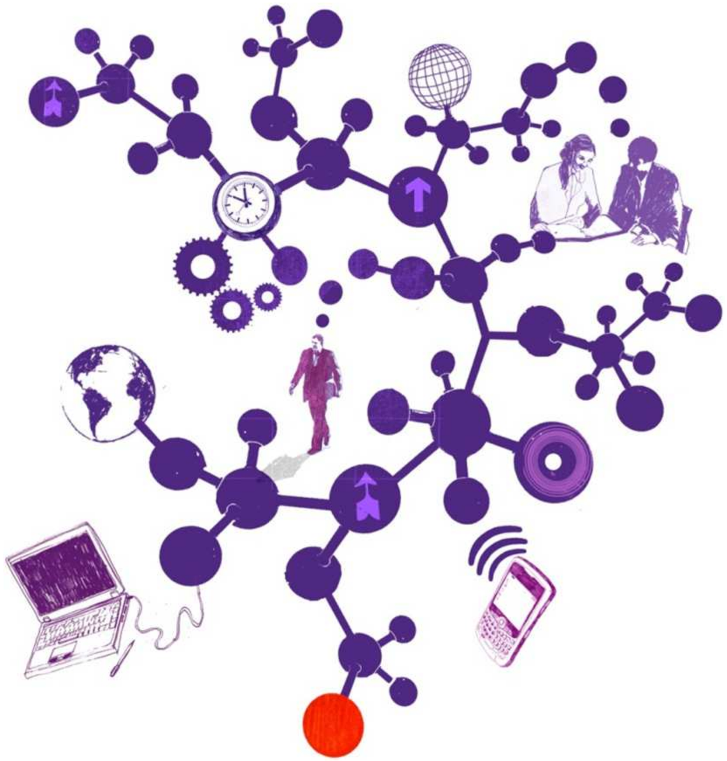
Review of Halton Borough Council's Arrangements for Securing Financial Resilience

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

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Our approach

Value for Money Conclusion

Our work supporting our Value for Money (VfM) conclusion, as part of the statutory external audit, includes a review to determine 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
Key Indicators of Performance	• 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.	Green

Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Strategic Financial Planning	• 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
Financial Governance	• 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.	Green
Financial Control	• 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.	Green

Executive Summary

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Key Indicators of Performance	• 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.
	• 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	• 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	• 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	• 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	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. The slippage in the Internal audit Plan will be risk assessed, to ensure the level of audit coverage remains appropriate.

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 tem 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)	• 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	• 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	• 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	• 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	• 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	• 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

Strategic Financial Planning

Key characteristics of good strategic financial planning

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

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

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Focus of the MTFP	• The Council'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	• 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	• The MTFS, 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 MTFS. The MTFS also includes links to other strategies such as balances and reserves and the efficiency strategy.	Green
Review processes	• 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	• The Council updated its MTFS 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 MTFS from three to four years. The extended MTFS 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 MTFS 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

Financial Governance

Key characteristics of effective financial governance

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

Understanding

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

Engagement

- There is engagement with stakeholders including budget consultations.

Monitoring and review

- There are comprehensive policies and procedures in place for Members, Officers and budget holders which clearly outline responsibilities.
- 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	• 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	• 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	• 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	• 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: - 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	• 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

Financial Control

Key characteristics of effective financial control

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

Budget setting and budget monitoring

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

Savings Plans

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

Financial Systems

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

Finance Department

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

Internal Control

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

Financial Control

Internal arrangements

Area of focus	Summary observations	Assessment
Budget setting and monitoring - revenue and capital	• The 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	• 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	• 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	• 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	• 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	• 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	• 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

Appendix - Key indicators of financial performance

Key Indicators of Financial Performance

Working Capital - Benchmarked

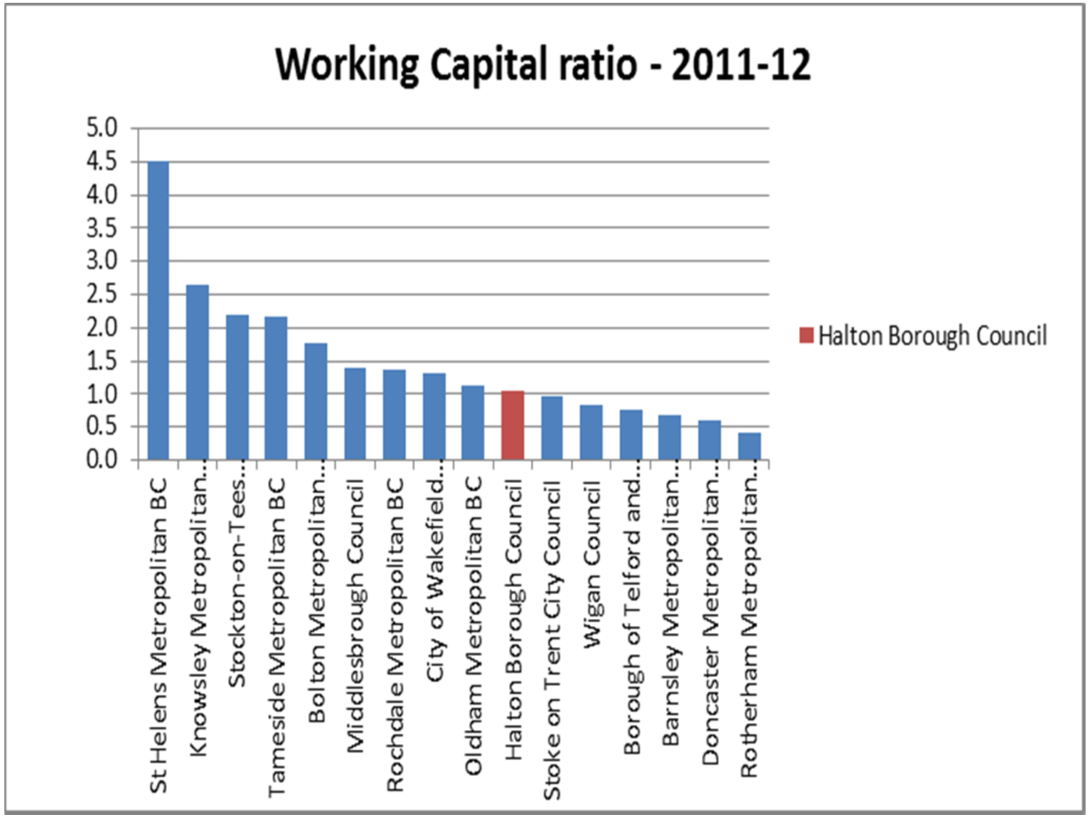
Definition

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.

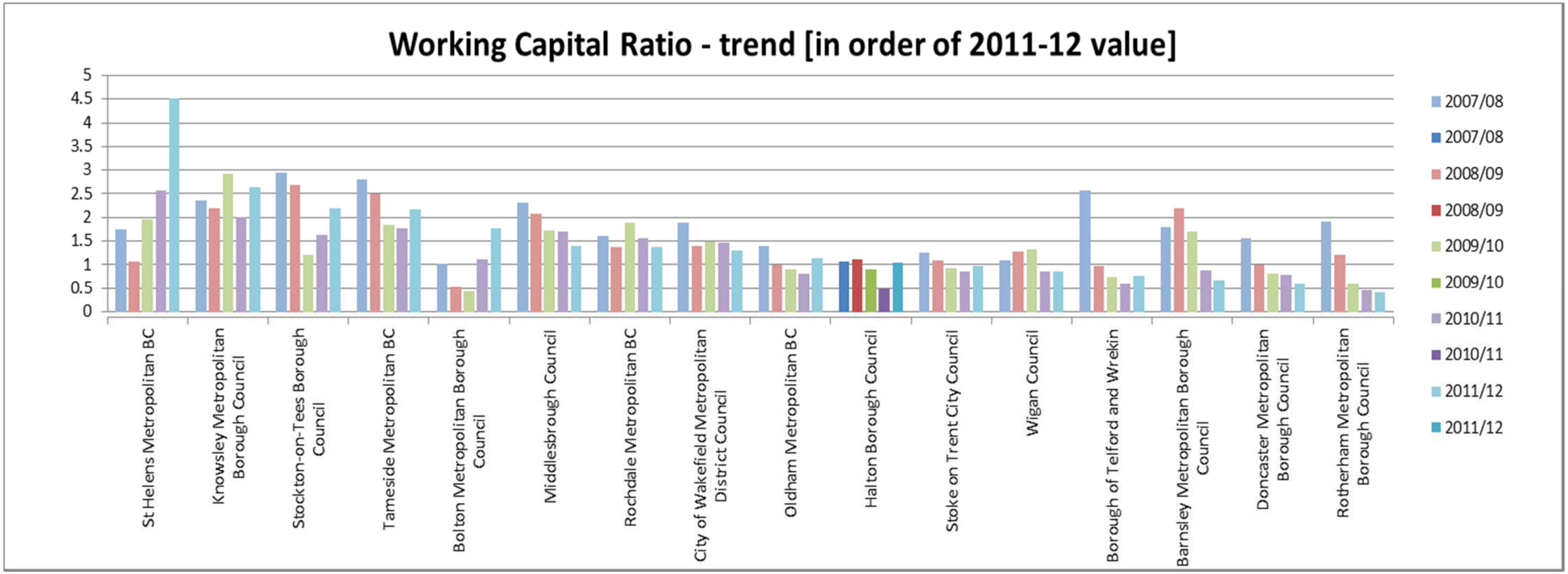
The Council's liquidity has hovered around 1 in previous years with the exception of 2009/10 and 2010/11 when it fell to 0.91 and 0.48. respectively. Many of the Council's neighbours show a variable performance on working capital ratio over the period 2007/08 to 2011/12, with 9 neighbours showing an 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

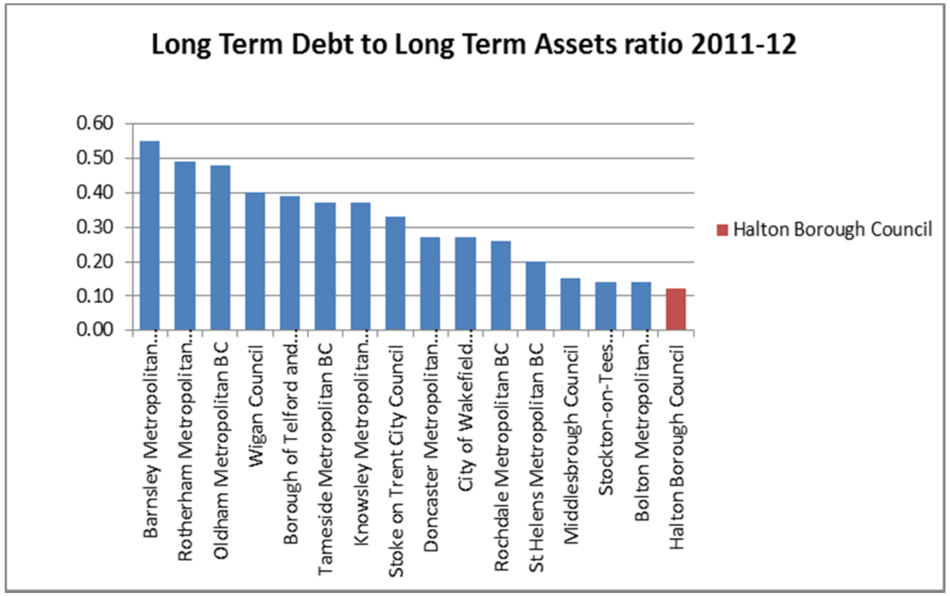
Long-term Borrowing to Long-term Assets – Benchmarked and Trend

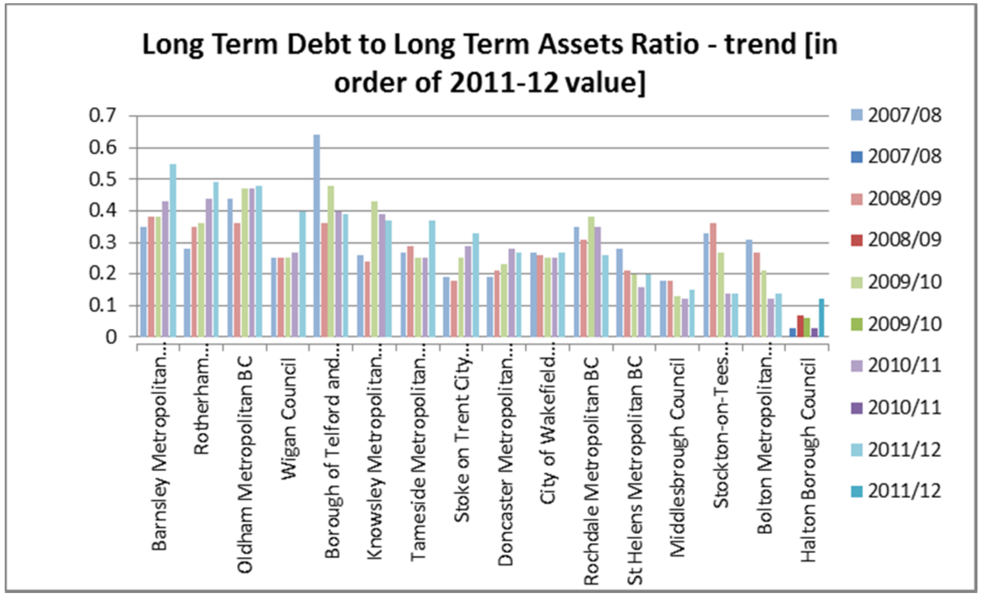
Definition

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

Findings

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.





Source: Audit Commission's Technical Directory

Key Indicators of Financial Performance

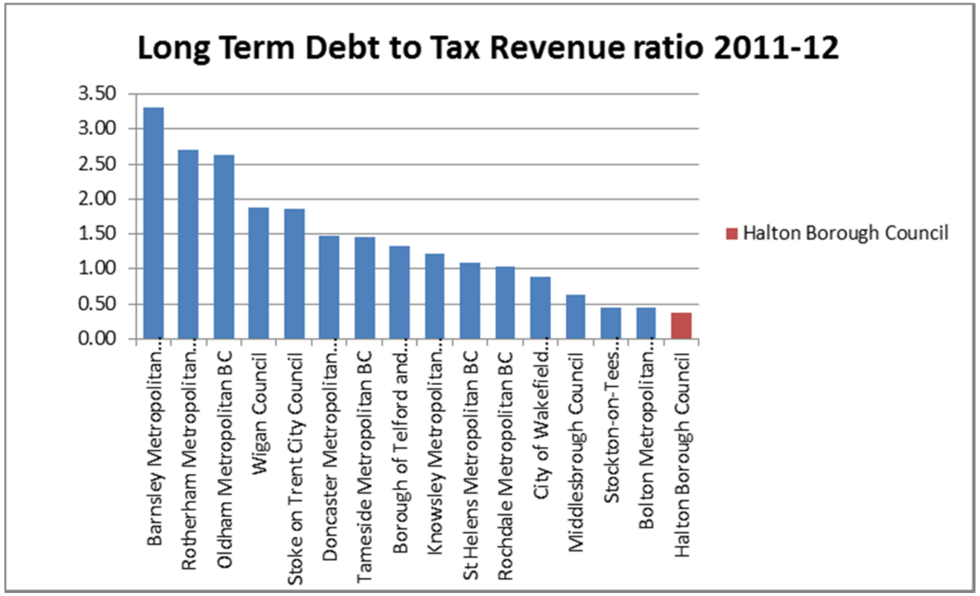
Long Term Borrowing to Tax Revenue – Benchmarked and Trend

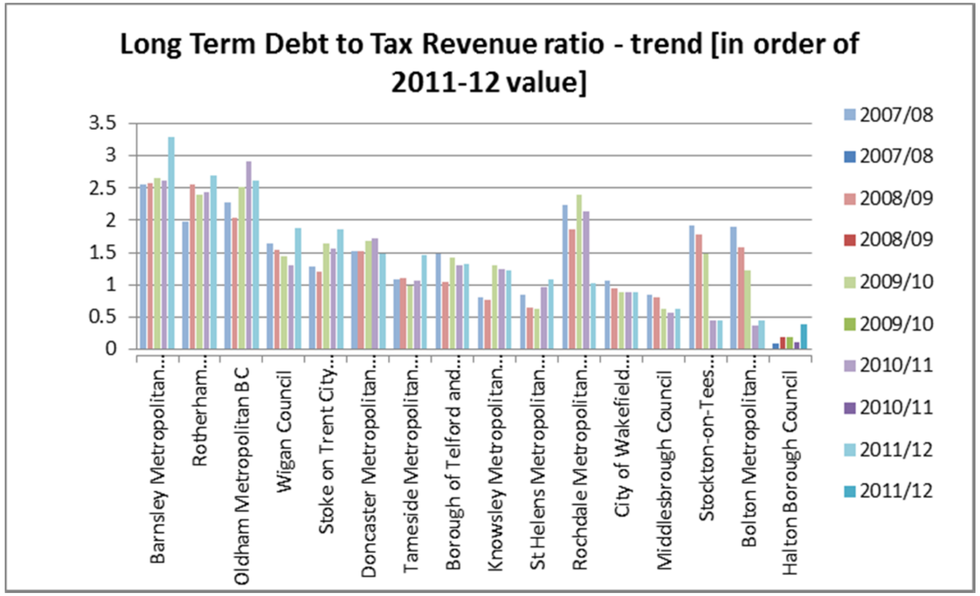
Definition

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

Findings

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.





Source: Audit Commission's Technical Directory

Key Indicators of Financial Performance

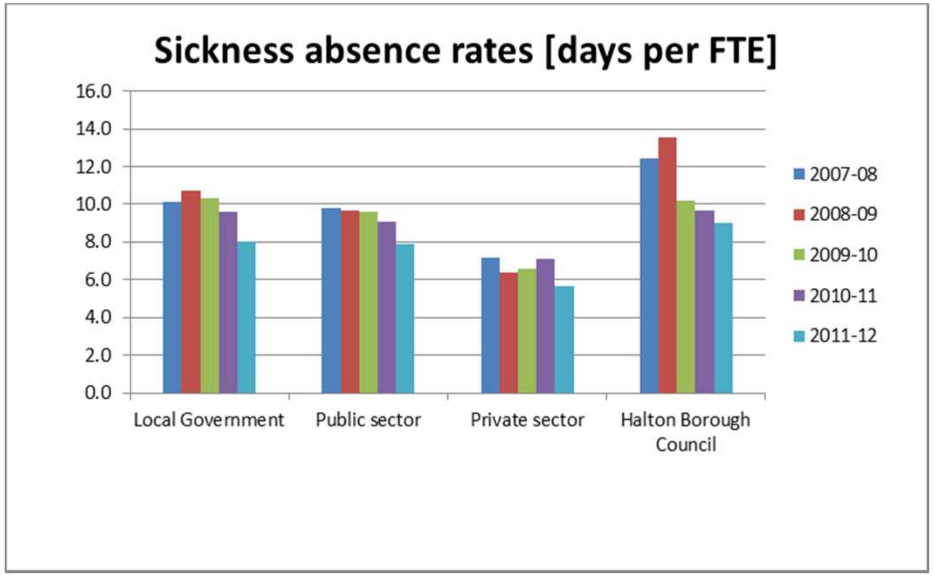
Sickness Absence Levels

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

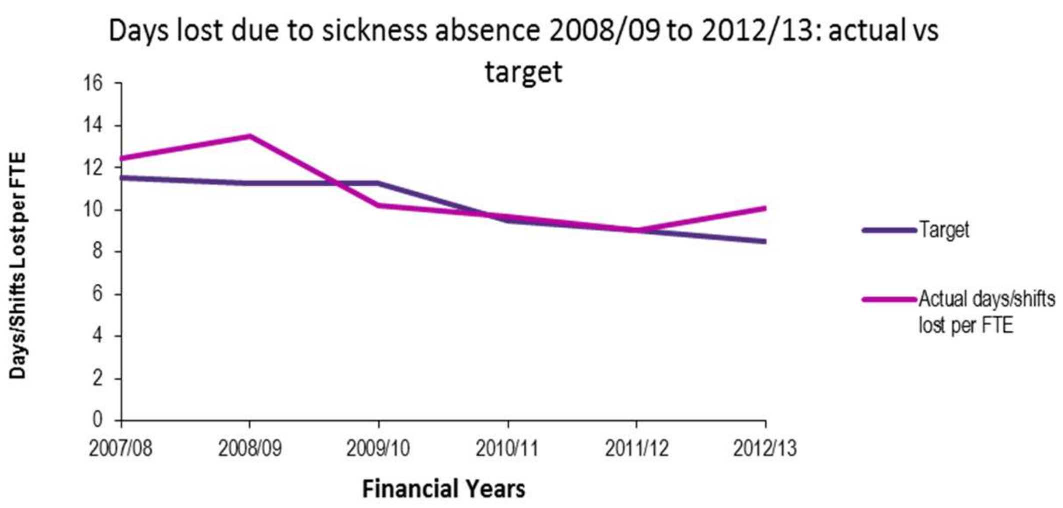
Findings

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 absences 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

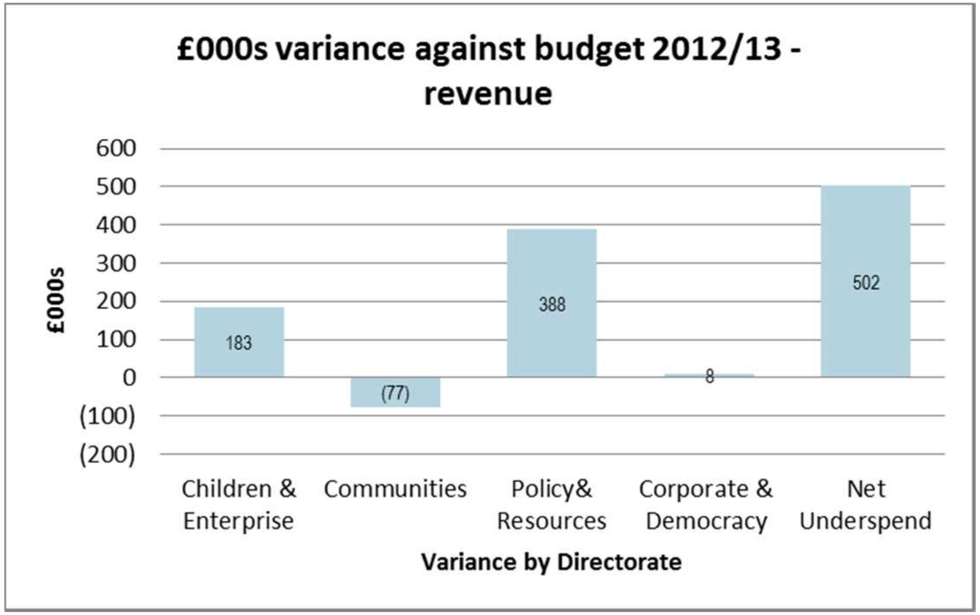
The Council's reported sickness absence level for 2012/13 is 10 days per FTE against a target of 8.5 days. Officers state there is no specific reason for the increase in 2012/13, although it has been noted that levels of personal stress have increased.

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



Source: Halton BC Outturn Report 2012/13

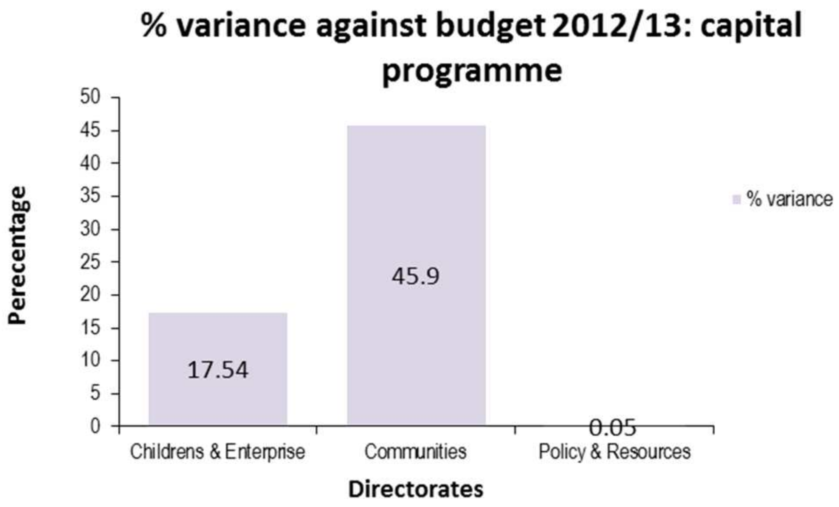
Findings

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.

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

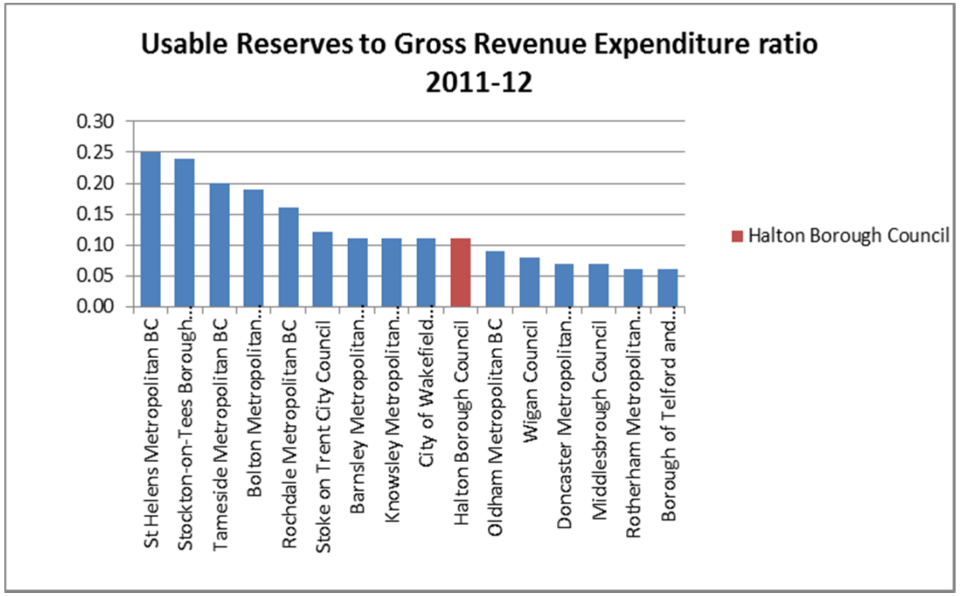
Usable Reserves – Benchmarked and Trend

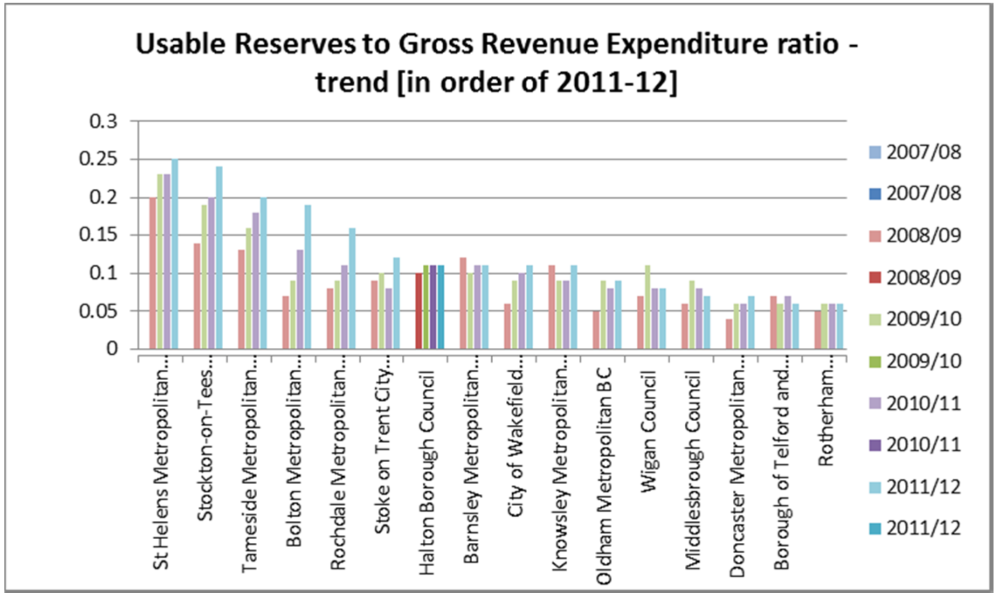
Definition

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.

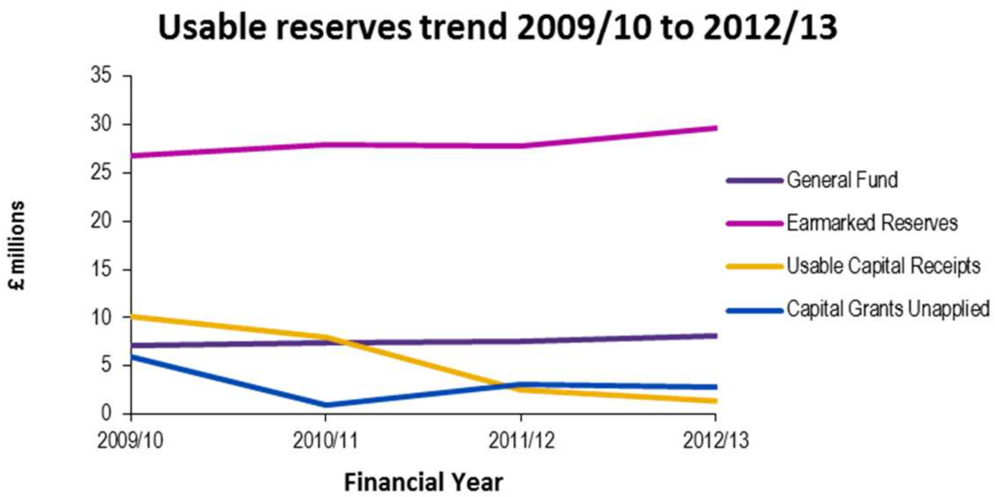




Source: Audit Commission's Technical Directory

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

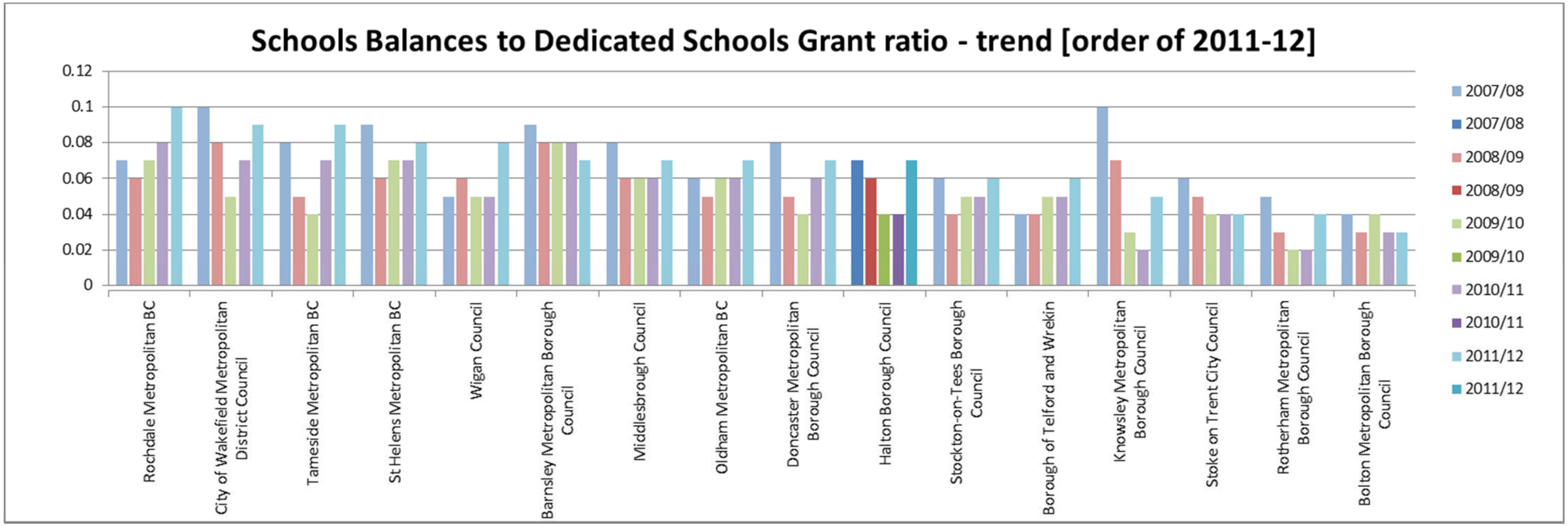
Schools Balances to Dedicated Schools Grant (DSG) - Trend

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%.



Source: Audit Commission's Technical Directory

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