/Teams/EFFIC/Pages/Home.aspx>

4.0 POLICY IMPLICATIONS

None identified at this stage. Activity within the Efficiency Programme may result in recommendations to change policies as individual workstreams progress.

5.0 OTHER IMPLICATIONS

It should be noted that since commencing in 2009, the Efficiency Programme, and activity associated with it, has identified savings in the region of nearly £12m. This has assisted the Council in the difficult task of dealing with the budget gap.

6.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

The Efficiency Programme is designed to improve the effectiveness of services across the authority and reduce costs associated with service delivery. This affects all of the Council's priorities.

7.0 RISK ANALYSIS

Given the financial constraints facing the Council in the immediate and medium terms, failure to continue to progress Efficiency Programme workstreams into future stages may result in the Efficiency Programme not achieving its objectives – primarily cost reduction. This could result in services being underfunded, with departments unable to meet the costs of staff and other resources required to deliver to the community of Halton.

As resources become ever more restricted, the organisation should remain aware of the possibility of 'double counting' of savings. The Efficiency Programme Office and Financial Management Division have worked together, and continue to do so to manage this risk.

8.0 EQUALITY AND DIVERSITY ISSUES

N/A

9.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972

N/A

Halton Council Efficiency Programme

Progress update – September 2013

Progress to date against each of the current workstreams is given below.

Review of Waste Management (Wave 3)

Efficiency Programme Office is working with Waste Management Divisional Manager and senior officers to progress initial improvement options, however there have been a number of issues with the procurement of an interim residual household waste disposal contract for the period 2013 to 2015/16. As the largest element of this services activity relates to the collection and disposal of residual household waste, this has restricted the progress of the workstream, and the achievement of the £300,000 savings target is currently uncertain.

Review of Child Protection (Children in Need Service) (Wave 4)

An evaluation of additional administrative support has been carried out, with a recommendation that the arrangements are made permanent (subject to funding). Social Workers, Managers and Senior Administration staff were very positive about the additional resource, and as a result, productive social worker time has increased.

An examination of the utilisation of Inglefield Short Breaks Centre has taken place and has indicated a range of potential future uses which could build on the services currently provided at Inglefield. Work on this aspect of the workstream continues.

Employment, Learning & Skills (Wave 4)

To Be Options for the delivery of Adult and Family Learning within the Division were endorsed by Management Team and the Efficiency Programme Board in July. This aspect of the review is currently being progressed and possible savings quantified.

To Be Options for the remainder of the Division are being developed.

Savings target for this workstream is £200,000

Review of Intermediate Care – Adult Social Care (Wave 4)

The As Is phase for this workstream is underway, with an examination of current structures, operations and staffing in progress. The As Is report is due to be presented to the Efficiency Programme Board in the autumn.

The savings target for this workstream will be set when the As-Is report is considered.

Wave 5 of the Efficiency Programme has been agreed and three new workstreams have commenced since the last report to this Board;

Review of Library Services (Wave 5)

The Outline Business Case and Project Initiation Document for this workstream was presented to Management Team and the Efficiency Programme Board in July, signalling the start of the As Is phase.

The savings target for this workstream will be set when the As-Is report is complete.

Review of Learning & Achievement (Wave 5)

This workstream has been deferred from Wave 4 of the Programme. The Outline Business Case and Project Initiation Document was approved by the Efficiency Programme Board in July and the As Is phase is commencing.

The savings target for this workstream will be set when the As-Is report is complete.

Review of Halton Supported Housing Network (Wave 5)

The Outline Business Case and Project Initiation Document for this workstream were presented to Management Team and the Efficiency Programme Board in July. Work is due to start on the As Is phase.

The savings target for this workstream will be set when the As-Is report is complete.

In addition to the three new workstreams outlined above, a further two workstreams are incorporated into Wave 5 of the Programme and will commence in due course;

Supplier Relationship Review (Wave 5)

This workstream will involve a methodical review of contracts on the Council's contract register which are in their mid-term and will serve to seek efficiencies in conjunction with contract providers across a wide range of provision.

Framework for delivery of this workstream to be developed throughout Sept 2013.

Review of Highways Services (Wave 5)

Service areas to be in scope are Bridge & Highway Maintenance Division, Highway Development Division, and Traffic. It is anticipated that this review will commence in January 2014.

Name of Board: Business Efficiency Board

Date of Meeting: 26 June 2013

Report Title: Efficiency Programme Update

Author: Strategic Director, Resources

STANDARD SECTIONS – CHECKLIST		
All reports must be submitted together with the following checklist fully completed		
	Yes	No
<p>Resource Implications The financial, manpower and land (buying or selling) considerations should be clearly detailed including any corporate implications of following the recommended course of action.</p>	N/A	
<p>Social Inclusion Implications Any implications relating to social inclusion/anti poverty should be highlighted</p>	N/A	
<p>Sustainability Checklist Any implications that affect the sustainability themes of economy society and the community and the environment should be included,</p>	N/A	
<p>Best Value Any Best Value implications should be included.</p>	Yes	
<p>Legal Implications Any Legal implications should be included.</p>	N/A	
<p>Crime and Disorder Issues Any crime and disorder implications should be included.</p>	N/A	
<p>Community Impact Review & Assessment (CIRA) Is a CIRA relevant to this report? Has a CIRA proforma been completed?</p>	N/A	
<p><i>Please review these potential effects, within the context set out overleaf, to compose your summary assessment</i></p>		
<p>Summary assessment of Implications: <i>The report is an update on activity across the Efficiency Programme and is presented for information.</i></p> <p><i>Detailed implications are dealt with within the governance of individual workstreams within the programme on a case by case basis.</i></p>		

REPORT TO: Business Efficiency Board

DATE: 18th September 2013

REPORTING OFFICER: Operational Director, Finance

PORTFOLIO: Resources

SUBJECT: 2012/13 Statement of Accounts, Audit Findings Report and Letter of Representation

WARD(S): Borough-wide

1.0 PURPOSE OF REPORT

1.1 The purpose of this report is to seek approval for the Council's 2012/13 Statement of Accounts (the latest version of which is enclosed with the Agenda), to consider the report of the External Auditor (Grant Thornton) on the 2012/13 financial statements (The Audit Findings Report) and to approve the Council's Letter of Representation. At the time of writing the report, the audit of the 2012/13 Statement of Accounts had not been finalised and any subsequent amendments will be approved by the Chair of the Business Efficiency Board in conjunction with the Operational Director Finance

2.0 RECOMMENDED: That

- 1. the draft Letter of Representation in Appendix 1 be approved and any subsequent additions or amendments be approved by the Chair of the Business Efficiency Board in conjunction with the Operational Director Finance;**
- 2. the External Auditor's draft 2012/13 Audit Findings Report in Appendix be received and any subsequent additions or amendments be approved by the Chair of the Business Efficiency Board in conjunction with the Operational Director Finance; and**
- 3. the Council's draft 2012/13 Statement of Accounts be approved and any subsequent additions or amendments be approved by the Chair of the Business Efficiency Board in conjunction with the Operational Director Finance.**

3.0 BACKGROUND

3.1 The Statement of Accounts sets out the Council's financial performance for the year in terms of revenue and capital spending and presents the year-end financial position as reflected in the balance sheet.

- 3.2 The format of the Statement of Accounts is heavily prescribed by the Accounts and Audit Regulations and the Code of Practice on Local Authority Accounting (The Code), which makes it a very technical document and not particularly easy to understand. Therefore the key elements are outlined below.
- 3.3 The Statement of Accounts for 2012/13 has been prepared in full compliance with International Financial Reporting Standards (IFRS) and there have been relatively few changes in the format from last year.
- 3.4 The draft 2012/13 Statement of Accounts was passed to the Council's External Auditor (Grant Thornton) on 1st July 2013, since when they have undertaken their audit. Grant Thornton will attend the meeting to present the report of their findings, the Audit Findings report, as shown in Appendix 1.
- 3.5 Each year the Council is required to provide the External Auditor with a Letter of Representation relating to the financial statements, as shown in Appendix 1. This provides a number of assurances to the External Auditor in connection with the preparation of the Council's accounts. The letter is required to be signed by the Chairman of the Board on behalf of the Council.

4.0 KEY SECTIONS WITHIN THE STATEMENT OF ACCOUNTS

- 4.1 The Foreword by the Operational Director, Finance summarises the Council's financial performance for 2012/13, including revenue and capital spending.
- 4.2 In overall net terms the Council has underspent its 2012/13 revenue budget by £502,000. The overall outturn report was presented to Executive Board on 27th June 2013 and departmental outturn reports are available on the Council's Intranet. As a result the Council's General Fund Balance will increase by £502,000 to £8,067,000.
- 4.3 Capital expenditure was £50.3m compared with planned expenditure of £57.8m. This represents 87% delivery of the capital programme for which 20% slippage was anticipated throughout the year. The main areas of slippage were in respect of Castlefields Regeneration, The Grange High School (PFI) project, Widnes Crematorium and Bungalows at Halton Lodge
- 4.4 School balances have increased by £3.1m to £6.3m. In addition, £5.2m of unspent schools related funding is held centrally and will carry forward into 2013/14.
- 4.5 The Comprehensive Income and Expenditure Account presents gross expenditure, gross income and net expenditure for 2012/13 along with the previous year's comparison. These are shown for each of the service groupings prescribed in The Code. These service groupings do not necessarily relate directly to the Council's organisational structure, but are

intended to provide consistency across all local authorities. The Net Cost of Services is adjusted by a number of appropriations to give Total Comprehensive Income and Expenditure.

- 4.6 The Council's Balance Sheet sets out the Council's financial position as at 31st March 2013, along with the previous year's comparison.
- 4.7 The Movement in Reserves Statement presents a summary of the changes in the Council's main reserves during the year.
- 4.8 The Cashflow Statement provides an overall analysis of the movements in cash and cash equivalents during the year.
- 4.9 Detailed notes relating to items within the Comprehensive Income and Expenditure Account, Balance Sheet, Movement in Reserves Statement and Cashflow Statement are shown under Notes to the Core Financial Statements.
- 4.10 The Collection Fund and associated notes summarise the transactions in respect of the collection of Non-Domestic Rates and Council Tax, along with the distribution to the Council's own General Fund and to the Precepting Authorities (Fire, Police and Parishes).
- 4.11 The Group Accounts and associated notes present the consolidation of the Council's accounts with those of Halton Transport Limited.
- 4.12 The Statement of Responsibilities outlines the basis upon which the Statement of Accounts has been prepared and is followed by a statement of the Council's Accounting Policies. There have been relatively few changes to the Council's accounting policies this year, which have all been minor.
- 4.13 The External Auditor use the draft Statement of Accounts as the basis for undertaking the annual audit of accounts, for which their Audit Report and Certificate is included within the final Statement of Accounts.
- 4.14 The final section presented within the Statement of Accounts is a Glossary of Terms.

5.0 NEXT STEPS

- 5.1 Following the meeting, the Letter of Representation will be signed and the External Auditor will provide their audit opinion. The Statement of Accounts will then be published along with a brief Summary, with copies being made available to the public via the Council's website.

6.0 POLICY IMPLICATIONS

- 6.1 None.

7.0 OTHER IMPLICATIONS

7.1 None.

8.0 RISK ANALYSIS

8.1 The Accounts and Audit Regulations require that the Statement of Accounts is certified by the External Auditor and published by 30th September 2013.

9.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972

Document	Place of Inspection	Contact Officer
Accounts and Audit Regulations 2011	Kingsway House Kingsway Widnes	Steve Baker Divisional Manager, Financial Management
Code of Practice on Local Authority Accounting in the UK 2012/13	Kingsway House Kingsway Widnes	Steve Baker Divisional Manager, Financial Management

Grant Thornton UK LLP
Royal Liver Building
Liverpool
L3 1PS
18 September 2013

Dear Sirs

Halton Borough Council

Financial Statements for the year ended 31 March 2013

This representation letter is provided in connection with the audit of the financial statements of Halton Borough Council for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code") as adapted for International Financial Reporting Standards; in particular the financial statements give a true and fair view in accordance therewith.
- ii. We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- iv. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- v. We are satisfied that the material judgements used by us in the preparation of the financial statements are soundly based, in accordance with the Code, and adequately disclosed in the financial statements. There are no further material judgements that need to be disclosed.
- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant retirement benefits have been identified and properly accounted for (including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded).
- vii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- viii. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code requires adjustment or disclosure have been adjusted or disclosed.

ix. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

x. We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

xi. We have provided you with:

- a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- b. additional information that you have requested from us for the purpose of your audit; and
- c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.

xii. We have communicated to you all deficiencies in internal control of which management is aware.

xiii. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xiv. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xv. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:

- a. management;
- b. employees who have significant roles in internal control; or
- c. others where the fraud could have a material effect on the financial statements.

xvi. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.

xvii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xviii. We have disclosed to you the entirety of the Council's related parties and all the related party relationships and transactions of which we are aware.

Annual Governance Statement

xix. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Approval

The approval of this letter of representation was minuted by the Council's Business Efficiency Board at its meeting on 18 September 2013.

Signed on behalf of the Council

Name.....
Position.....
Date.....

Name.....
Position.....
Date.....



The Audit Findings for Halton Borough Council

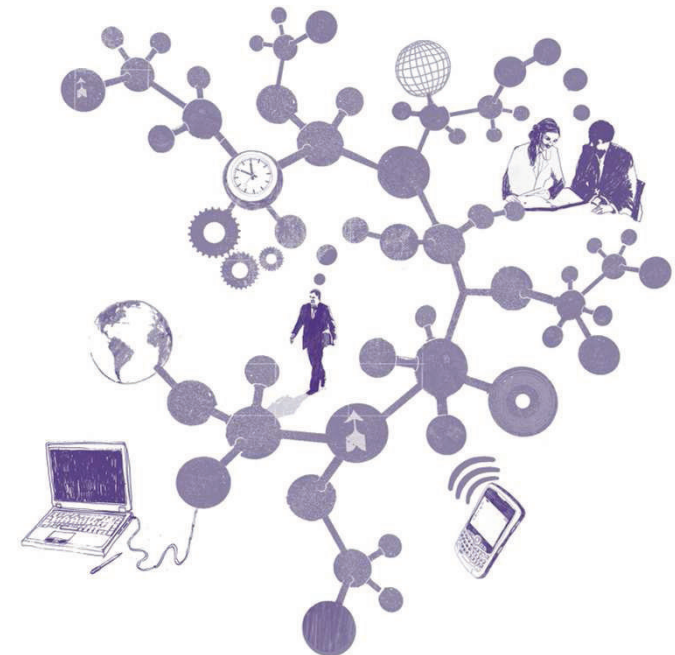
Year ended 31 March 2013

9 September 2013

Mike Thomas
Engagement Lead
T 0161 214 6368
E Mike.Thomas@uk.gt.com

Colette Williams
Manager
T 0161 214 6360
E Colette.A.Williams@uk.gt.com

Judith Smith
Executive
T 0161 214 6371
E Judith.Smith@uk.gt.com



The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

Section	Page
1. Executive summary	4
2. Audit findings	7
3. Value for Money	19
4. Fees, non audit services and independence	24
5. Communication of audit matters	26

Appendices

- A Action plan
- B Audit opinion

Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Halton Borough Council's ('the Council') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we made a change to our planned audit approach, which we communicated to you in our original Audit Plan dated April 2013. We had envisaged carrying out additional audit fee work on the Mersey Gateway project to support our value for money conclusion. Following further consultation within the firm and with the Audit Commission the scope of this additional work was scaled back and was contained within our original fee estimate and work programme. As a result we reduced our planned work and concentrated on a high level review of the Council's arrangements for managing the project and its affordability.

Our audit is substantially complete although we are finalising our work in the following areas:

- property, plant and equipment testing
- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the audit opinion and
- Whole of Government Accounts

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We expect to provide an unqualified opinion on the financial statements. Our audit work has not identified any adjustments affecting the Council's reported financial position. The draft and audited financial statements record net expenditure of £142m. We have agreed with officers a number of adjustments to improve the presentation of the financial statements.

The key messages arising from our audit of the financial statements are:

- no significant issues were identified;
- the draft financial statements were provided at the start of our audit work and good quality working papers were made available;
- officers were available throughout our audit fieldwork to provide additional supporting information in a timely manner and resolved our queries promptly.

Further details are set out in section 2 of this report.

Value for money conclusion

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified Value for Money (VFM) conclusion.

Further detail of our work on VFM is set out in section 3 of this report.

Whole of Government Accounts

As at 9 September we have not received the Council's Whole of Government Accounts (WGA) submission. We will work with officers to complete our audit work on WGA in accordance with the national timetable.

Controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Our work has not identified any control weaknesses which we wish to highlight for your attention, except for some minor IT control weaknesses.

Further details are provided within section 2 of this report.

The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Strategic Director Policy & Resources and the Operational Director Finance.

We have made several recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Operational Director Finance and the finance team.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2013

Section 2: *Audit findings*

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Business Efficiency Board on 22 May 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 22 May except for the proposed additional fee work on Mersey Gateway to support our VFM conclusion. At the planning stage of the audit we envisaged completing a separate detailed review of your arrangements for managing the Mersey Gateway project, particularly with regard to affordability. We agreed a project brief and additional audit fee with officers early in 2013. However, following further consultation within the firm and with the Audit Commission the scope of this additional work was scaled back and was contained within our original fee estimate and work programme. As a result we reduced our planned work and concentrated on a high level review of the Council's arrangements for managing the project and its affordability.

We therefore revisited our planned audit work and reduced our coverage to a high level review of the Council's arrangements, placing reliance where we could on the work of Internal Audit. The findings from our work are summarised at section 3.

Audit opinion

We anticipate that we will provide the Council with an unmodified opinion. Our draft audit opinion is set out in Appendix B.

Letter of Representation

We have provided the Council with a suggested letter of management representation, this is included at Appendix C.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks (items 1 and 2 below) which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> • review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management override of controls</p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journals entries • review of unusual significant transactions. 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>
3.	<p>Incorrect capitalisation of costs associated with the Mersey Gateway project</p> <p>Accounting standards and CIPFA guidance set out the criteria to be applied when capitalising costs in the financial statements. For some costs there is an element of judgement as to whether they should be accounted for as capital or revenue.</p>	<ul style="list-style-type: none"> • discussion with the Council's finance team about their approach in 2012/13 and their response to the recommendations contained within the 2011/12 Annual Governance Report • review of the accounting methodology applied in 2012/13 • testing of a sample of transactions to confirm compliance with accounting standards 	<p>The Council capitalised £300k of development costs in 2012/13, a much smaller amount than in previous years. Our audit work has not identified any significant issues with the development costs capitalised this year. It is important however, that the Council continues to apply accounting standards when determining whether costs associated with the Mersey Gateway project should be charged to capital or revenue, and that they retain the evidence to support their judgement.</p>

Audit findings against other risks

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Operating expenses understated	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls are designed effectively • tested operating expenses including for: unrecorded liabilities, whether the expense is valid, that the cost is recorded in the correct expenditure code and that VAT has been correctly treated. 	Our audit work has not identified any significant issues in relation to the risk identified.
Operating expenses	Creditors understated or not recorded in the correct period	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls are designed effectively • substantive testing of year end creditors, including: <ul style="list-style-type: none"> - testing a sample of creditors - attribute testing of a sample of expenditure - cut off testing on a sample of expenditure 	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks




Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	Remuneration expenses not correct	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls are designed effectively substantive testing of employee remuneration expenditure covering existence, occurrence and valuation 	Our audit work has not identified any significant issues in relation to the risk identified.
Welfare expenditure	Welfare benefits improperly computed	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess whether those controls are designed effectively substantive testing of welfare expenditure via our certification work on the housing and council tax benefit subsidy return 	Our audit work has not identified any significant issues in relation to the risk identified.
Property, plant & equipment	PPE activity not valid	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls are designed effectively substantive testing of property, plant and equipment including existence, additions and disposals 	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Property, plant & equipment</p>	<p>Revaluation measurement not correct</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls are designed effectively • reviewed the principles and methodologies used by the Council in its cyclical valuation exercise • substantive testing of property, plant and equipment revaluations 	<p>Our audit work has not identified any significant issues in relation to the risk identified</p>

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Income is accounted for in the year the activity it relates to takes place, i.e. on an accruals basis. Income is recorded when it is earned and not received 	<p>The Council's approach to accounting for income is robust and in accordance with sector practice.</p> <p>Disclosure of the revenue recognition policy is adequate .</p>	
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include: <ul style="list-style-type: none"> – useful life of capital equipment – pension fund valuations and settlements – revaluations – impairments – provisions 	<p>Where the Council has made judgements or estimates in the financial statements, these have been generally supported with methodologies, and clear explanations of the assumptions applied.</p> <p>Our testing identified two estimates, the council tax bad debt provision and the debtor impairment, for which appropriate methodologies existed but which were not followed in determining the amounts to include within the financial statements. In both instances the values calculated by the methodologies were less than the value included within the statements . The values included in the statements have been inflated to reflect potential non payment in 2013/14. Accounting rules specifically state that expected losses as a result of future events, no matter how likely, should not be recognised in the current year accounts.</p> <p>The council tax bad debt provision included in the financial statements is overstated by £342k and the debtor impairment is overstated by some £1.7m.</p> <p>Disclosure of judgements and estimates is considered appropriate subject to the overstatement highlighted above.</p>	
Other accounting policies	<ul style="list-style-type: none"> We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards. 	<p>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention</p>	

Assessment ● Marginal accounting policy which could potentially attract attention from regulators ● Accounting policy appropriate but scope for improved disclosure
 ● Accounting policy appropriate and disclosures sufficient

Adjusted misstatements

We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. There are no adjustments to the draft financial statements that have been identified during the audit process.

Unadjusted misstatements

We have not identified any unadjusted misstatements.

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Presentation	n/a	Various	The draft accounts presented for audit contained a number of typographical errors, arithmetic roundings and errors and missing or incorrect references. The draft version also included an incomplete note on investments (note 23) and omitted the company accounts relating to the bus company. The accounts have been amended to reflect the issues identified.
2 Disclosure	9,138	Note 4 Grant Income Credited to Services	Other contributions initially disclosed as £6,138k in note 4. This was incorrect and inconsistent with the value of £9,138k reported in the CIES. Note 4 has been amended to reflect the correct amount.
3 Disclosure	n/a	Note 17 Non-current Assets, Property, Plant & Equipment	Note 17 amended to include the date of the 20 12/13 valuation and the name of the valuer
4 Disclosure	various	Note 17 Non-current Assets, Property, Plant & Equipment	Additional disclosure added relating to the school PFI (the Grange) which became operational in April 2013.
5 Disclosure	20,045	Note 30 Short term borrowing	Additional disclosure added to Note 30 to support the short term borrowing figure of £20.045m on the balance sheet.
6 Disclosure	118,309	Note 32 Other long term liabilities	Additional disclosure added to Note 32 to support other long term liabilities of £118.309m on the balance sheet.

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
7	Disclosure	various	Collection Fund	Collection Fund Note 2 on Council Tax Determination contained a number of calculation errors due to incorrect property numbers being used within each banding. The note has been amended to reflect the correct number of properties and correct values.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. As part of our planned programme of work, our information systems specialist team undertook a high level review of the general IT control environment at the Council. This was undertaken as part of the review of the internal controls system. We are pleased to report that no significant issues arose from our work, however, we identified a couple of minor areas where the Council's existing IT arrangements could be further developed. These are highlighted below.

	Issue and risk	Recommendation and management response
1.	<p>Network and application logical access control - we were not able to fully assess the logical access parameters governing access to the network and Northgate application as no documentary evidence was provided. From the information provided at interview the following security settings are also not enforced best practice: minimum password length (Payroll and Revenues and Benefits); password complexity (Payroll and Revenues and Benefits) and unlimited attempts for password input - no lockout (Payroll). Without adequate security controls over the underlying database such as appropriate password parameters, there is an increased risk of unauthorised access to the database leading to unauthorised amendment and the possibility that the integrity of the data will be compromised which could lead to financial loss to the organisation.</p>	<p>Management should confirm</p> <ul style="list-style-type: none"> the settings for password controls for the network and Northgate application. consider implementing and enforcing a stricter password policy for the Revenues and Benefits application and ensure that adequate logical access controls are implemented in the upgraded Payroll application. <p>Response: Accepted. If access controls for these systems was single sign on, as it is for Agresso, then the password complexity, force change, minimum length would all be enforced using Active Directory Group Policy. The Council will review the potential to enforce single sign on for these systems.</p>
2.	<p>Lack of periodic access rights review - although one-off reviews of access rights are currently underway due to system changes, there is no evidence of reviews of user access for the network or the financial applications being completed on a regular basis. If periodic reviews of user accounts are not conducted on a regular basis, there is a risk that dormant user accounts could be exploited to gain unauthorised access to the organisations systems. Furthermore, there is a risk that network access rights may become disproportionate over time to the users responsibilities.</p>	<p>Management should consider implementing a formal process to review user access to the network and the financial applications on a regular basis to ensure access is appropriate based on job functions and all terminated users have been appropriately removed</p> <p>Response Accepted. The Council has completed a full review of all network users and has deleted all accounts in June 2013. There is a review of Agresso user accounts on-going as at June 2013.</p>

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council.
4.	Disclosures	<ul style="list-style-type: none"> Our audit identified a number of disclosure issues which have been corrected by management, see page 15 above.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed.
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Value for Money

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 the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

- **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.
- **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.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the following three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control.

We have produced a separate report on Financial Resilience. This sets out our detailed findings on the Council's arrangements for securing financial resilience. Our summary findings are outlined below.

Our overall conclusion is that the Council has good arrangements in place for securing financial resilience. The Council has a proven track record of keeping expenditure within budget. Systems and processes are well established and there is a structured approach to identifying and managing budget pressures. This framework provides a sound basis for the Council to move forward but there is no doubt that it will be challenged as the requirement for significant savings continues into the medium term.

The 2013/14 budget includes savings of £8.605m. The 2013/14 first quarter finance reports suggest these savings will be achieved. The funding shortfall for 2014/15 is £11m, the major part of which will need to be met through further cost savings. Members and officers are currently in the process of identifying and agreeing savings proposals, with the first tranche of proposals expected to be agreed in December 2013.

The Council's Medium Term Financial Strategy (MTFS) is updated annually as part of the budget setting process. The next iteration will extend to 2016/17. As yet the MTFS does not take account of the projected income and costs of the

Value for Money

Key findings continued

Mersey Gateway project (outside of the development and land acquisition costs). The Council have recently selected a preferred bidder and anticipate the Mersey Gateway bridge being operational in 2017. Financial plans and forecasts for the project include detailed modelling of projected income levels and costs. These have yet to be incorporated into the Council's MTFS.

Our financial resilience report highlighted several areas where the Council's current arrangements could be further strengthened. A completed action plan is included within the report.

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. We have completed a detailed risk assessment and undertaken a high level review of your arrangements for managing the risks associated with the Mersey Gateway project, particularly those related to affordability. Internal Audit completed a review of the project's procurement arrangements. The draft report is currently with management.

Our detailed risk assessment did not identify any issues which would impact on our proposed unqualified vfm conclusion. Our review of your Mersey Gateway arrangements confirmed that the project continues to present a number of financial risks and challenges, some of which are summarised below. We have concluded that the Council's arrangements for managing these risks are adequate. Given the size and complexity of the project it is important that the Council continues to monitor, manage and mitigate the risks and ensure the project remains affordable.

Funding risks

In June 2013 the Council announced its preferred bidder, Merseylink, with financial close on the project expected before the end of 2013. The Conditional Funding Approval received in 2010 confirmed the availability of up to £470m of Government funding for the project. The Council is to make a capital contribution of approximately £120m to the project at the end of the construction period (planned to be funded by Prudential Borrowing), and is also to pay an annual Unitary Charge to the operator.

The Unitary Charge payment will be partly funded by the Government's revenue support grant, with the balance funded by toll revenues. The Council retain the toll revenue risk under the proposed arrangement. This is a significant risk, with uncertainty regarding traffic volumes under a tolling regime for the next 30 years. However, we understand from officers that the Department for Transport (DfT) has recently agreed to support the Council in managing toll revenue risk by increasing the revenue support grant should the actual traffic volumes turn out to be lower than the estimated levels. In addition, under the proposed Open Road Tolling system, there is a higher incidence of non-payment. The tolling risk is mitigated to a certain degree because the funding model is based on a very prudent estimate of traffic volumes.

The Council asked bidders to submit two separate bids, one of which was to include a Demand Management Participation Agreement (DMPA). The DMPA is a way in which bidders can participate in the toll revenues and fines. It also asks the operator to take the enforcement risk, in exchange for an interest in the fines collected and potentially a higher service charge. One of the other key benefits of the DMPA is that it utilises the specialist skills and experience of the toll operators within the bidding consortia.

Value for Money

Key findings continued

Development Costs

The Council established an original development cost budget to cover the period up to April 2013. Additional costs have been incurred due to extensions to the procurement period and a later than anticipated start to the procurement process. DfT confirmed an additional advance of £5m in 2012/13 to conclude the procurement process and reach financial close by the end of October 2013. If a delay becomes likely then the Council will once again approach DfT to fund the additional cost, with an estimated additional cost of £550k per month.

Land Assembly

During 2012/13 the Council has continued to make progress in its land assembly and remediation early works arrangements for the new bridge. The timing of the availability of the DfT Development Cost Grant means that the Council is borrowing to fund a large proportion of these costs prior to the scheme receiving final approval from DfT. The Council's expenditure on land assembly and remediation is 'at risk' if the project does not go ahead, although some of the costs could be recoverable on resale of assets acquired to date. DfT has formally agreed to review the situation with the Council if the project is halted, but this is on a 'no obligation' basis.

Project Management

Mersey Gateway is a major procurement for a unitary council, and there are limited internal resources and expertise to manage a project of this size and complexity. The Council has managed this risk through the use of a specialist Project Team consisting of consultants with heavy reliance on specialist advisor input. This is not unexpected. The resilience of the project team was strengthened in late 2011/12 with the appointment of a commercial Director and the extension of the Project

Director's contract. Experienced representatives from Infrastructure UK and DfT are also represented on the Officer Project Board, which provides valuable input, insight and feedback into the project.

Post Contract - Governance Arrangements

The Council has made good progress in developing a post contract close structure to manage its ongoing risks and responsibilities. The Mersey Gateway Crossings Board (MGCB) will be a special purpose vehicle created for the operational management of the Mersey Gateway project over its lifetime (upwards of 60 years). A detailed report on the proposed structure, initial budget and a draft governance agreement for the MGCB was presented to the November 2012 meeting of the Mersey Gateway Executive Board. A further 'next steps' report in July 2013 provided an update on the proposed governance arrangements during the Preferred Bidder phase and into the Construction phase.

One of the conditions for Government funding is for the Council to establish a 'Liquidity Reserve' for holding cash or cash equivalent assets at a minimum of 20% of the net revenues forecast for the following 12 months. The Council and the Crossings Board will need to consider the funding and cash flow impact of this requirement, particularly in the first year of operation of the new bridge.

There is also a time limit on the availability of Government funding. Ministers reserve the right to re-consider the funding offer if there are any significant changes to the scheme or the business case or if the Final Business Case has not been submitted for approval by 30 October 2014. In addition, there is a time limit on the development of 5 years from the date of the planning and TWA Order (December 2010).

Value for Money

Key findings continued

Mersey Gateway is a major project for a unitary council, with significant financial risks and challenges associated with it. It therefore remains important for the Council to continue to monitor, manage and mitigate these risks throughout the lifetime of the project.

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 2013.

Section 4: Fees, non audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Fees, non audit services and independence

We confirm below our final fees charged for the audit and provision of non-audit services.

Fees

	Per Audit plan £	Actual fees £
Council audit	139,322	139,322
Grant certification	14,350	*17,851
Total audit fees	153,672	157,173

The audit of the Council's 2012/13 grant claims and returns is not yet complete. The grant certification actual fee of £17,851 is an estimate of the fee required to complete the audit of the Council's grant claims. The variation from the planned fee relates to two grant claims which were not audited in 2010/11 and therefore are not included within the 2012/13 indicative fee. Both claims relate to local transport plan major projects – Silver Jubilee Bridge and Mersey Gateway.

Fees for other services

Service	Fees £
Grant Thornton's tax team have provided tax advice to Halton BC for a number of years. The cost of this advice is normally in the region of £12,000 to £15,000 per year. However, in 2012/13 the costs totalled some £33,000. This increase related to specific tax advice on two projects, Daresbury and Wade Deacon High School.	33,300
In accordance with Ethical Standards we reviewed this matter and we are satisfied that there is no significant threat to auditor independence.	

Independence and ethics

We confirm that there are no other significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

	Audit Plan	Audit Findings
Our communication plan		
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	<p>Base the council tax bad debt provision included in the financial statements on actual recovery rates and levels of arrears with no inflation for the potential future effect of a fall in recovery rates.</p> <p>Base the debtor impairment included in the financial statements on the aged debt analysis and actual recovery rates with no inflation for the potential future effect of a fall in recovery rates.</p>	Medium		
2	Continue to apply accounting standards when determining whether development costs associated with the Mersey Gateway project should be charged to capital or revenue expenditure.	Medium		

Appendix B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HALTON BOROUGH COUNCIL

Opinion on the financial statements

We have audited the financial statements of Halton Borough Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow Statement and the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Halton Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Operational Director Finance and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Operational Director Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Operational Director Finance; and the

overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:
 give a true and fair view of the financial position of Halton Borough Council as at 31 March 2013 and of its expenditure and income for the year then ended;
 give a true and fair view of the financial position of the Group as at 31 March 2013 and of its expenditure and income for the year then ended; and
 have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:
 in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
 we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
 we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
 we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and

effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:
securing financial resilience; and
challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, Halton Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

Certificate

We certify that we have completed the audit of the financial statements of Halton Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Michael Thomas
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Royal Liver Building
LIVERPOOL
L3 1PS

September 2013

Appendix C: Letter of representation

Letter of representation from the Council.

Grant Thornton UK LLP
 Royal Liver Building
 Liverpool
 L3 1PS
 September 2013

Dear Sirs

Halton Borough Council
Financial Statements for the year ended 31 March 2013

This representation letter is provided in connection with the audit of the financial statements of Halton Borough Council for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code") as adapted for International Financial Reporting Standards; in particular the financial statements give a true and fair view in accordance therewith.
- ii. We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- iv. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- v. We are satisfied that the material judgements used by us in the preparation of the financial statements are soundly based, in accordance with the Code, and adequately disclosed in the financial statements. There are no further material judgements that need to be disclosed.
- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with our knowledge. We confirm that all

settlements and curtailments have been identified and properly accounted for. We also confirm that all significant retirement benefits have been identified and properly accounted for (including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded).

vii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

viii. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code requires adjustment or disclosure have been adjusted or disclosed.

ix. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

x. We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

xi. We have provided you with:

- a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- b. additional information that you have requested from us for the purpose of your audit; and
- c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.

xii. We have communicated to you all deficiencies in internal control of which management is aware.

xiii. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xiv. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xv. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:

Appendix C: Letter of representation

- a. management;
- b. employees who have significant roles in internal control; or
- c. others where the fraud could have a material effect on the financial statements.

xvi. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.

xvii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xviii. We have disclosed to you the entirety of the Council's related parties and all the related party relationships and transactions of which we are aware.

Annual Governance Statement

xix. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Approval

The approval of this letter of representation was minuted by the Council's Business Efficiency Board at its meeting on 18 September 2013.

Signed on behalf of the Council

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

Appendix D: Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

Changes to Audit Plan

We have not had to change our Audit Plan as previously communicated to you on 22 May except for the proposed additional work on Mersey Gateway for our vfm conclusion.

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cost of services - operating expenses	Operating expenses	Other	Operating expenses understated	No	None
Cost of services – employee remuneration	Employee remuneration	Other	Remuneration expenses not correct	No	None
Costs of services – Housing & council tax benefit	Welfare expenditure	Other	Welfare benefits improperly computed	No	None
Cost of services – other revenues (fees & charges)	Other revenues	None		No	None
(Gains)/ Loss on disposal of non current assets	Property, Plant and Equipment	None		No	None
Precepts and Levies	Council Tax	None		No	None
Interest payable and similar charges	Borrowings	None		No	None

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Pension Interest cost	Employee remuneration	None		No	None
Interest & investment income	Investments	None		No	None
Return on Pension assets	Employee remuneration	None		No	None
Dividend income from Joint Venture	Revenue			No	None
Impairment of investments	Investments	None		No	None
Investment properties: Income expenditure, valuation, changes & gain on disposal	Property, Plant & Equipment	None		No	None
Income from council tax	Council Tax	None		No	Yes [see estimates at p13]
NNDR Distribution	NNDR	None		No	None
PFI revenue support grant and other Government grants	Grant Income ⁹	None		No	None
Capital grants & Contributions (including those received in advance)	Property, Plant & Equipment	None		No	None

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
(Surplus)/ Deficit on revaluation of non current assets	Property, Plant & Equipment	None		No	None
Actuarial (gains)/ Losses on pension fund assets & liabilities	Employee remuneration	None		No	None
Other comprehensive (gains)/ Losses	Revenue/ Operating expenses	None		No	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	PPE activity not valid	No	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	Revaluation measurements not correct	No	None
Heritage assets & Investment property	Property, Plant & Equipment	None		No	None
Intangible assets	Intangible assets	None		No	None
Investments (long & short term)	Investments	None		No	None
Debtors (long & short term)	Revenue	None		No	Yes [see estimates at p13]
Assets held for sale	Property, Plant & Equipment	None		No	None
Inventories	Inventories	None		No	None

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Borrowing (long & short term)	Debt	None		No	None
Creditors (long & Short term)	Operating Expenses	Other	Creditors understated or not recorded in the correct period	No	None
Provisions (long & short term)	Provision	None		No	None
Pension liability	Employee remuneration	None		No	None
Reserves	Equity	None		No	None



© 2013 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grant-thornton.co.uk

REPORT TO: Business Efficiency Board
DATE: 18 September 2013
REPORTING OFFICER: Operational Director, Finance
PORTFOLIO: Resources
SUBJECT: Arrangements for Securing Financial Resilience
WARD(S): Borough-wide

1.0 PURPOSE OF REPORT

1.1 The purpose of this report is to seek approval for the report prepared by the Council's external auditor (Grant Thornton) to determine whether the Council has proper arrangements in place for securing financial resilience.

2.0 RECOMMENDED: That the report titled Review of Halton Borough Council's Arrangements for Securing Financial Resilience for the year ended 31st March 2013 (Appendix 1) is received.

3.0 BACKGROUND

3.1 The report on financial resilience considers 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.

3.2 In light of the financial challenges which the Council face over the medium term it is vital that the Council has a strong financial base in place in order to be able to deal with the future funding cuts and also allow it to continue to grow. During the period of the 2010 CSR (2011/12-2014/15) Local Government spending will be cut by 33% which will be followed by a further 10% cut in year 2015/16. Financial austerity is expected to continue until at least 2017/18.

3.3 The External Auditor has reviewed the financial resilience of the Council by reviewing:

- Key indicators of financial performance
- The approach to strategic financial planning
- The approach to financial governance
- The approach to financial control

3.4 The overall conclusion from the External Auditor is that the Council has good arrangements in place for securing financial resilience. Arrangements meet or

exceed adequate standards and key characteristics of good practice appear to be in place.

- 3.5 Grant Thornton will attend the meeting to present the report to the Business Efficiency Board.

4.0 KEY SECTIONS WITHIN THE REPORT

- 4.1 The report is broken down into five headings including the Executive Summary. The External Auditor has identified areas of focus within each of the headings which they have marked with a rating assessment. The ratings range from arrangements meeting or exceeding adequate standards, potential risks and or weakness to arrangements with a high risk.

- 4.2 Key Indicators section of the report includes analysis of financial performance data, some of the data is benchmarked against other local authorities who have similar characteristics in terms of social and economic factors. Key indicators consider the level of Council reserves, long term borrowing, level of assets and out-turn against budget.

- 4.3 Strategic Financial Planning reviews the process the Council adopts in setting annual financial plans, how this feeds through to the Council's Medium Term Financial Strategy and how the plan can then respond to changes in financial circumstances whilst managing the risk involved.

- 4.4 There is a section in the report covering financial governance. The report considers if there is a clear understanding of the financial environment in which the Council operates, there is clear engagement on financial matters with all stakeholders and monitoring and review processes are in place with members, officers and budget holders.

- 4.5 The final part of the report reviews financial control, the External Auditor has assessed the Council's performance against the following indicators which include budget setting and monitoring, savings plans, financial systems, the capacity and capability of the Finance Department and internal control processes.

5.0 POLICY IMPLICATIONS

- 5.1 None.

6.0 OTHER IMPLICATIONS

- 6.1 None.

7.0 RISK ANALYSIS

- 7.1 On-going cuts to funding which support the resources of the Council present a high risk over the next number of years. The report supports the processes the Council has in place to meet future challenges. It is therefore vital the Council maintains current arrangements for ensuring financial resilience.

Review of Halton Borough Council's Arrangements for Securing Financial Resilience

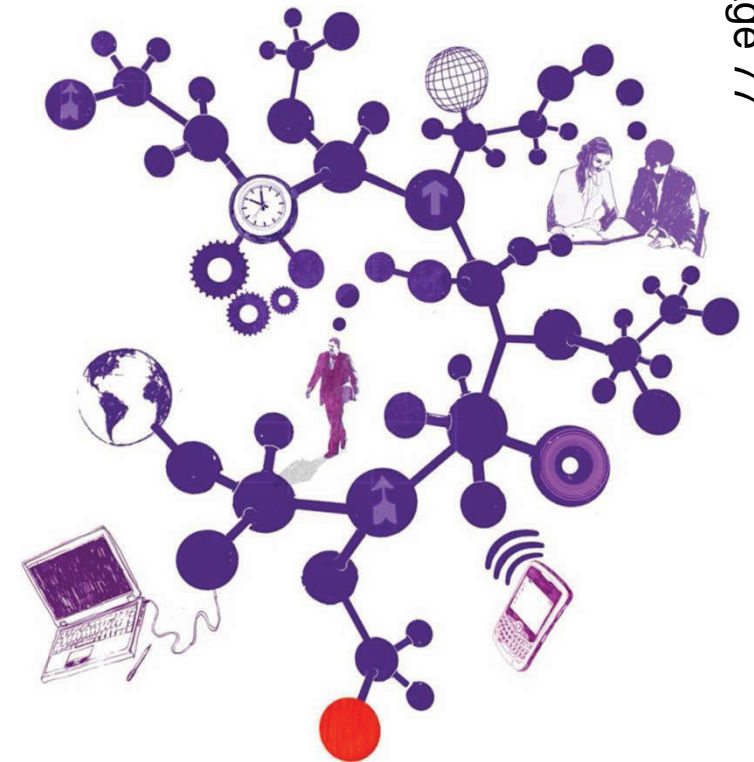
Year ended 31 March 2013

August 2013

Mike Thomas
Engagement Lead
T 0161 214 6368
E mike.thomas@uk.gt.com

Colette Williams
Audit Manager
T 0161 214 6360
E colette.a.williams@uk.gt.com

Judith Smith
Executive
T 0161 214 6371
E judith.smith@uk.gt.com



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

1 Executive Summary **Page 5**

2 Key Indicators **Page 11**

3 Strategic Financial Planning **Page 16**

4 Financial Governance **Page 21**

5 Financial Control **Page 26**

Appendix - Key indicators of financial performance **Page 32**

1 Executive Summary

2 Key Indicators

3 Strategic Financial Planning

4 Financial Governance

5 Financial Control

Appendix - Key indicators of financial performance

Executive Summary

Our approach

Value for Money Conclusion

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

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

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

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

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

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

Our overall conclusion is that the Council has good arrangements in place for securing financial resilience. The Council has a proven track record of keeping expenditure within budget. Systems and processes are well established and there is a structured approach to identifying and managing budget pressures. This framework provides a sound basis for the Council to move forward but there is no doubt that it will be challenged as the requirement for significant savings continues into the medium term. This assessment supports our unqualified VfM conclusion for 2012/13. Overall we have rated the Council as

Green

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

Green

Arrangements meet or exceed adequate standards. Adequate arrangements identified and key characteristics of good practice appear to be in place.

Amber

Potential risks and/or weaknesses. Adequate arrangements and characteristics are in place in some respects, but not all. Evidence that the Council is taking forward areas where arrangements need to be strengthened.

Red

High risk: The Council's arrangements are generally inadequate or may have a high risk of not succeeding

Executive Summary

National and Local Context

National Context

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

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

The next spending round period, 2015-16, was announced by the Chancellor on 26 June 2013. Local government will face a further 10% funding reduction for this period.

These funding reductions come at a time when demographic and recession based factors are increasing demand for some services, and there is a decreasing demand for other services, such as car parking, where customers pay a fee or charge. Financial austerity is expected to continue until at least 2017.

Local Context

Halton is a largely urban area of 119,300 people (2010 population estimate). Its two biggest communities are Widnes and Runcorn. The population of Halton was in decline for over a decade but has recently started to increase.

The number of jobs in the borough is largely the same as it was 10 years ago but the proportion employed in manufacturing has fallen and the reliance on a small number of large employers is beginning to reduce.


Halton shares many of the social and economic problems associated with its urban neighbours on Merseyside. The Index of Multiple Deprivation ranked Halton 27 nationally (ranking of 1 being most deprived) which is third highest on Merseyside and 9 highest in the North West.

Despite the financial challenges the Council continues to seek opportunities to progress and grow the local economy and continues to have some major successes. It is leading, in partnership, on a number of significant developments, most notably, the Mersey Gateway Development, the Science Park at Daresbury, 3MG Multi-Modal site and the Castlefields development. The Council is also a key player in the wider regional agenda.

The Council does however continue to face significant financial challenges over the medium term. The revenue shortfall over the period 2013/14 to 2015/16 is estimated at £37m. The Council is committed to meeting this challenge.


Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
<p>Key Indicators of Performance</p>	<ul style="list-style-type: none"> • The Council's liquidity, as measured by the working capital ratio, improved in 2011/12 although it was still towards the low end of its comparator group. The ratio has increased again in 2012/13, to 1.2%. Working capital will come under increasing pressure during the full course of CSR10 and will need to be carefully monitored. • The Council's collection rates for council tax and business rates remain in line with previous years but 2013/14 sees the introduction of changes to both systems. The impact of these changes is being carefully monitored by officers. • The Council's usable reserves are at 11% of gross expenditure for 2012/13. This is the same as the 2011/12 level and is average for the Council's nearest neighbour comparator group. • The Council's level of usable reserves has remained fairly constant over the period 2007/08 to 2011/12 and usable reserves as a percentage of gross expenditure is at the average for the comparator group. • The Council's sickness absence rates are higher than the average for local government, the public sector and the private sector. Although rates have reduced in recent years 2012/13 has bucked that trend, and sickness absence rates have risen to 10 days per FTE. • The revenue budget was under spent by £0.502m and the capital programme by £7.515m. The small revenue underspend was achieved whilst delivering significant savings. 	<p style="text-align: center;">  Green </p>



Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Strategic Financial Planning	<ul style="list-style-type: none">• The Council's MTFS covers a 3 year period, 2013/14 to 2015/16, and identifies a funding gap of £37m over the period. Finance officers have indicated they are considering extending the strategy to cover 4 years. This would be in line with a number of other authorities whose plans currently cover up to 5 years. The Council does not have a longer term financial plan highlighting demographic and economic trends and setting context for the MTFS.• The MTFS is linked to the Council's five priorities and is updated annually as part of the budget setting cycle. It reflects the impact of changes to funding as a result of the Government's resource reviews such as the retention of business rates and localisation of council tax support. There is some limited evidence of scenario planning and sensitivity analysis but scope for more especially as the Mersey Gateway scheme comes on line.• Each year savings targets are set and Directorates are tasked with identifying savings options. Savings proposals are risk assessed and are challenged both at Directorate level and by the Budget Working Group. Members and officers work hard to agree savings as early as possible in the planning cycle.• There remains significant uncertainty about the financial position post 2014/15, which is common to the whole sector. The MTFS does not show how the £23m funding gap (2014/15 and 2015/16) will be met. The Council has a good track record of delivering its annual budgets, and within that its savings plans, which gives some assurance that the business planning process is resilient enough to ensure good outcomes can be maintained despite significant spending reductions.	 Green

Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
<p>Financial Governance</p>	<ul style="list-style-type: none"> The Council has a well established approach to financial governance that has delivered good results in recent years. All Executive Board members and senior officers are involved in the budget process which enables a good understanding of the financial environment and the challenges facing the Council. There is engagement with staff at all levels as part of the service planning process. Budget presentations are made to Area Forums and the public has the opportunity to comment on proposals but this is at a very late stage in the process. Reporting to members and managers is frequent and in sufficient detail and clarity to enable readers to understand the issues and make decisions. The 2012/13 year end financial position shows a general fund underspend of £0.502m. Policy & Resources and Children & Enterprise achieved underspends of £0.388m and £0.183m respectively. The Council's largest budget, Communities, was slightly overspent at £0.077m (less than 0.2% of budget). The main elements of the overspend related to community care and reduced levels of income from services. These pressures are consistent with those found in other councils. We noted however that the overspend on community care was much reduced both on last year and on the mid year forecast, evidence of close and effective management. The 2013/14 budget includes additional monies for community care in recognition that the previous budgets have not kept pace with demand. 	<p> Green</p>
<p>Financial Control</p>	<ul style="list-style-type: none"> The Council has well established budget setting processes and a good track record of managing budgets on a service by service basis. Maintaining spend within budget is seen as a priority and there is a clear allocation of roles and responsibilities. The Council has made savings of almost £25m in the last two years. In the same period budgets have underspent. This is a positive achievement given the financial and economic background. There is no high level reporting on the realisation of individual savings options outside of the normal budget monitoring process. The Council should consider monitoring the achievement of savings, particularly those relating to key policy decisions so that their impact on services can be better understood. The key financial systems provide reliable and timely financial monitoring information to enable the Council to identify and manage financial risks. Financial control is supported by a robust internal assurance framework of which Internal Audit is a key part. It is important that this assurance framework remains effective. The recent increase in slippage in Internal Audit delivery is something to monitor during the current year to ensure it does not undermine the assurance framework. 	<p> Green</p>

Executive Summary

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Key Indicators of Performance	<ul style="list-style-type: none"> The Council should continue to review and maintain appropriate levels of reserves and monitor the Council's liquidity to ensure financial resilience is maintained. The Council should continue to closely monitor collection rates for both council tax and NNDR, taking appropriate action to maintain collection levels. 	Operational Director, Finance	On-going	The levels of reserves and liquidity will continue to be monitored regularly throughout the year, along with collection rates and school balances.
	<ul style="list-style-type: none"> The Council should continue to give a high priority to monitoring sickness absence and take appropriate action to reduce the high and increasing level of absence. The Council should continue to monitor school balances to ensure they remain at a reasonable level. 	Divisional Manager Human Resources	On-going	Management Team and the Corporate PPB give high priority to scrutinising the position regarding sickness absence and will continue to receive regular monitoring reports during the year, in order to assist them in taking appropriate action.
Strategic Financial Planning	<ul style="list-style-type: none"> The Council should support the extension of the MTFS to cover a 4 year period. The Council should enhance its MTFS process to include more scenario planning and sensitivity analysis. The Council should consider introducing a longer term 'horizon scanning' financial plan to provide further context for the MTFS. 	Operational Director, Finance	November 2013	It is not considered appropriate in the current financial climate to extend the MTFS period to 4 years. Consideration will however be given to adopting the suggested improvements when preparing the 2014-17 MTFS.
Financial Governance	<ul style="list-style-type: none"> The Council should review its arrangements for budget consultation and strengthen as appropriate, and consider learning from those Councils who are recognised as having very effective community engagement. 	Operational Director, Finance	February 2014	Consideration will be given to how budget consultation arrangements might be strengthened.

Executive Summary

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Financial Control	<ul style="list-style-type: none">The Council should consider monitoring and reporting on the achievement of savings to ensure the impact on services is better understood.The Council should monitor the impact of slippage on the Internal Audit function and risk assess it in the context of its assurance framework.	Operational Director, Finance	November 2013	<p>The impact upon service delivery of budget savings is currently reported where problems emerge and corrective action is required. However, consideration will be given to further monitoring of the impacts upon service delivery, as this is likely to be greater going forward.</p> <p>The slippage in the Internal audit Plan will be risk assessed, to ensure the level of audit coverage remains appropriate.</p>

1 Executive Summary

2 Key Indicators

3 Strategic Financial Planning

4 Financial Governance

5 Financial Control

Appendix - Key indicators of financial performance

Key Indicators

Introduction

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

- **Working capital ratio** – indicates if an authority has enough current assets to cover its current liabilities.
- **Long term borrowing to tax revenue** – shows if an authority's long term borrowing exceeds its tax revenue.
- **Long term borrowing to long term assets** – shows whether long term borrowing exceeds long term assets.
- **Sickness absence levels**
- **Out-turn against budget**
- **Usable Reserves: Gross Revenue Expenditure** – shows usable capital and revenue reserves as a share of expenditure.
- **Schools Balances to Dedicated School Grant (DSG) allocations** – shows the share of schools balances in relation to total DSG allocation that remain unspent.



Detailed explanations of key indicator calculations can be found in the Appendices to this report.

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

- *Barnsley Metropolitan Borough Council*
- *Bolton Metropolitan Borough Council*
- *Borough of Telford and Wrekin*
- *City of Wakefield Metropolitan District Council*
- *Doncaster Metropolitan Borough Council*
- *Knowsley Metropolitan Borough Council*
- *Oldham Metropolitan BC*
- *Rochdale Metropolitan BC*
- *Rotherham Metropolitan Borough Council*
- *Middlesbrough Council*
- *St Helens Metropolitan BC*
- *Stockton-on-Tees Borough Council*
- *Stoke on Trent City Council*
- *Tameside Metropolitan BC*
- *Wigan Council*


Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Working Capital Ratio (Liquidity)	<ul style="list-style-type: none"> The Council ranks 10 out of its 16 nearest neighbour group for working capital. Halton's working capital ratio for 2011/12 is 1.05, much better than its 2010/11 ratio of 0.48. The Council's liquidity has hovered around 1 in previous years with the exception of 2009/10 and 2010/11 when it fell to 0.91 and 0.48 respectively. Many of the Council's neighbours show a variable performance on working capital ratio over the period 2007/08 to 2011/12, with 9 neighbours showing an upward movement between 2010/11 and 2011/12. Working capital will come under increasing pressure during SR10 and will need to be carefully monitored Traditionally the Council's collection rates for council tax and non-domestic rates (NNDR) have been good. Despite the economic downturn, over the past 3 years Halton's council tax collection rates have remained fairly constant at or about 97% (2010/11 - 97%, 2011/12- 97.11% and 2012/13 - 97.11%). Council set target collection rates were 96.5% in 2011/12 and 96% in 2012/13. It's a similar picture for NNDR with collection rates of just over 97% (2010/11 - 97.59%; 2011/12 - 97.11% and 2012/13 - 97.13%). The recent changes to council tax and the localisation of business rates (NNDR) may well impact upon collection rates for 2013/14 and beyond. Officers are monitoring the situation. 	 Green
Borrowing	<ul style="list-style-type: none"> Halton's ratio of long term borrowing to long term assets is the lowest within its comparator group for 2011/12. It has also been consistently lower than the other authorities within its nearest neighbour group since 2007/08. Although low, the Council's ratio has increased in 2011/12 and at 0.12 shows that the Council's long term borrowing represents 12% of its long term assets i.e. long term borrowing does not exceed its long term assets. This ratio has increased in 2012/13 as the Council has taken new loans to finance the Mersey Gateway development. The pre-audited accounts for 2012/13 show a ratio of 0.18, but it is likely that this is still lower than the majority of the Council's comparator group. Historically, the Council's long term borrowing to tax revenue ratio has been low. Halton's 2011/12 ratio of 0.38 is the lowest in the comparator group and significantly less than the majority of its neighbours. It has also been consistently lower than the other authorities within its nearest neighbour group since 2007/08, evidence of the prudent approach to financial management adopted by the Council. The Council's ratio is likely to rise slightly in 2012/13 as the Council has taken out new loans to finance its capital programme. The Council's Treasury Management Strategy includes its prudential indicators and performance against these is reported regularly through the year. The general aim of the strategy is to reduce the difference between the Council's gross debt and net debt levels over the next three years. The Council expects to receive two DfT grants for Mersey Gateway - £10m in 2013/14 and £66.3m in 2014/15. The receipt of the latter should see the Council's debt levels reduce significantly in 2015/16. 	 Green



Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Workforce	<ul style="list-style-type: none"> Halton's sickness absence levels have fallen year on year between 2007/08 and 2011/12, from a high of 13.5 days per FTE in 2008/09 to 9.0 days per FTE in 2011/12. The 2011/12 rate met the Council's target for the year and followed a concerted effort to tackle sickness absence, including the introduction of a revised absence management policy in 2011. Despite this, Halton's rate of 9 days per FTE was higher than the 2011/12 average of 8 days for both local government and the public sector. Although still higher than the local government average, the Council's trend until this year was one of reducing sickness absence levels. With the exception of 2010/11 and 2011/12, actual absences rates were higher than the Council's target. The Council's reported sickness absence level for 2012/13 is 10 days per FTE against a target of 8.5 days. Sickness absence reports conclude that there is no particular explanation for the increase in sickness absence levels in 2012/13 although it is noted that levels of personal stress have increased.. The Council is hoping that this year's increase is a blip and has set itself a challenging sickness absence target of 8 days per FTE for 2013/14. Sickness absence levels have an appropriate profile with senior management and actions are agreed and minuted by the Management Team. Given the significant organisational change that continues to take place, and the challenging target set for 2013/14, it will be important for Management Team to continue to adopt a robust approach to managing and monitoring sickness absence. 	 Green
Performance Against Budgets: revenue & capital	<ul style="list-style-type: none"> The revenue outturn position for 2012/13 is an underspend of £0.502. This follows on from budget underspends in each of the previous two years: £0.198m in 2011/12 and £0.192m in 2010/11, and is in the context of the Council realising savings of some £11m. Overall, this indicates a good performance. In cash terms the directorate with the largest underspend in 2012/13 is Policy and Resources with an underspend of £0.388m (1.56%). Both the Communities and Children & Enterprise directorates overspent by £0.77m (0.1%) and £0.183m (0.5%) respectively. Communities has the largest budget and much of the overspend related to the community care budget (although much improved performance on previous year and 2012/13 half year forecast) and to reduced income from services such as trade and bulky waste. The Council once again had a significant capital programme in 2012/13 totalling £57.817m, a large element of which related to Mersey Gateway land acquisition and development costs. Actual capital spend amounted to some £50.302m, an underspend of 13%. Planned capital programmes in 2013/14 and 2014/15 are £18.828m and £6.900m respectively. 	

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Reserve Balances	<ul style="list-style-type: none"> Halton's usable reserves total £41.804m at 31 March 2013, some 11% of the Council's gross revenue expenditure for the year. Earmarked reserves of £29.597m and General Fund of £8.067m make up the major elements of this balance. Earmarked reserves have increased from £26.834m in 2009/10 to £29.597m in 2012/13. They total 48 funds in number (excluding school balances) and are in effect part of the General Fund. Unlike the General Fund balance, earmarked reserves are funds put aside by the Council for specific purposes. The major earmarked funds at 31/3/2013 relate to equal pay (£3.612m), the insurance fund (£4.222m) and the capital reserve (£1.954m). Other much smaller funds include the Open Spaces Rolling Programme of £215k to finance the open spaces strategy and Superfast Broadband of £65k to finance project related costs in 2013/14. The General Fund balance has remained fairly constant between 2009/10 and 2012/13, rising by just under £1m over the 4 year period. CIPFA's guidance on reserves is that the level should follow the S151 Officer's advice to the Council, which should be based on local circumstances. The Council's 2013/14 treasury management strategy considers it prudent to maintain general balances at approximately 7% of the net revenue budget. At 31 March 2013 the General Fund balance of £8.067m amounts to just under 6% of the Council's net cost of services for the year. 	 Green
Schools Balances	<ul style="list-style-type: none"> The Council had a school balances to Dedicated School Grant (DSG) ratio in 2011/12 of 7%. The ratio has varied over the past 5 years from 7% in 2007/08 to 4% in 2009/10 and 2010/11. This variation with an increased ratio in 2011/12 is in line with the broad trend of the benchmark group. Halton's 2011/12 ratio of 7% is at the average for its nearest neighbours comparator group with only six neighbouring authorities having a lower ratio. 	 Green

1 Executive Summary

2 Key Indicators

3 Strategic Financial Planning

4 Financial Governance

5 Financial Control

Appendix - Key indicators of financial performance

Strategic Financial Planning


Key characteristics of good strategic financial planning

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

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


Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Focus of the MTFP	<ul style="list-style-type: none"> The Council's Medium Term Financial Strategy (MTFS) is updated annually as part of the budget setting process. It covers a 3 year period and provides the framework within which the annual budget is prepared. Discussions with officers suggest they are looking to extend the MTFS to cover 4 years. Many authorities use a 4 to 5 year planning horizon for their financial strategy. The MTFS 2013/14 to 2015/16 was reported to the Executive Board in November 2012. This identifies a funding shortfall of £37m over the period of the MTFS - £14m in 2013/14, £11m in 2014/15 and £12m in 2015/16. To help meet the funding gap, and to set a balanced budget, the Council agreed savings of some £8.605m for 2013/14. The remainder of the gap was met through an increase in council tax and use of reserves (including a £1m transfer from the General Fund). Members and officers work hard to agree savings as early as possible in the planning cycle. For the 2013/14 budget, the process for identifying savings started in March 2012 with an all member seminar followed by regular meetings of the Budget Working Group. The budget round for 2014/15 is already underway. Initial 2013/14 budget savings proposals were approved by the Council in December 2012 and totalled some £6.037m. The remainder of the required savings (£2.568m) were agreed by the Council when it set the budget in March 2013. The Council's MTFS links to its corporate priorities and considers the impact of: CSR; localising council tax benefit; business rate retention scheme; formula grant allocations; specific grant allocations; council tax forecast and spending forecasts. Previous iterations of the MTFS (2010/11 to 2012/13) have included scenario analysis but officers suggest that CSR10 brought with it sufficient certainty about future funding to negate the need for this. It may be something to consider as financial pressures increase and the need for more options becomes necessary. 	 Green




Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Adequacy of planning assumptions	<ul style="list-style-type: none"> The Council maintains an adequate focus on the MTFS which is reviewed and updated annually as new information becomes available. The MTFS reflects the impact of changes to funding as a result of the Government's resource reviews, for example, the retention of business rates, localisation of council tax support and school funding reform. It also includes pay and price inflation, the transfer of public health to the Council (assumed to be cost neutral) and the significant capital programme due to Mersey Gateway. The 2013/14 budget is based on a number of planning assumptions, national and local. It includes a council tax increase of 2%. It also includes other assumptions such as pay inflation of 1%, other inflation ranging from 0% to 15%, additional monies for the continuing care budget (£300k) and SCOPE deregistration (£700k), adding back of one-savings from the previous year (£1.7m), use of general balances (£1m), a contingency balance (£1.2m) and a savings plan (£8.605m). The Council has a significant capital budget in 2013/14 of £37.4m. This includes the financing costs for the early land acquisitions for Mersey Gateway. The Council has provided some analysis within the budget of changes to council tax (eg 0%, 1% and 2%) and the impact this would have on income levels. Some scenario analysis has also taken place around the business rate retention scheme using a spreadsheet developed by SIGOMA. As yet the MTFS does not take account of the projected income and costs of the Mersey Gateway scheme (outside of the development and land acquisition costs). The Council have recently selected a preferred bidder and anticipate the Mersey Gateway bridge being operational in 2017. Financial plans and forecasts for the scheme include detailed modelling of projected income levels and costs. These have yet to be incorporated into the Council's MTFS. 	 Green

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Scope of the MTFP and links to annual planning	<ul style="list-style-type: none"> The MTFP, and associated revenue and capital budget setting, takes account of the Council's five priority areas. Service and financial planning processes are integrated through the service planning framework. Each Directorate produces a 3 year service plan which is updated annually, the latest plans cover the period April 2013 to March 2016. These plans link to the Council's Corporate Plan. The capital programme which is linked to the asset management strategy forms a major part of the MTFP. The MTFP also includes links to other strategies such as balances and reserves and the efficiency strategy. 	 Green
Review processes	<ul style="list-style-type: none"> During the financial planning cycle for 2013/14, budget forecasts and savings options were developed by services and discussed at divisional management teams and then by Directorate Management teams. Proposals were then reviewed by Management Team, Budget Working Group and the Executive Board. Officers have worked hard to bring forward the financial planning process year on year in order to enable sufficient time for appropriate challenge and review. 	 Green
Responsiveness of the Plan	<ul style="list-style-type: none"> The Council updated its MTFP during the most recent financial planning cycle. Future years will be reviewed as part of the 2014/15 budget setting process. As already mentioned, officers are looking to extend the coverage of the MTFP from three to four years. The extended MTFP would benefit from the inclusion of more modelling and scenario analysis providing alternative options for the Council to consider and agree. There remains significant uncertainty about the financial position for 2014/15 and beyond. Although the MTFP does not show how the £23m resource gap will be met in the period 2014/15 to 2015/16, the Council knows that continued, and in some cases significant, change to service delivery will be required. The use of the budget prioritisation pro-forma as part of the 2014/15 budget setting round will be used to inform this process. The Council has a good track record of delivering its annual budget and savings proposals which provides confidence that the business planning process is resilient enough to continue to deliver. However, given the continued level of savings going forward, together with general medium term uncertainties, consideration should be given to enhancing the planning process to include more financial modelling and scenario analysis. 	 Green

1 Executive Summary

2 Key Indicators

3 Strategic Financial Planning

4 Financial Governance

5 Financial Control

Appendix - Key indicators of financial performance

Key characteristics of effective financial governance

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

Understanding

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

Engagement



- There is engagement with stakeholders including budget consultations.

Monitoring and review

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



Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
Understanding the Financial Environment	<ul style="list-style-type: none"> • An awareness of the financial environment within which the Council operates, and an understanding of the challenges it faces is seen as an important aspect of both the member and officer role. For several years members have been invited to all member seminars which have highlighted the financial pressures faced by the Council • All member seminars are held each year, the most recent being the March 2013 Member Budget Seminar (for the 2014/15 budget) and a further half day Budget Seminar in early July 2013. These events cover the financial/economic environment, pressures and challenges. At the July event members were also asked to identify any training needs they felt they had. • Change management courses have been developed for members and new courses have commenced for managers and staff on motivational and resilience training. • Financial management responsibilities are included within the Council's standing orders and financial instructions. • The quarterly priority based performance management reports presented to the Policy and Performance Boards include coverage of emerging themes /developments as well as financial summaries of spend against budget. Members also have access to departmentally focused performance reports via the intranet and member information bulletins. There is also an annual finance/accountancy training event for members. • The corporate risk register includes the main risks that face the Council and includes timescales for review. Each directorate also has a risk register. Finances and capacity are high on the corporate risk register and as such are high on the radar for members. 	 Green
Executive and Member Engagement	<ul style="list-style-type: none"> • There is an appropriate level of executive and member engagement on financial matters. • The Operational Director Finance is a key member of the Council's senior management team. Together with the Strategic Director Policy & Resources, he meets frequently with the portfolio holder for finance. • From our attendance at Business Efficiency Board meetings we have seen evidence of robust challenge and scrutiny from members. Review of minutes more generally across the Council suggest an appropriate level of challenge takes place. • The Corporate Plan and the MTFS are available to staff and external stakeholders on the Halton BC intra/internet. These include financial strategies and details of the financial challenges to the Council. • Members are involved in the budget setting process through the Budget Working Group and through portfolio holder interaction with Strategic Directors. • Each year prior to finalising the budget, savings proposals are presented to the Area Forums. Members of the public have the opportunity to ask questions and provide feedback. 	 Green


Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
Overview for controls over key cost categories	<ul style="list-style-type: none"> Standard monthly budget reports are produced within 8 days of month end. Finance officers share these with budget holders (mainly DMs) and follow up any significant variances. Divisional management teams discuss the budget position. Any actions for over/underspends are agreed here. Particular 'at risk' costs are subject to detailed review by divisional teams eg. continuing care costs. This has been an area of overspend for several years and is closely monitored by the Principal Accountant and budget holder. All costs are reported through the quarterly budget update reports. The Council's efficiency programme has used unit costs and benchmarking as part of its review of services. 	 Green
Budget reporting: revenue and capital	<ul style="list-style-type: none"> Budget monitoring information is generally at an appropriate level of detail for the various committees and provides details such as current and forecast positions for both revenue and capital spend. It also highlights areas of over/underspend which need to be brought back into line by year end together with a forecast year-end outcome. Quarterly performance reports to Policy and Performance Boards include performance against key indicators and financial summaries by department. The financial summaries include: <ul style="list-style-type: none"> - revenue budget – annual budget; budget to date; actual to date and variance to date. this is followed by a section commenting on the budget figures and usually includes a statement anticipating the likely year end budget position. - capital projects – capital allocation; allocation to date; actual spend to date; and total allocation remaining. Some commentary on figures is also included. No balance sheet information is included. Council wide spending reports are presented to the Executive Board each quarter. These provide an overview of both revenue and capital spend to date as well as main over/underspends and action being taken to address significant variances. For example the November 2012 report highlighted that the community care net spend exceeded the profiled budget by £201,000, with a potential overspend at year end in the region of £400,000. The report concluded that the situation is being monitored closely and remedial action is being taken. 	 Green

Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
Adequacy of other Committee/Cabinet Reporting	<ul style="list-style-type: none">• The Council revised its performance reporting framework in 2012 and as part of this introduced quarterly priority based performance reports for the Policy and Performance Boards (PPBs) and the Executive Board. These priorities link to the Council's corporate plan and to individual service plans.• The Directorate performance reports to the 3 PPBs include key developments, emerging issues, performance overviews and financial summaries. The performance overview section provides a summary of progress on both milestones and key indicators across the key business areas identified by the Directorate. Performance is RAG rated and includes direction of travel.• The Executive Board receives quarterly directorate performance overview reports and members also have access via the intranet to the departmentally focussed reports used for operational management purposes.• Once identified and approved savings are removed from directorate budgets and monitored as part of the normal budget monitoring process. There is no separate savings plan.	 Green

1 Executive Summary

2 Key Indicators

3 Strategic Financial Planning

4 Financial Governance

5 Financial Control

Appendix - Key indicators of financial performance

Key characteristics of effective financial control

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

Budget setting and budget monitoring

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

Savings Plans

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

Financial Systems

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

Finance Department



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

Internal Control

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


Financial Control

Internal arrangements

Area of focus	Summary observations	Assessment
Budget setting and monitoring - revenue and capital	<ul style="list-style-type: none"> The Council has well established budget setting processes and a good track record of managing budgets on a service by service basis. The annual budget is built from a historical baseline adjusted for any growth, inflationary pressures and savings options. Budget preparation guidelines and timeframes are available to staff. The Budget Working Group, which consisted of 20 members for the 2013/14 budget round, supports the 'savings' identification aspect of the budget. Budget details, the MTFS and relating financial challenges are presented to Area Forums in January/February each year. Area Forum views are fed back to the Executive Board when it considers the budget in February, and prior to approval by the Council. The annual budget is uploaded into the general ledger and profiled across the year. Budget monitoring reports are sent to budget holders within 8 days of period end. Management team (the Chief Executive, the three Strategic Directors, the s151 Officer and the Monitoring Officer) meets weekly and is the primary interface with Executive Board members. The Chief Executive continues to place a high priority on budget management, with performance reports discussed regularly. Directors also discuss budget monitoring reports with their management teams on a monthly basis. 	 Green
Performance against Savings Plans	<ul style="list-style-type: none"> The MTFS provides the context within which savings figures are set to enable a balanced budget to be agreed. Members, through the Budget Working Group, play a key role in developing and challenging savings proposals. The Council does not have a separate savings plan as such, rather it identifies savings which once agreed are removed from the budget. Progress in delivering savings is not separately monitored but is part of the normal budget monitoring process. The Council has a proven track record of maintaining spend within budget. Small underspends have been recorded in each of the past three years. For 2013/14 directorates were tasked with identifying savings of some £8.605m. Savings were approved in two tranches, November 2012 (£6.037m) and March 2013 (£2.568m). Strategic Directors worked with their management teams and put forward savings proposals using budget option forms. This required officers to complete impact assessments (eg. on Council priorities, service users, staffing and property). Budget option forms were scrutinised by the Budget Working Group before being accepted. Budget prioritisation pro-formas have been introduced to support the 2014/15 budget process. These require services/divisions to look at 15% reductions in their budget and the impact. This form also provides context to decision makers about the level of savings and number of staff reductions achieved by the service/division over the past 3 years. 	 Green



Financial Control

Internal arrangements

Area of focus	Summary observations	Assessment
Key Financial Accounting Systems	<ul style="list-style-type: none">• The Council's main financial system is Agresso which was subject to a major upgrade in 2011/12. Internal Audit (IA) reviewed the system post upgrade and concluded there were no significant weaknesses.• The upgrade of the Council's integrated HR/payroll system to the web based i-Trent system began in late 2012. This web based system allows greater opportunity for self service and better reporting capability.• Each year IA review the Council's financial systems, through either a key controls audit or a more detailed full system review. The majority of systems reviewed in 2012/13 received substantial assurance, the highest assurance rating from IA.• Our 2012/13 interim audit has not identified any significant control weaknesses in the Council's main financial systems.	 Green



Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
Finance Department Resourcing	<ul style="list-style-type: none"> In line with other departments, resourcing within the finance department has reduced in recent years. Levels have reduced from 36.39 FTE in 2010/11 to 30.1 FTE in 2013/14. Many of the earlier reductions tied in with keeping posts vacant and general efficiencies. During 2012/13 the Divisional Manager Financial Management, with the help of the Efficiency Team, reviewed the finance division to assess its fitness for purpose. The review highlighted a number of issues with the current structure including: teams operating in silos which impacted upon flexibility, some duplication of tasks across all grades within the structure and opportunities to reduce some of the low level activity currently undertaken by staff. Following this the department was restructured. Officers feel it has established a more efficient and flexible structure which will aid succession planning, reduce levels of duplication and be fit for purpose for the future. 	 Green
Internal Audit (IA) Arrangements	<ul style="list-style-type: none"> IA produce an annual plan which is approved by the Business Efficiency Board (BEB). The 2012/13 plan totalled 1239 days and coverage included: financial systems (205 days); governance (60 days); anti-fraud and corruption (50 days); the 3 directorates' systems and processes (205 days); information systems and management (110 days); procurement (80 days); schools (80) and completion of previous year work (71 days). IA's coverage is comprehensive and appropriate. IA's 2012/13 annual report identified that it had delivered 76.2% of its plan, slippage of just under 25%. Comparative data for previous years shows slippage of just over 8% in 2011/12 and 11% in 2010/11. IA staff numbers have reduced slightly over the past 3 years with a consequent reduction in the number of IA days – from 1447 days planned in 2010/11 to 1086 days in 2013/14. Whilst a reduction in planned days in itself is not a issue, when it is combined with significant slippage in actual delivery of audits over several years then it can undermine the level of assurance being received. Slippage of just under 25% in 2012/13 is high. Recommendations are followed up through the issue of a formal IA report, and via reporting to the BEB. With its reduced staffing, IA adopt a risk-based approach to following up audits. In 2012/13 IA completed 11 'follow up' audits: 8 of which had made substantial progress in implementing agreed recommendations. No follow up audits were rated as having made unsatisfactory progress. The Grant Thornton high level review of IA carried out as part of our 2012/13 planning/interim audit confirmed that IA comply with the CIPFA Code of Practice for Internal Audit. 	 Green

Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
External audit arrangements	<ul style="list-style-type: none"> The Council's external auditors have issued an unqualified audit opinion and value for money conclusion in each of the past two years. The 2011/12 Annual Governance Report made several recommendations relating to the accounts, all of which were agreed by management at the time and have subsequently been actioned. Following the Audit Commission's procurement exercise in 2011/12, Grant Thornton became the Council's external auditors for a 4 year period, from 2012/13 to 2015/16. 	 Green
Assurance framework/ risk management	<ul style="list-style-type: none"> The Council has a risk management strategy which was last updated in June 2011. The Business Efficiency Board has responsibility for management of risks across the Council. Risk registers are maintained at corporate and directorate level. There is also a separate budget risk register which is monitored by Management Team. Risks are rated against impact and likelihood and then scored (scores of 11 to 16 are rated as high). Risk control measures are identified for all risks and a residual risk score given. A timescale for review is set and a named lead officer is identified against each risk. A progress commentary is included to show the mitigating factors and actions being taken against each risk. The Council's corporate risk register was last updated in March 2013. It identified 9 key risks all of which link to the Council's priorities. They include: budget reductions, Mersey Gateway, community expectations, capacity and resilience, safeguarding children and adults, and fraud. The number of risks reported is pitched at an appropriate level to allow the Business Efficiency Board to keep the main risks under review. 	 Green

1 Executive Summary

2 Key Indicators

3 Strategic Financial Planning

4 Financial Governance

5 Financial Control

Appendix - Key indicators of financial performance

Key Indicators of Financial Performance

Working Capital - Benchmarked

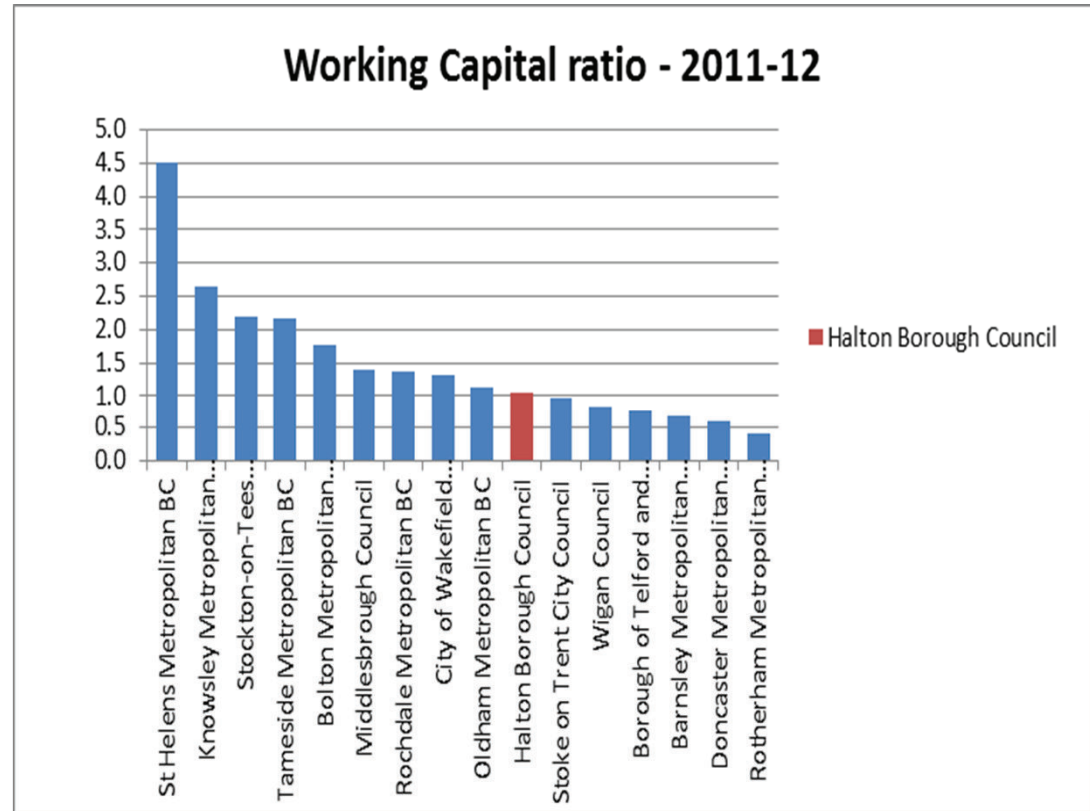
Definition

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

The Council ranks 10 out of the 16 nearest neighbour group for working capital. Halton's working capital ratio for 2011/12 is 1.05, much better than its 2010/11 ratio of 0.48.

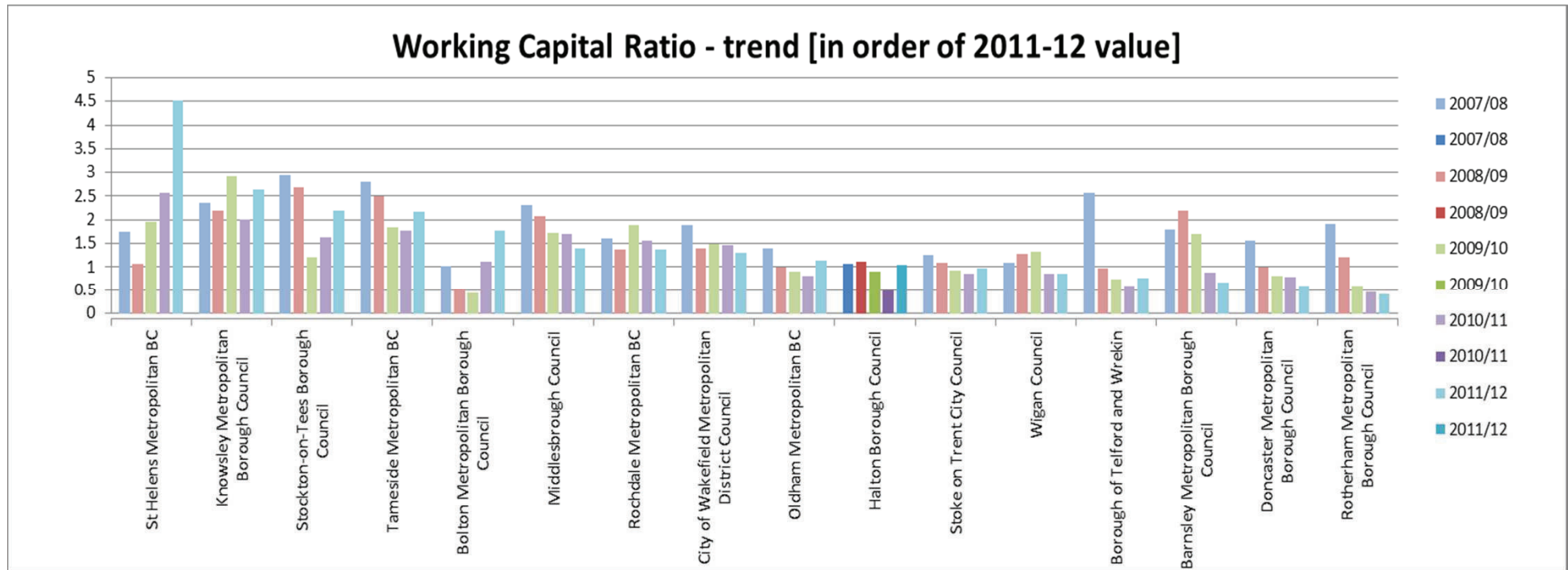
The Council's liquidity has hovered around 1 in previous years with the exception of 2009/10 and 2010/11 when it fell to 0.91 and 0.48. respectively. Many of the Council's neighbours show a variable performance on working capital ratio over the period 2007/08 to 2011/12, with 9 neighbours showing an upward movement between 2010/11 and 2011/12. Working capital will come under increasing pressure during SR10 and will need to be carefully monitored.



Source: Audit Commission's Technical Directory

Key Indicators of Financial Performance

Working Capital – Trend 2007/08 to 2011/12



Source: Audit Commission's Technical Directory

Key Indicators of Financial Performance

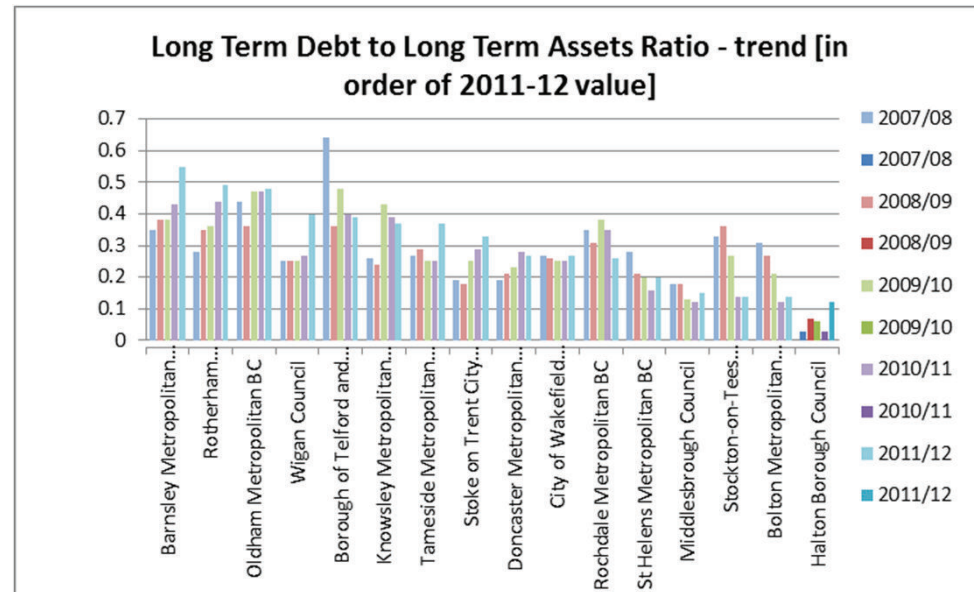
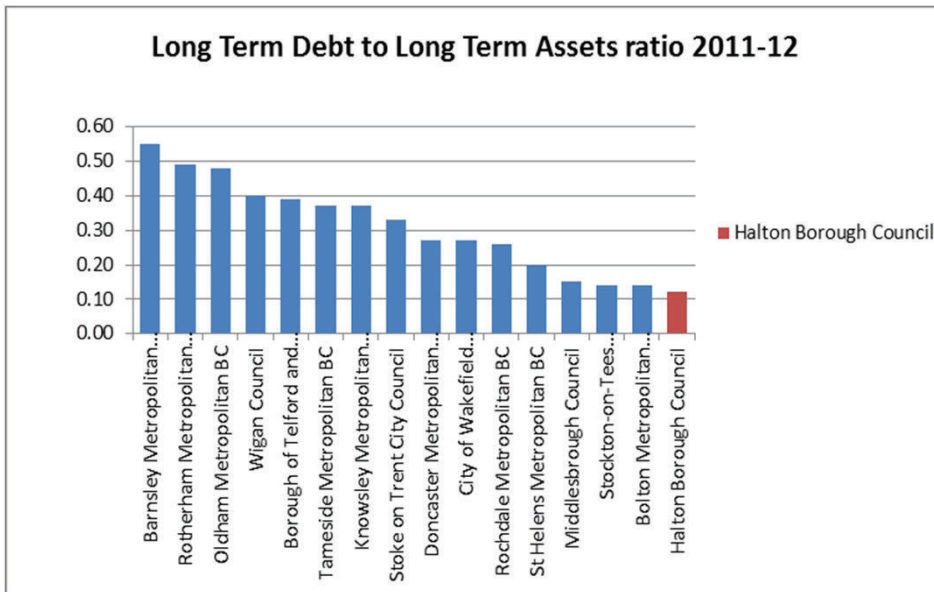
Long-term Borrowing to Long-term Assets – Benchmarked and Trend

Definition

This ratio shows long term 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

Halton's ratio of long term borrowing to long term assets is the lowest within its comparator group for 2011/12. It has also been consistently lower than the other authorities within its nearest neighbour group since 2007/08. Although low, the Council's ratio has increased in 2011/12 and at 0.12 shows that the Council's long term borrowing represents just over 10% of its long term assets i.e. long term borrowing does not exceed its long term assets. This ratio has increased in 2012/13 as the Council has taken new loans to finance the Mersey Gateway development. The pre-audited accounts for 2012/13 show a ratio of 0.18, it is likely that is still lower than the majority of the Council's comparator group.



Key Indicators of Financial Performance

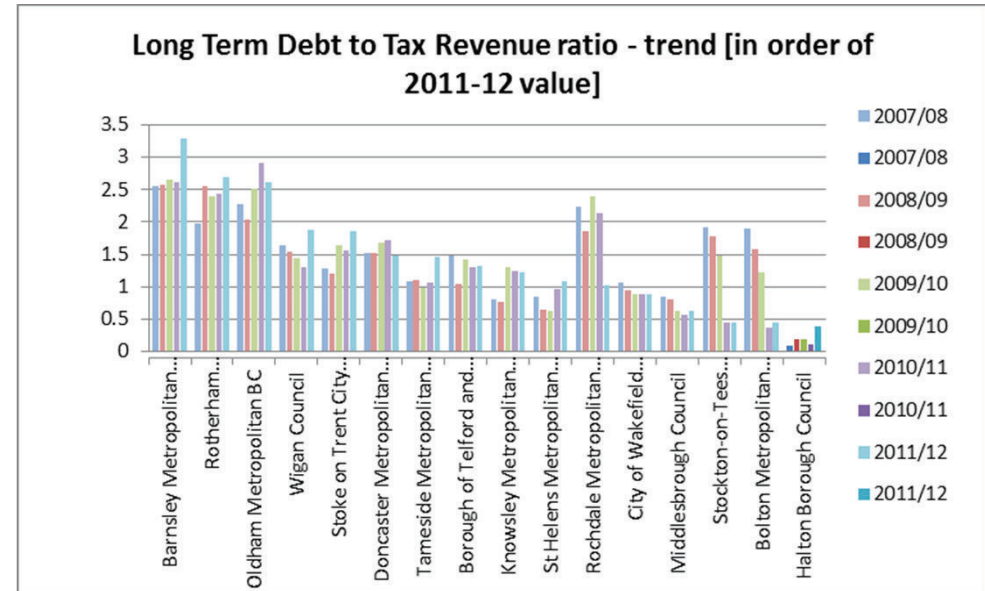
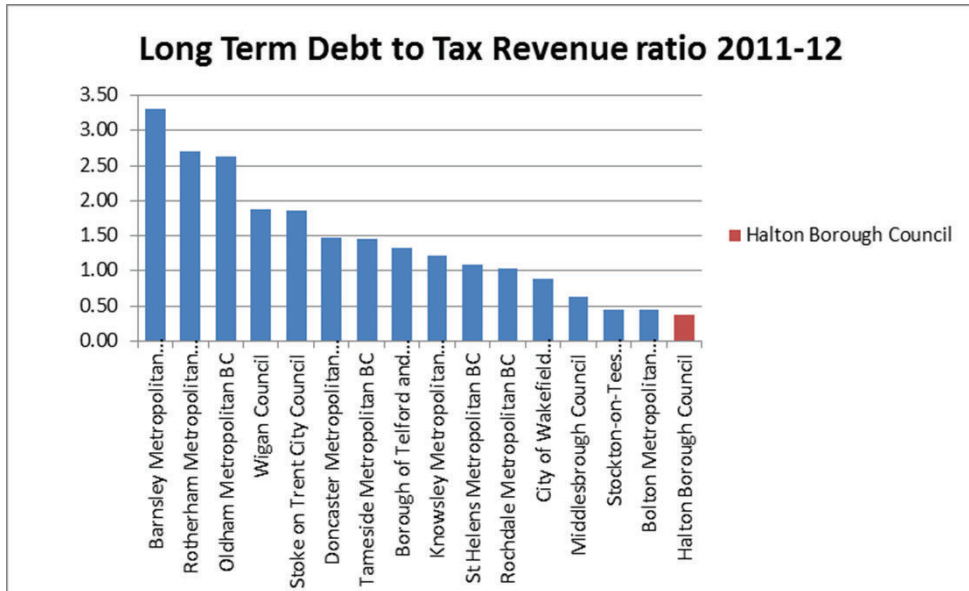
Long Term Borrowing to Tax Revenue – Benchmarked and Trend

Definition

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

Findings

Halton's 2011/12 ratio of 0.38 is the lowest in the comparator group and significantly less than the majority of its neighbours. It has also been consistently lower than the other authorities within its nearest neighbour group since 2007/08, evidence of the prudent approach to financial management adopted by the Council. The Council's ratio is likely to rise slightly in 2012/13 as the Council has taken new loans to finance its capital programme.



Key Indicators of Financial Performance

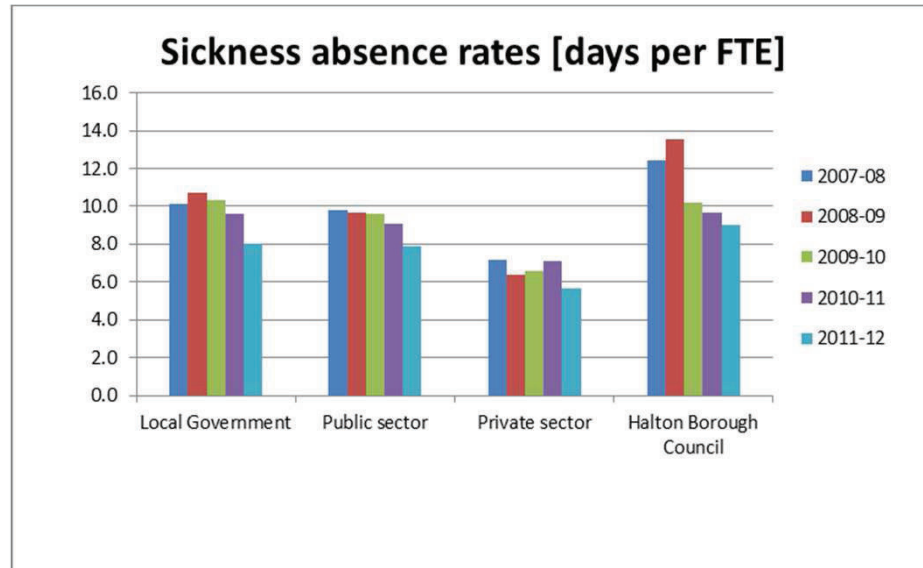
Sickness Absence Levels

Background

The 2011/12 average sickness absence level for the public sector is 7.9 days per FTE, whilst the private sector average is 5.7. Many councils have taken a proactive approach to reducing the number of days lost to sickness each year. For example:

- London Borough of Croydon reduced absence from 12.5 days to 6.4 days over two years due to a new tougher sickness absence management policy.
- Cambridgeshire County Council reduced sickness absence levels to 5 days per employee using an approach built on a relationship of trust with staff and empowering managers to take control of absence management.

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 be a particular challenge for all authorities during SR10, given the context of significant pressures on staff to deliver "more for less".



Source: Grant Thornton

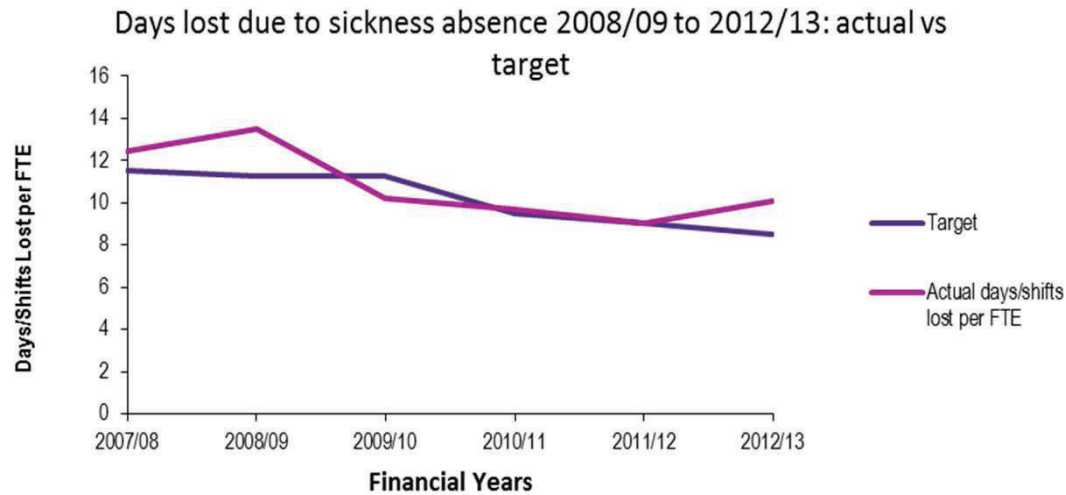
Findings

Halton's sickness absence levels have fallen year on year during the comparator period, from a high of 13.5 days per FTE in 2008/09 to 9.0 days per FTE in 2011/12. The 2011/12 rate met the Council's target for the year and followed a concerted effort to tackle sickness absence, including the introduction of a revised absence management policy in 2011. Despite this, Halton's rate of 9 days per FTE was higher than the 2011/12 average of 8 days for both local government and the public sector.

Although still higher than the local government average, the Council's trend until this year was one of reducing sickness absence levels. With the exception of 2010/11 and 2011/12, actual absence rates were higher than the Council's target.

Key Indicators of Financial Performance

Sickness Absence Levels – Halton BC



Source: Halton BC sickness absence reports

Findings

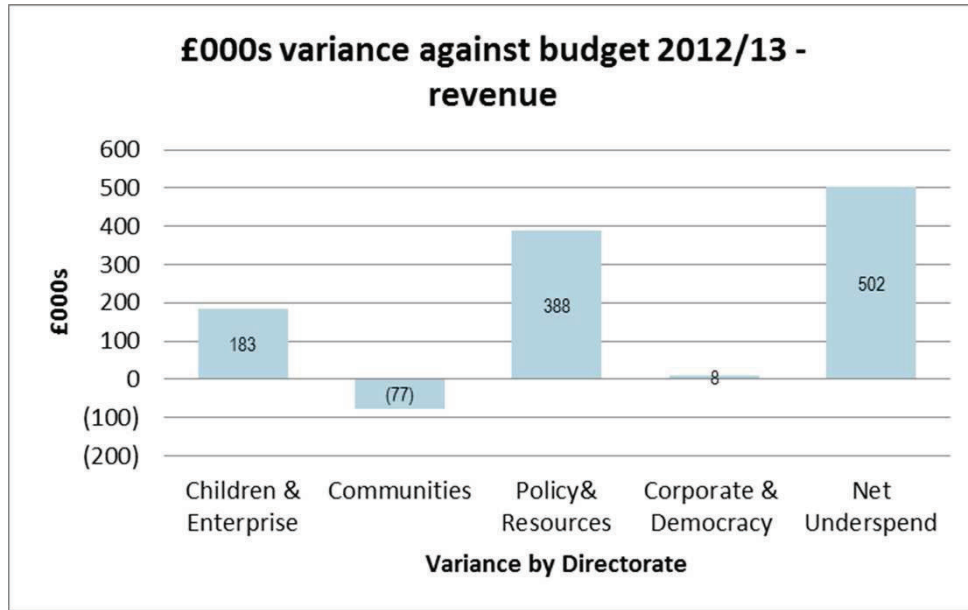
The Council's reported sickness absence level for 2012/13 is 10 days per FTE against a target of 8.5 days. Officers state there is no specific reason for the increase in 2012/13, although it has been noted that levels of personal stress have increased.

Sickness absence reports conclude that there is no particular explanation for the increase in sickness absence levels for 2012/13 (10 days per FTE). The Council is hoping that this is a blip and has set itself a challenging sickness absence target of 8 days per FTE for 2013/14..

Sickness absence levels have an appropriate profile with senior management and actions are agreed and minuted by the Management Team (MT). Given the significant organisational change that continues to take place, and the challenging target set for 2013/14, it will be important for MT to maintain a robust approach to managing and monitoring sickness absence.

Key Indicators of Financial Performance

Performance Against Budget: Revenue



Findings

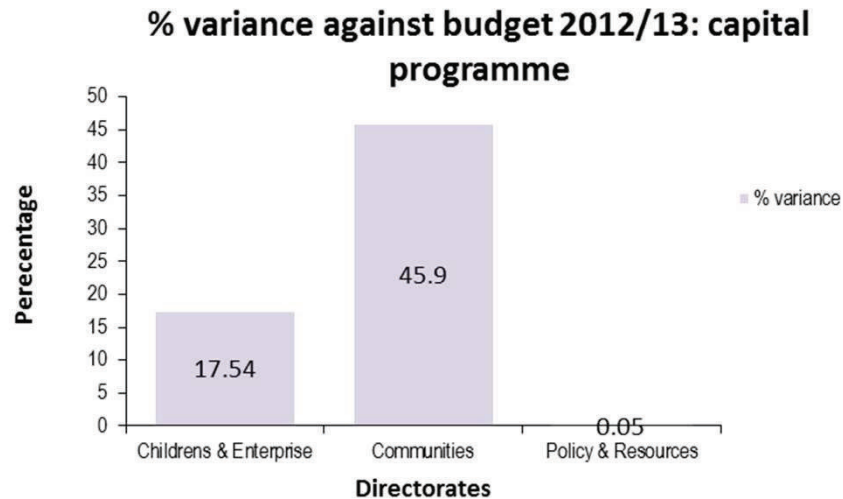
The revenue outturn position for 2012/13 was an underspend of £0.502. This follows on from budget underspends in each of the previous two years: £0.198m in 2011/12 and £0.192m in 2010/11.

In cash terms the directorate with the largest underspend in 2012/13 is Policy and Resources with an underspend of £0.388m (1.56%). Both the Communities and Children & Enterprise directorates overspent by £0.77m (0.1%) and £0.183m (0.5%) respectively. Communities has the largest budget and much of the overspend related to the community care budget (although much improved performance on previous year and 2012/13 half year forecast) and to reduced income from trade and bulky waste, general catering and bars and functions.

Source: Halton BC Outturn Report 2012/13

Key Indicators of Financial Performance

Performance Against Budget: Capital



Source: Halton BC Outturn Report 2012/13

Findings

The Council once again had a significant capital programme in 2012/13 totalling £57.817m. Actual capital spend totalled some £50.302m, an underspend of 13%. The most significant underspends were in Childrens & Enterprise (C&Y) and Communities (C), as follows:

- The Grange BSF PFI project £1.2m (C&Y)
- Castlefields regenerations £2.027m (C&Y)
- Bungalows at Halton Lodge £0.426m (C)
- Cremators at Widnes Crematorium £0.350m (C).

The Council includes planned slippage of 20% in its capital programme. For 2012/13 this meant the capital programme included slippage from 2011/12 of £13.936m and slippage into 2013/14 of just over £10m. Forecasts show that the Council has planned slippage of £2.051m (11%) in 2013/14 and £1.212m (17.5%) in 2014/15. Planned capital programmes in 2013/14 and 2014/15 are £18.828m and £6.900m respectively.

Key Indicators of Financial Performance

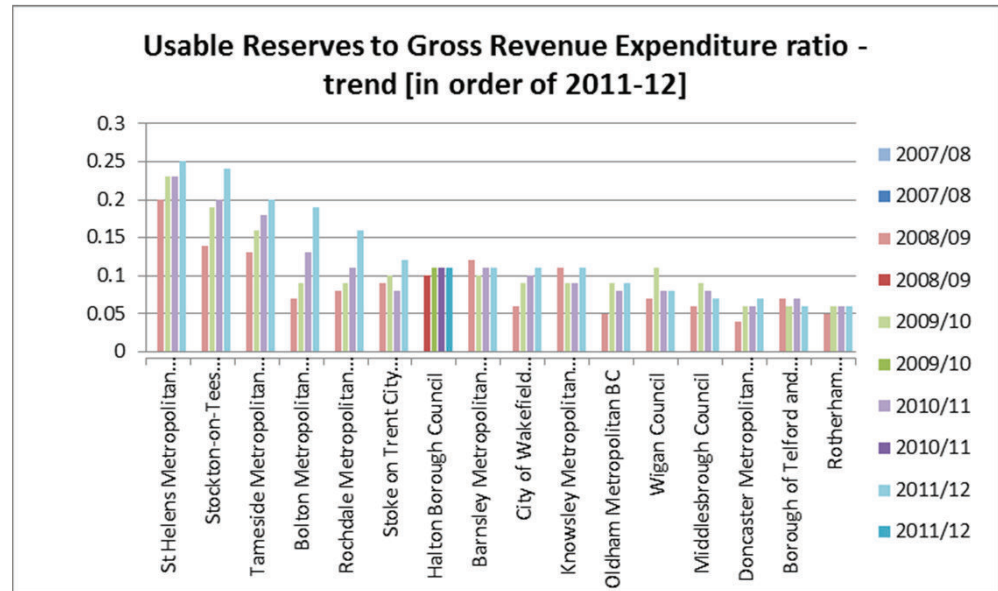
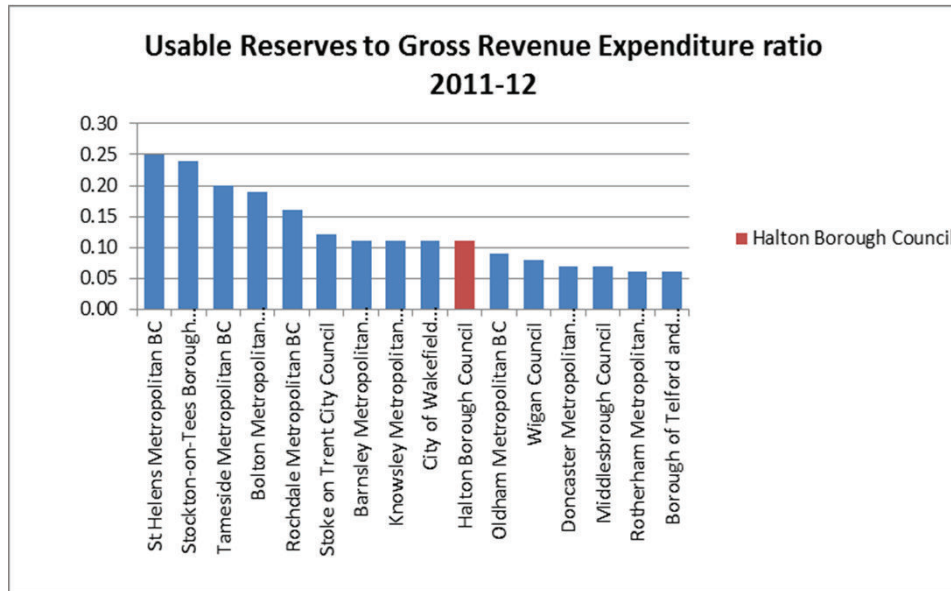
Usable Reserves – Benchmarked and Trend

Definition

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

Findings

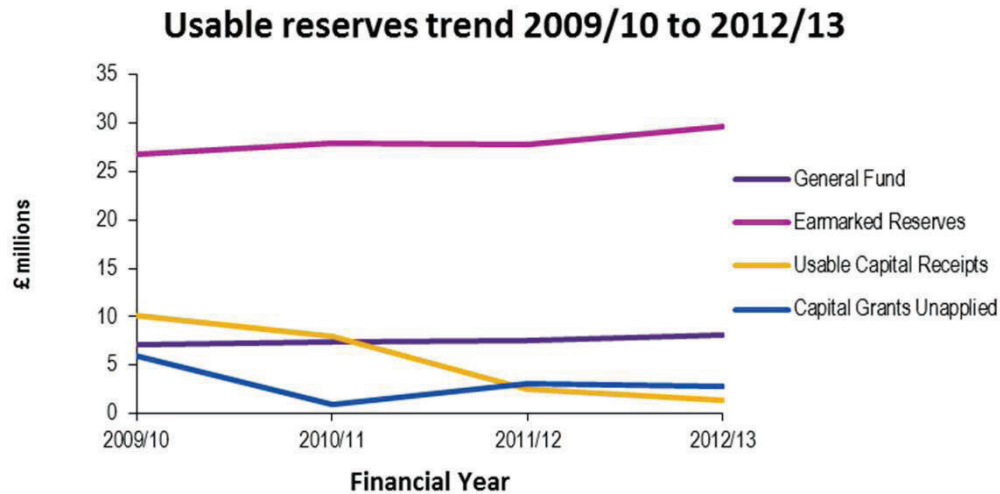
The Council's value of usable reserves (as a percentage of expenditure) for 2011/12 was 0.11, consistent with the previous year and showing little movement during the period 2007/08 to 2011/12. Ten of the Council's neighbours increased their usable reserves (as a percentage of expenditure) in 2011/12, with seven of them showing a year on year increase during the period 2007/08 to 2011/12.. Further analysis of Halton's position is set out on the following slides.



Source: Audit Commission's Technical Directory

Key Indicators of Financial Performance

Halton BC's Usable Reserves - Trend by Type (excluding school balances)



Source: Halton BC Financial Statements 2009/10 to 2012/13

Findings

Halton's usable reserves total £41.804m at 31 March 2013, some 11% of the Council's gross revenue expenditure for the year. Earmarked reserves of £29.597m and General Fund of £8.067m make up the major elements of this balance.

CIPFA's guidance on reserves is that the level should follow the S151 Officer's advice to the Council, which should be based on local circumstances.

Earmarked reserves have increased from £26.834m in 2009/10 to £29.597m in 2012/13. They total 48 in number (excluding school balances) and are in effect part of the General Fund. Unlike the General Fund balance, earmarked reserves are funds put aside by the Council for specific purposes. The major earmarked funds at 31/3/2013 relate to equal pay (£3.612m), the insurance fund (£4.222m) and the capital reserve (£1.954m). Other much smaller funds include the Open Spaces Rolling Programme of £215k to finance the open spaces strategy and Superfast Broadband of £65k to finance project related costs in 2013/14.

The General Fund balance (GF) has remained fairly constant between 2009/10 and 2012/13, rising by just under £1m over the 4 year period. The Council's 2013/14 treasury management strategy considers it prudent to maintain general balances at approximately 7% of the net revenue budget. At 31 March 2013 the General Fund balance of £8.067m amounts to just under 6% of the Council's net cost of services for the year (£141.566m) and 7% of the net budget requirement (£115.114m)

Key Indicators of Financial Performance

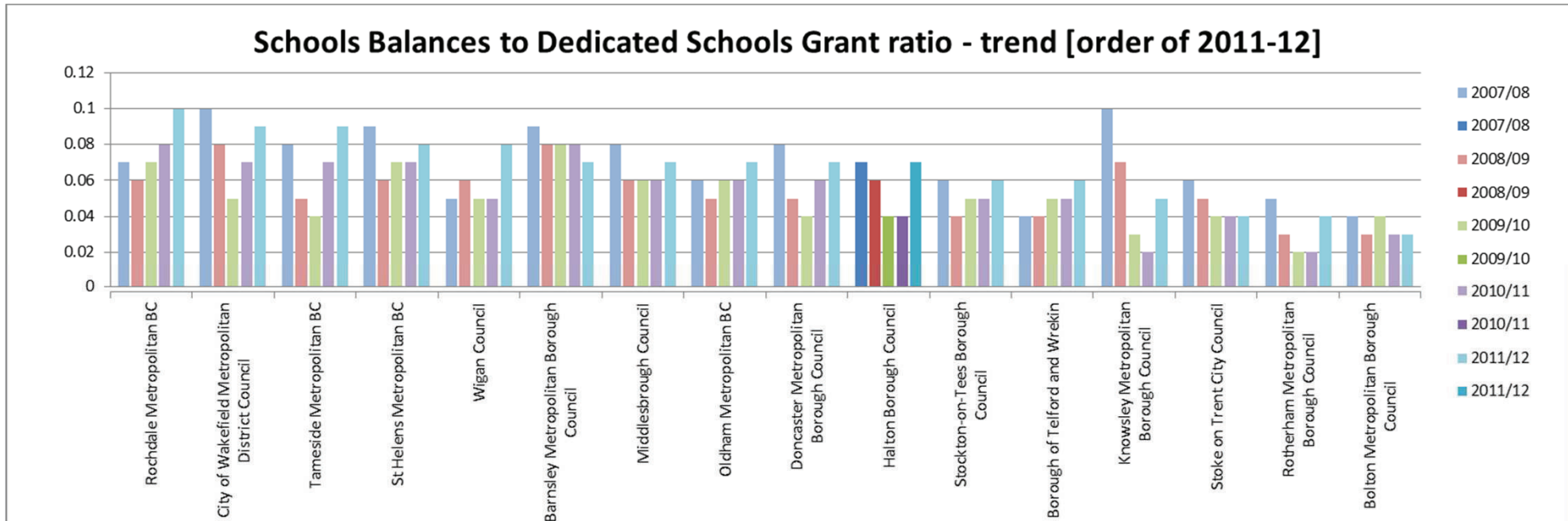
Schools Balances to Dedicated Schools Grant (DSG) - Trend

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

The Council has a school balances to DSG ratio in 2011/12 of 7%. The ratio has varied over the past 5 years from 7% in 2007/08 to 4% in 2009/10 and 2010/11. This variation with an increased ratio in 2011/12 is in line with the broad trend of the benchmark group. Halton's 2011/12 ratio of 7% is at the average for the nearest neighbours group with only six neighbouring authorities having a lower ratio. The lowest ratio for the group is Bolton MBC with 3%.





© 2013 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grant-thornton.co.uk

REPORT TO: Business Efficiency Board
DATE: 18 September 2013
REPORTING OFFICER: Operational Director, Finance
PORTFOLIO: Resources
SUBJECT: 2012/13 Grant Certification Work Plan
WARD(S): Borough-wide

1.0 PURPOSE OF REPORT

1.1 The purpose of this report is to update the Business Efficiency Board on the work the Council's External Auditor (Grant Thornton) will undertake on certification of claims for grant the Council has been in receipt of during 2012/13.

2.0 RECOMMENDED: That the grant certification work plan as per Appendix 1 is noted and approved by the Business Efficiency Board

3.0 BACKGROUND

3.1 Various grant paying bodies require external certification of claims for grant or subsidy and returns of financial information. The Audit Commission makes certification with grant paying bodies, Grant Thornton acting as the Council's external auditor undertake the grant certification work acting as an agent for the Audit Commission.

3.2 The level of work required for certification is dependent on value of the grant claims. For claims under £125k no certification is required, between £125k and £500k limited tests are required but anything over £500k a more detailed level of testing is required.

3.3 Appendix A to the grant certification work plan gives a summary to the expected claims & returns for the year ended 31st March 2013 as identified by the Council.

3.4 The indicative fee for the cost of works for expected claims & returns is £17,851. Where claims require amendment, are qualified, or staff resource and working papers are not available to support the certification, the cost may increase.

4.0 POLICY IMPLICATIONS

4.1 None.

5.0 OTHER IMPLICATIONS

5.1 None.

6.0 RISK ANALYSIS

6.1 There is a risk of clawback or withholding of funds if the grant claims or returns are not certified by the external auditor without qualification.



Grant certification work plan for Halton Borough Council

Year ended 31 March 2013

1 July 2013

Mike Thomas

Director

T 0161 214 6368

E mike.thomas@uk.gt.com

Colette Williams

Manager

T 0161 214 6360

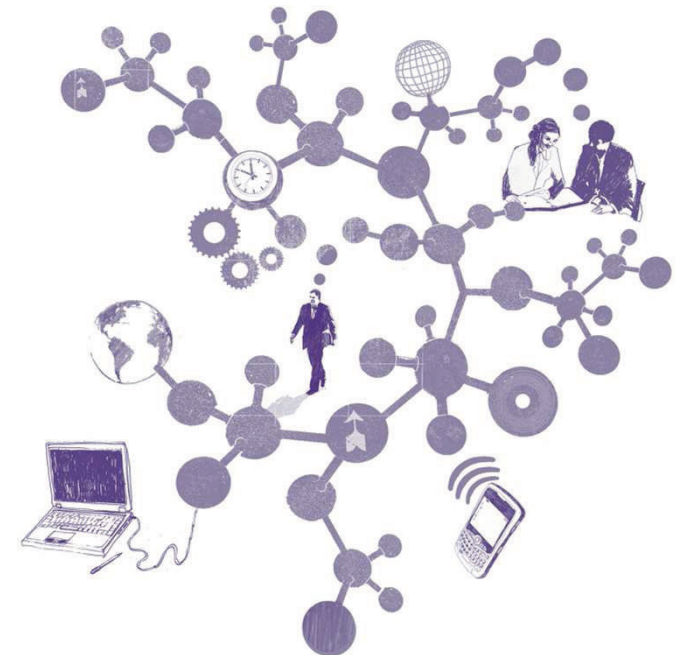
E colette.a.williams@uk.gt.com

Judith Smith

[Executive

T 0161 214 6371

E judith.smith@uk.gt.com



Contents

Section	Page
1. Our approach to grant certification work	3
Appendix A Summary of expected claims and returns for the year ended 31 March 2013	7

Our approach to grant certification work

Introduction

Various grant-paying bodies require external certification of claims for grant or subsidy and returns of financial information.

The Audit Commission makes certification arrangements with grant-paying bodies, including confirming which claims and returns require certification and issuing certification instructions. These instructions are tailored to each scheme and set out the specific procedures to be applied in examining the claim or return. The Audit Commission agrees the deadline for submission of each claim by authorities and the deadline for certification by auditors.

As the Council's appointed external auditor, we undertake grant certification work acting as an agent of the Audit Commission.

Certification arrangements

The Audit Commission's certification arrangements are designed to be proportionate to the claim or return. The arrangements for 2012/13 are:

- for claims and returns below £125,000, certification by us is not required, regardless of any statutory certification requirement or any certification requirement set out in grant terms and conditions
- for claims and returns above £125,000 and below £500,000, we are required to perform limited tests to agree entries on the claim or return to underlying records, but are not required to undertake any testing of the eligibility of expenditure or data
- for claims and returns over £500,000, we are required to assess the control environment for the preparation of the claim or return and decide whether or not to place reliance on it. Where reliance is placed on the control environment, we are required to undertake limited tests to agree entries on the claim or return to underlying records but not to undertake any testing of the eligibility of expenditure or data. Where reliance is not placed on the control environment, we are required to undertake all the tests in the relevant certification instruction and use our assessment of the control environment to inform decisions on the level of testing required.

In determining whether we place reliance on the control environment, we consider other work we have undertaken on the Council's financial ledger and any other relevant systems, and make appropriate use of relevant internal audit work where possible.

Role of all parties

The table below summarises the respective roles and responsibilities of the parties involved in the certification process.

Party	Role & responsibility
Grant paying body	Sets conditions of grant and deadline for submission for pre-certified and certified claims
Audit Commission	Issues certification instructions for auditor work
Council	Submits claims for certification to the Appointed Auditor within grant paying body submission deadlines
Appointed Auditor	Certifies claims in accordance with Audit Commission certification instructions and within certification deadlines

The Council's role is set out in more detail below:

- the Grants Co-ordinator is responsible for ensuring that supporting accounting records are sufficient to document the transactions for which claims are made. These records should be maintained in accordance with proper practices and kept up to date, including records of income and expenditure in relation to claims and returns
- the Council should ascertain the requirements of schemes at an early stage to allow those responsible for incurring eligible expenditure to assess whether it falls within the scheme rules and to advise those responsible for compiling claims and returns to confirm any entitlement
- the Council should ensure all deadlines for interim and final claims are met to avoid sanctions and penalties from grant paying bodies
- grant-paying bodies usually require the Council's certificate to be given by an appropriate senior officer. This is typically the Operational Director Finance or an officer authorised by written delegated powers
- the Council should monitor arrangements with any third parties involved in the certification process.

Claims history

The most significant claims and returns in 2011/12 were:

- housing and council tax benefit claim
- national non-domestic rates return
- teachers pension fund and
- local transport plan major projects (new for 2011/12).

Our certificate

Following our work on each claim or return, we issue our certificate. The wording of this depends on the level of work performed (as set out on page 3), stating either the claim or return is in accordance with the underlying records, or the claim or return is fairly stated and in accordance with the relevant terms and conditions. Our certificate also states that the claim has been certified:

- without qualification
- without qualification but with agreed amendments incorporated by the Council or
- with a qualification letter (with or without agreed amendments incorporated by the Council).

Where a claim is qualified because the Council has not complied with the strict requirements set out in the certification instruction, there is a risk that grant-paying bodies will retain funding claimed by the Council or claw back funding which has already been provided or has not been returned.

In addition, where claims or returns require amendment or are qualified, this increases the time taken to undertake this work, which may impact on the certification fee.

Certification work fees

The Audit Commission sets an indicative scale fee for grant claim certification based on 2010/11 actual certification fees for each Council. The indicative scale fee for the Council is £14,350. This fee is based on the following assumptions:

- there will be no change in the scope of our work due to the control environment in place during the year
- the Council provides adequate working papers to support each entry in the claim/return
- the Council's staff are available to deal with our queries in a timely manner and provide such explanations and supporting evidence necessary to support entries.

Where there is any significant variation from these assumptions, we will discuss a variation to the indicative scale fee with the Council and the Audit Commission. Already we know there are two grant claims which were not audited in 2010/11 and therefore are not included within the 2012/13 indicative fee. Both claims relate to local transport plan major projects – Silver Jubilee Bridge and Mersey Gateway. We anticipate the fee for both claims to be £3,501.

The Council has identified all claims and returns requiring certification and this information is incorporated into Appendix A to this plan.

Administration

When each expected claim or return is completed, a copy of the signed claim should be sent to Mike Thomas at the following address:

Grant Thornton UK LLP
Royal Liver Building
Liverpool
L3 1PS

- The **original** claims and returns should be retained by the Council.
- If additional claims and returns are identified by either us or the Council they will be incorporated into the appendix in this plan
- All claims and returns listed in appendix A should be sent to us, even if below the de minimis limit so that we can confirm that no certification is required. We are required to report the value of these claims to the Audit Commission in our annual certification report.

Managing the certification process – our role

- We intend to certify all claims and returns in accordance with the deadlines set by the Audit Commission. If we receive any claims after the Council's submission deadline, we will endeavour to certify them within the Audit Commission deadline but, where this is not possible, within three months from receipt
- A copy of each certified claim or return will be sent to the relevant named contact when the certification process is complete, along with a copy of the qualification letter, where applicable
- Copies of the certification instructions can be provided on request for any new claims or returns
- We expect to complete the certification of all claims by late 2013 and will issue a grant certification report highlighting any issues that need to be brought to the Council's attention.

Appendix A: Summary of expected claims & returns for the year ended 31 March 2013

Claim (CI reference)	Authority deadline	Certification deadline	Claim certified in prior year	Prior year outcome
Housing and council tax benefits scheme (BEN01)	30/04/13	30/11/13	Yes	Certified with minor amendment. to increase subsidy claimed by £662
Pooling of housing capital receipts (CFB06)	28/06/13	27/09/13	No	De-minimis – certification not required
National non-domestic rates return (LA01)	28/06/13	27/09/13	Yes	Certified with minor amendment – no effect on entitlement
Teachers' pensions return (PEN05)	28/06/13	29/11/13	Yes	Certified with minor amendment – no effect on entitlement
Local transport plan major projects (TRA11) – Silver Jubilee Bridge	30/09/13	31/12/13	Yes	Certified without amendment
Local transport plan major projects (TRA11) – Mersey Gateway	30/09/13	31/12/13	No	Not applicable



© 2013 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grant-thornton.co.uk

Document is Restricted

Document is Restricted

Document is Restricted

Document is Restricted

Document is Restricted

Document is Restricted

Document is Restricted

Document is Restricted

Document is Restricted

Document is Restricted

Document is Restricted

Document is Restricted

Document is Restricted

Document is Restricted

Document is Restricted

Document is Restricted

Document is Restricted

Document is Restricted

Document is Restricted

Document is Restricted