

Calderdale Metropolitan Borough Council

Review of the Council's Arrangements for Securing Financial Resilience

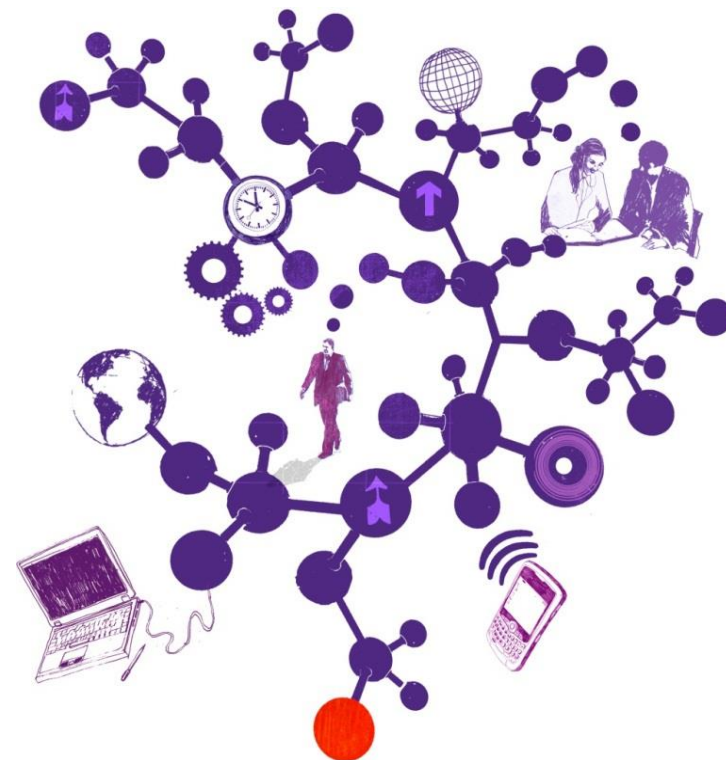
Year ended 31 March 2014

26 August 2014

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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 3**

2 Key Indicators **Page 9**

3 Strategic Financial Planning **Page 13**

4 Financial Governance **Page 15**

5 Financial Control **Page 17**

Appendix 1 - Key indicators of financial performance **Page 20**

Appendix 2 – Benchmarking Report for 2012/13 **Page 26**

1 Executive Summary

2 Key Indicators

3 Strategic Financial Planning

4 Financial Governance

5 Financial Control

Appendix 1 - Key indicators of financial performance

Appendix 2 - Benchmarking report for 2012/13

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 if 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:

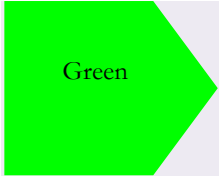
- Key indicators of financial performance;
- Its approach to strategic financial planning;
- Its approach to financial governance; and
- Its approach to financial control.

Further detail on each of these areas is provided in the sections of the report that follow. Our overall conclusion is that whilst the Council faces challenges, particularly from 2015/16 onwards, its current arrangement for securing financial resilience are rated



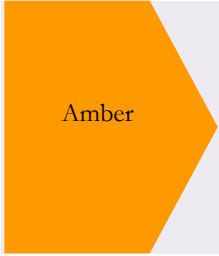
Green

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



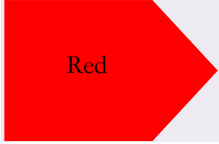
Green

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 2010 spending review (SR10) to Parliament on 20 October 2010. This formed a central part of the coalition government's response to reducing the national deficit, with the intention to bring public finances into balance during 2014/15.

The savings introduced in the four-year SR10 period – from 2011/12 to 2014/15 – represent the largest reduction in public spending since the 1920s. Revenue funding to local government is to reduce in real terms by 28% by 2014/15, excluding schools, fire and police, with local government facing some of the largest reductions in the public sector. In addition, local government funding reductions were partially front-loaded, with 8% cash reductions in 2011/12. These reductions followed a period of sustained growth in local government spending, as it increased by 45% between 1997 and 2007.

The Chancellor has subsequently announced that public finances will not be brought back into balance during the lifetime of the current Parliament. The next spending round period (2015/16) was announced on 26 June 2013 (SR13). Local government will face a further 10% funding reduction. Financial austerity is expected to continue until at least 2017. The funding reductions come at a time when demographic changes and recession-based economic pressures are increasing demand for some services. For example, demand for social care, and debt, housing and benefits advice is rising. Meanwhile, demand for some paid-for services, such as planning and car parking, is reducing. At the same time, local authorities continue to manage the implications of the government's policy agendas – such as those relating to localism and open public services – that should see a significant shift in the way public services are provided. This includes partnership working with other public bodies, such as the NHS.

Local Context

Calderdale is one of five metropolitan Councils in the West Yorkshire Region. It has a population of 204,200 where some 19.6% are aged under 15 and 19% over 65.

Calderdale is also more ethnically diverse than many authorities with 10% of its population from ethnic minority communities.

Calderdale is ranked as 80th of all local authorities in the 2010 Index of Multiple Deprivation, compared to 71st in 2007.

Since the announcement of the 2010 Spending Review the Council has been required to save some £55m from its budgets. The Council's Medium Term Financial Strategy sets out the further savings required as £12.6m in 2014/15, and a further £20m over the two year period 2015/16 and 2016/17.

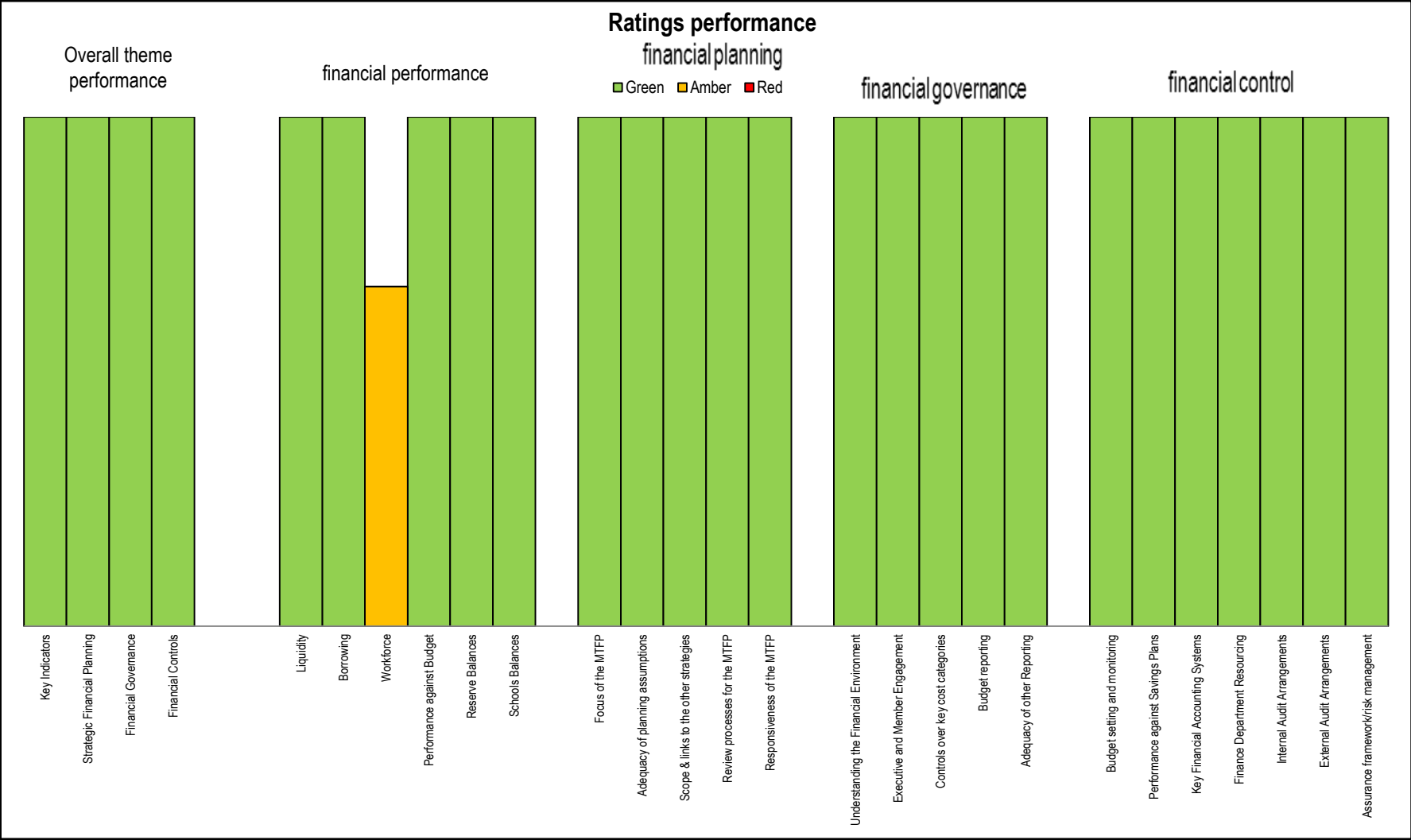
The Council achieved its 2013/14 savings plan and delivered an underspend against the final budgets of £2.2m.

The Council spends slightly above average per head of population (2012/13 information), with a net spend of £1,830.18 per head compared with an average of £1,792.57

Executive Summary

Overview of Arrangements

Our review covered four themes: financial performance (against key indicators); financial planning, financial governance and financial control. The Council is performing well overall against all four themes,



Executive Summary

Overview of Arrangements

Risk area	Summary observations
Key Indicators of Performance	Review against key performance indicators show that the Council is in a stable position. • Our review of indicators of liquidity, borrowing, reserves balances and schools balances all rated the Council as green • Our review of sickness absence rated the Council as amber.
Strategic Financial Planning	• The Council has agreed a budget plan for 2014/15 and incorporated the revisions arising from the latest local government settlement with the need to deliver £12.6m of savings • The Medium Term Financial Strategy (MTFS) has identified a requirement for £20m of savings over the two year period 2015/16 to 2016/17. • MTFS clarifies that the Council will have to significantly transform its business and organisational arrangements over the next two financial years (2015/16 and 2016/17)
Financial Governance	• The Council has effective governance arrangements in place. Through the business planning and budget setting process, the Council's financial environment and financial performance is understood at all levels of the organisation. Members are actively engaged in the process. • Clear and comprehensive reporting is undertaken at all levels and the Council has a good track record of delivering performance in line with budgets. • The information provided to members is complete, accurate and reliable. Members are able to challenge senior officers and ensure progress has been made against recommendations.
Financial Control	• The Council has good financial controls overall, and an effective assurance framework. • Finance staff are experienced and appropriately qualified • The Council uses its financial systems effectively for financial reporting • The Council achieved a positive outturn of £2.2m against its revenue budget in 2013-14 • The Council has an effective internal audit service, which makes a positive contribution in ensuring that sound financial systems • Internal Audit have reviewed all of the key financial systems in 2013-14

1 Executive Summary

2 Key Indicators

3 Strategic Financial Planning

4 Financial Governance

5 Financial Control

Appendix 1 - Key indicators of financial performance

Appendix 2 - Benchmarking report for 2012/13

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
- Long term borrowing to tax revenue
- Long term borrowing to long term assets
- Useable Reserves: Gross Revenue Expenditure
- Schools Reserves - Balances to DSG allocations

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

- Bolton Metropolitan Borough Council
- Borough of Telford and Wrekin
- Bury Metropolitan Borough Council
- Darlington Borough Council
- Derby City Council
- Dudley Metropolitan Borough Council
- Kirklees Metropolitan Council
- Medway Council
- Rochdale Metropolitan Borough Council
- Rotherham Metropolitan Borough Council
- Swindon Borough Council
- St Helens Metropolitan Borough Council
- Stockton-on-Tees Borough Council
- Tameside Metropolitan Borough Council
- Warrington Borough Council

Key Indicators

Overview of performance

Area of focus	Summary observations
Liquidity	• The working capital ratio indicates whether a council has enough current assets to cover its immediate liabilities. The Council's working capital ratio was 2.00 at 31 March 2014 (1.90 at 31 March 2013). • Comparative information on liquidity from the Council's statistical nearest neighbours (up to 2012/13) shows Calderdale to be the fifth highest in terms of liquidity. At 31 March 2014 the Council held £11m in cash balances. • Overall this shows the Council has sufficient liquid resources to meet its requirements.
Borrowing	• The Council's borrowing and Long Term Liabilities (including PFI) was £154.1m in 12/13 and £145.9m in 13/14 with the amounts due in 12 months being £7.9m and £6.8m respectively • Long term borrowing as a proportion of tax revenue was 0.93 in 2012-13, placing it the 4th lowest in comparison with its statistical nearest neighbours. This low percentage represents good practice. • Long term borrowing as a proportion of long term assets was 0.26 in 2012-13 the 7th lowest. • This shows the Council is performing well with long term borrowing remaining considerably less than long term assets
Workforce	• Average sickness days (per full time equivalent) in 2012/13 were 8.92 and above the council's target of 8 days. • Calderdale has previously had comparatively low levels of sickness absence compared to its peers. However, the rates have remained static for a number of years and the Council's rates are now slightly above the average for local government bodies. • The Council needs to closely monitor sickness absence at a sufficiently detailed level to identify outliers, and take appropriate action.
Performance Against Budgets: revenue & capital	• The Council's 2013/14 showed an underspend of £2.2m against its final budget. The Council has a previous good track record in achieving the budget and managing financial performance. • Capital spending in 2013/14 totalled £24.7m in line with its capital programme.

Key Indicators

Overview of performance

Area of focus	Summary observations
Reserve Balances	• Total Usable Reserves at 31 March 2014 were £95.2m – an increase of £2.3m over the previous year. Within these, the General Fund Reserve balance increased by £2m to £10.5m, and Earmarked General Fund Reserves increased by £4.9m £57.2m. The Council is clearly mindful of the fact that it needs to keep the level of reserves under review as it continues to face risks of financial pressures from further reductions in government funding in future years. • When compared to the Audit Commission nearest neighbour benchmark group, the Council was average in terms of balances held compared to gross revenue expenditure at the 2012-13 year end.
Schools Balances	The Audit Commission profiles guidance accepts that there will be some unspent Direct Schools Grant at each year end which will be transferred to reserves but expects councils to ensure that the funding is spent on the current cohort wherever possible. The latest available data published by the Audit Commission, for 2012-13, shows that the Council has comparable reserves to its statistical nearest neighbour benchmark group in relation to year end balances held. The School Reserves level at 31 March 2014 has remained broadly the same as the previous year at £6.4m (£6.9m in 2012/13). This remains at an acceptable level and provides evidence that funds are being spent on the education of the current cohort of pupils and not held in reserves for significant future projects.

1 Executive Summary

2 Key Indicators

3 Strategic Financial Planning

4 Financial Governance

5 Financial Control

Appendix 1 - Key indicators of financial performance

Appendix 2 - Benchmarking report for 2012/13

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations
Focus of the MTFS	- The Council's revenue budget for 2013/14 was set as part of a detailed 2 year plan covering 2013/14 - 2014/15 and as part of an MTFS to 2016/17 - A key component of the MTFS is the projection of the level of General Fund balances needed going forward and the Council has already determined as part of the MTFS the level of balances should be retained to meet future pressures.
Adequacy of planning assumptions	- The Council has a good track record of achieving its budget and its cost savings requirements. For 2014-17, the Council is working on assumptions and planning to achieve additional savings of £32.6m over the 3 year period. - The Council's focus remains on a MTFS which is regularly revisited in terms of assumptions as new information becomes available - The Council's previous predictions on Local Government Settlements have been reasonably accurate.
Scope of the MTFS and links to annual planning	- The Council has produced a detailed two year plan for 24 months covering 2014/15 and 2015/16 - MTFS is always three years and this is updated on an annual basis. There are strong links to annual planning, as the budget for the next year is updated and adopted by the Council during each three year MTFS refresh
Review Process	- The MTFS is constantly being reviewed in light of new data, and the impact particularly on the detailed 2 year plan - The December 2013 Provisional Local Government Funding Settlement enabled the Council to confirm that the funding allocations were in line with their own estimates.
Responsiveness of the Plan	- The Council has a good track record of delivering financial performance in line with budget and achieving required savings. - Through revenue budget monitoring, and reporting to the Cabinet, Scrutiny Panels, and full Council, the Council is able to monitor the performance of services against budgets and respond to significant cost pressures and issues identified. - The Council is clearly mindful of key risks to the MTFS being the reduction in Central Government funding, delivery of the transformational change and associated efficiencies

1 Executive Summary

2 Key Indicators

3 Strategic Financial Planning

4 Financial Governance

5 Financial Control

Appendix 1 - Key indicators of financial performance

Appendix 2 - Benchmarking report for 2012/13

Financial Governance

Understanding and engagement

Area of focus	Summary observations
Understanding the Financial Environment	The Council has a good understanding of its financial environment at all levels. Through Financial Review Groups, performance against budgets and cost savings are reviewed on a quarterly basis and these are reported to DMTs. Revenue budget monitoring reports are taken to Cabinet regularly throughout the year, including a response to any performance issues identified by the Financial Review Groups and actions to address issues. Financial Review Groups include members and key officers. They ensure that the Council is well informed on the financial environment it is working in.
Executive and Member Engagement	- There is full engagement by Members throughout the business planning and budget setting process. - Cross-party Budget Review Groups are led by the relevant portfolio holder member. The budget review process includes the Leader of the Council, members and the Head of Finance. Cross party budget review groups receive reports during the budget process on the overall financial position and forecasts, and receive information from directorates. This allows the Cabinet and other political groups to develop budget proposals for the coming years. - Financial Review Groups meet quarterly and review budget performance in year. - Regular revenue budget monitoring is reported to Members through the Cabinet and Scrutiny Panels, in addition to quarterly Financial Review Group meetings and reports to DMT
Overview for controls over key cost categories	- In year forecasting remains good. Variances to budget are identified in a timely way and clearly and promptly reported. The level of variances has reduced over recent years reflecting improved financial management. - Progress against savings plans are reported to the Scrutiny Committee throughout the year. These reports consider the savings delivered and any potential issues or risks in achieving the overall savings and provide an effective monitoring process. - Financial Review Groups review performance quarterly, including the achievement of savings, and this is reported to DMTs. - Revenue budget monitoring is reported to the Cabinet and Scrutiny Panels throughout the year and provides members with performance information regarding the delivery of savings and actions required going forward.
Budget reporting: revenue and capital	- Budget reporting is comprehensive for both Revenue reporting and Capital programme reporting. - Revenue monitoring reports to Cabinet compare results against plan and compare against revised budget. Mitigations for any issues identified are reported within these reports.
Adequacy of other Committee/Cabinet Reporting	- Revenue budget monitoring is reported to the Cabinet and Scrutiny Panels throughout the year, and facilitates a good level of challenge, including reviewing any potential impact on service performance. - The Budget setting process in February 2014 demonstrated the significant input members have in challenging the budget setting process.

1 Executive Summary

2 Key Indicators

3 Strategic Financial Planning

4 Financial Governance

5 Financial Control

Appendix 1 - Key indicators of financial performance

Appendix 2 – Benchmarking Report for 2012/13

Financial Control

Internal arrangements

Area of focus	Summary observations
Budget setting and monitoring - revenue and capital	• The Council has a robust business planning and budget setting process. This takes into account views of stakeholders and includes rigorous review by Members prior to approval by the Cabinet. • The Council manages budgets well and this is evidenced by a good track record in achieving the overall budget set and mitigating any overspends identified in year. • Financial performance is reviewed by Financial Review Groups every quarter, with quarterly reporting to DMT and revenue budget monitoring reports to Cabinet and Scrutiny Panels regularly throughout the year. • Through the business planning process, the Council has a good understanding of its costs and performance and considers different ways of achieving savings through service redesign and activity monitoring to identify areas where services can be provided more effectively and efficiently.
Performance against Savings Plans	• The Council has a good track record of achieving savings targets and meeting its budget. • The Cabinet is updated on the progress against the savings plan. The Council's Medium Term Financial Strategy is kept under continuous review, recognised in its adjustments to its planning for 2014-2017 following receipt of the provisional Local Government Finance settlement in December 2013.
Key Financial Accounting Systems	• The Council has generally sound financial systems to deliver effective financial reporting. • The Council has a good track record of producing its annual accounts, with generally few amendments required to the accounts. Accounts are derived from information produced from the financial ledger and can be readily reconciled. • Weaknesses identified within individual subsystems are reviewed and addressed through additional follow up checks by internal audit.

Financial Control

Internal and external assurances

Area of focus	Summary observations
Finance Department Resourcing	• The Council has sufficiently experienced managers and staff within the Finance Department to enable the prompt production of the financial statements for audit (for 2013/14 financial statements) and facilitate early delivery of the audit opinion. • Staffing is sufficient to enable prompt production of monthly finance reports
Internal audit arrangements	• The Council has an effective in-house internal audit function which fully complies with CIPFA standards. • Internal Audit plans are approved by the Audit Committee annually. Action plans are followed up and monitored through reporting to Audit Committee regularly, and robust challenge is provided by members of the committee. • Internal audit provide reports on their reviews of the Council' financial systems,
External audit arrangements	• Grant Thornton UK LLP have been the Council's external auditors for a number of years under the existing framework contract with the Audit Commission.. • Good professional relationships exist between the external audit team and the Council's Senior Officers, and regular open and candid discussions take place. • There are no significant issues relating to financial control included in the Audit Finding Report issued in September 2014 and no formal reporting actions have needed to be taken by external audit .
Assurance framework/risk management	• The Council maintains an up to date Risk Management Strategy and Corporate Risk Register, with individual Risk Registers maintained at each Directorate and integrated with the Corporate Risk Register, which is monitored by the Audit Committee • The 2013/14 Annual Governance Statement (AGS) reflects fairly the overall assurance framework in place and is produced in line with requirements from CIPFA/SOLACE "Delivering Good Governance in Local Government Framework". • The risk register and AGS identify the significant risks, in particular the Direction Notice issued by the secretary of State in light of Ofsted's previous reports into Children's Social Care. The Council's response is through its 'Single Integrated Improvement Plan for Safeguarding Services and through the Calderdale Children's Social Care Improvement Board.

1 Executive Summary

2 Key Indicators

3 Strategic Financial Planning

4 Financial Governance

5 Financial Control

Appendix 1 - Key indicators of financial performance

Appendix 2 - Benchmarking report for 2012/13

Key Indicators of Financial Performance

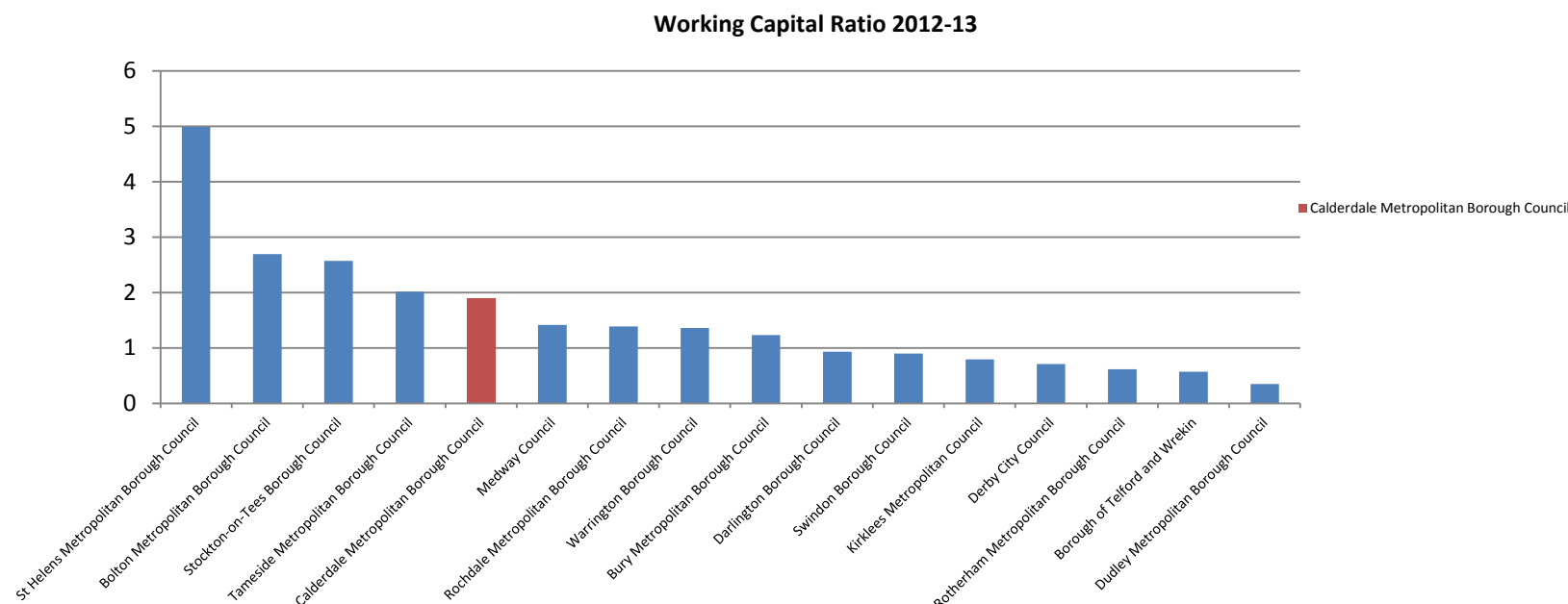
Working Capital Ratio – 2012/2013

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 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's 2012-13 working capital ratio is 1.90, placing it above average in the benchmarking group for 2012-13 above



Source: Audit Commission – Financial Ratios

Key Indicators of Financial Performance

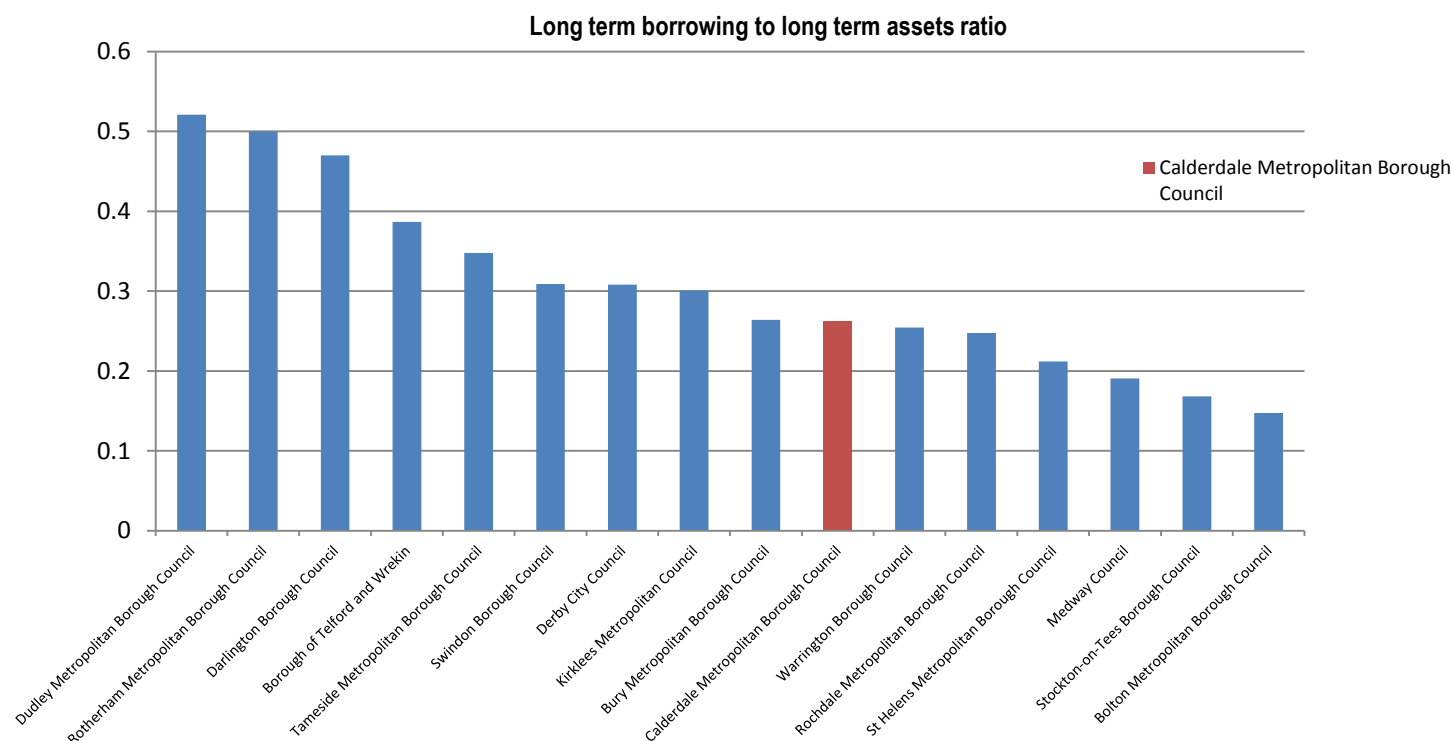
Long Term Debt to Long Term Assets – 2012/2013

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

The Council's 2012-13 long term borrowing to long term assets ratio is 0.26 and is lower than average in the benchmarked group



Source: Audit Commission – Financial Ratios

Key Indicators of Financial Performance

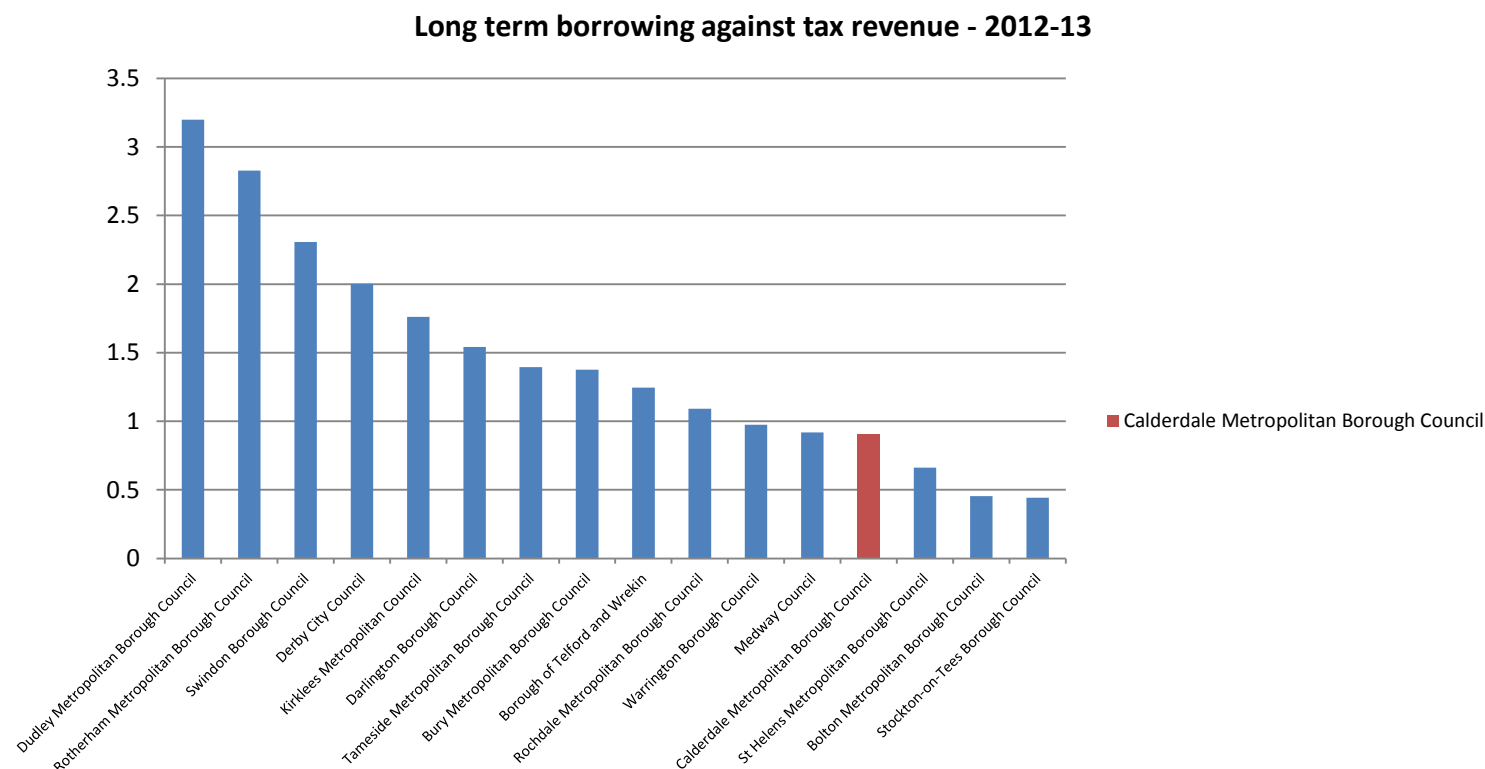
Long Term Debt to Tax Ratio – 2012/2013

Definition

This ratio 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

The Council's 2012-13 long term borrowing to tax revenue ratio is 0.91 and is lower than average in the benchmarked group



Source: Audit Commission – Financial Ratios

Key Indicators of Financial Performance

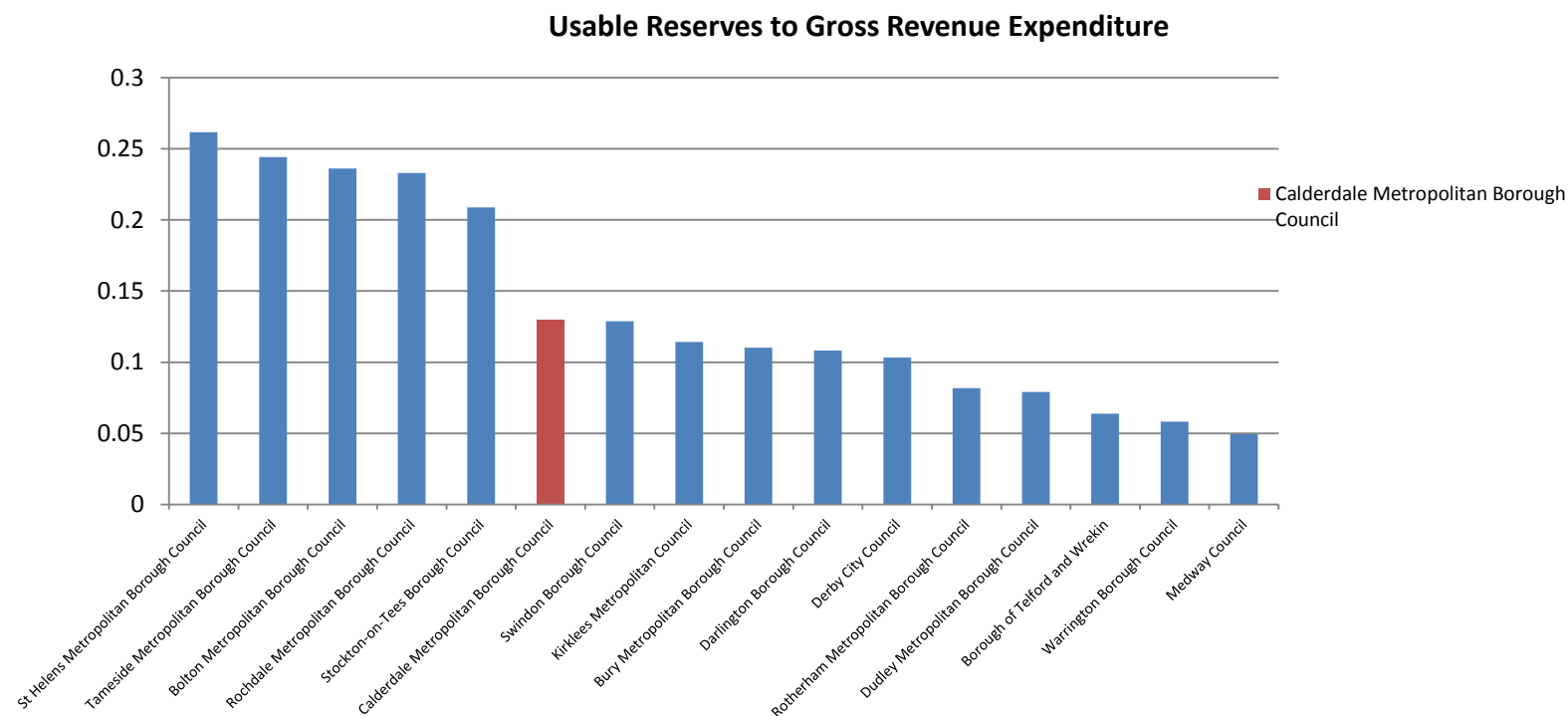
Usable Reserves to Gross Revenue Expenditure – 2012/2013

Definition

This ratio shows the Council's reserves which are available for use as a proportion of gross revenue expenditure. A higher ratio indicates the Council has a greater ability to fund expenditure from available reserves.

Findings

The Council's 2012-13 usable reserves to gross revenue expenditure total 0.13 placing it the middle of the benchmarked group



Source: Audit Commission - Financial Ratios

Key Indicators of Financial Performance

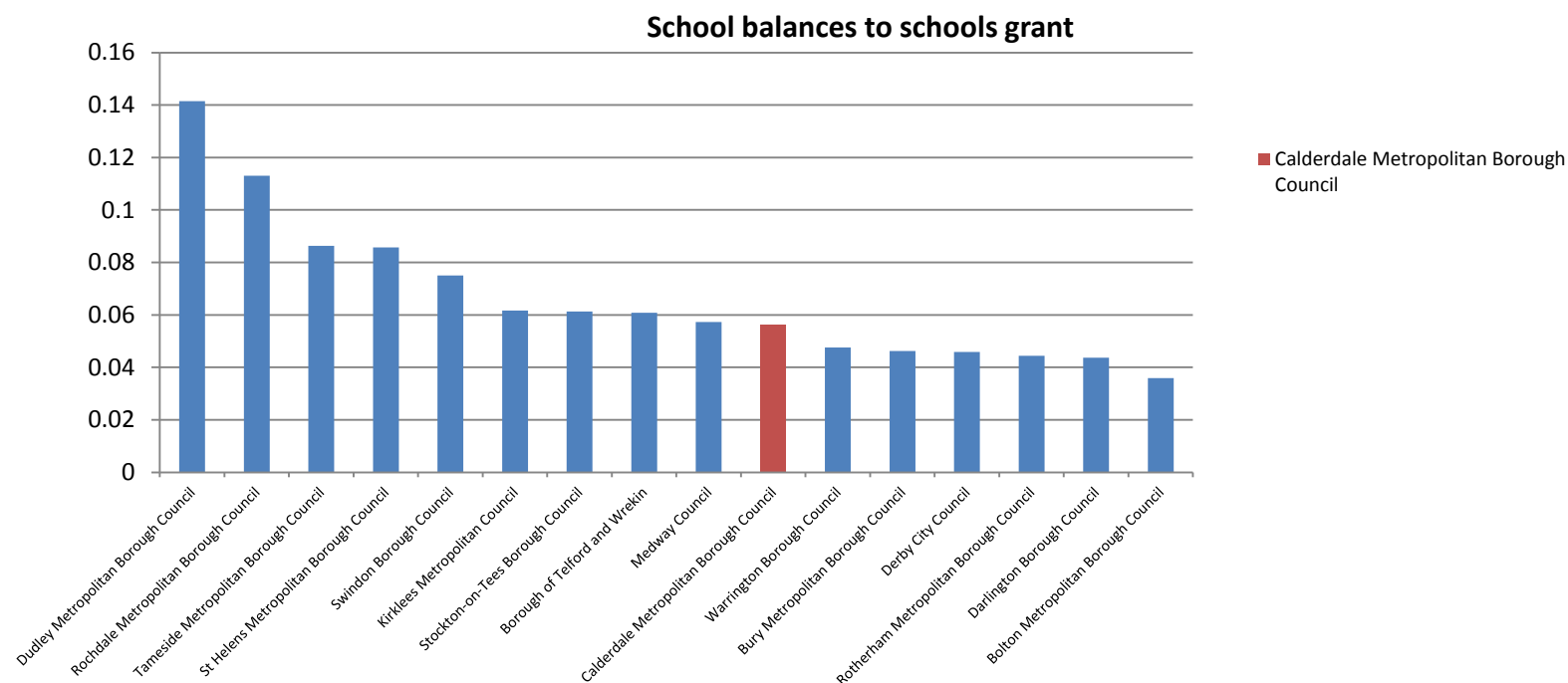
Schools Balances to Dedicated Schools Grant – 2012/2013

Definition

This shows the share of schools balances in relation to the total DSG allocation received for the year. For example a ratio of 0.05 means that 5 per cent of the total DSG allocation remained unspent at the end of the year.

Findings

The level of the Council's 2012-13 schools balances to DSG is 0.056, the 7th lowest of the benchmarked group.



Source: Audit Commission – Financial Ratios

1 Executive Summary

2 Key Indicators

3 Strategic Financial Planning

4 Financial Governance

5 Financial Control

Appendix 1 - Key indicators of financial performance

Appendix 2 - Benchmarking report for 2012/13

How did you perform last year?

What was the picture for 2012-13?

We reviewed:

- key indicators of financial performance;
- strategic financial planning;
- financial governance; and
- financial control.

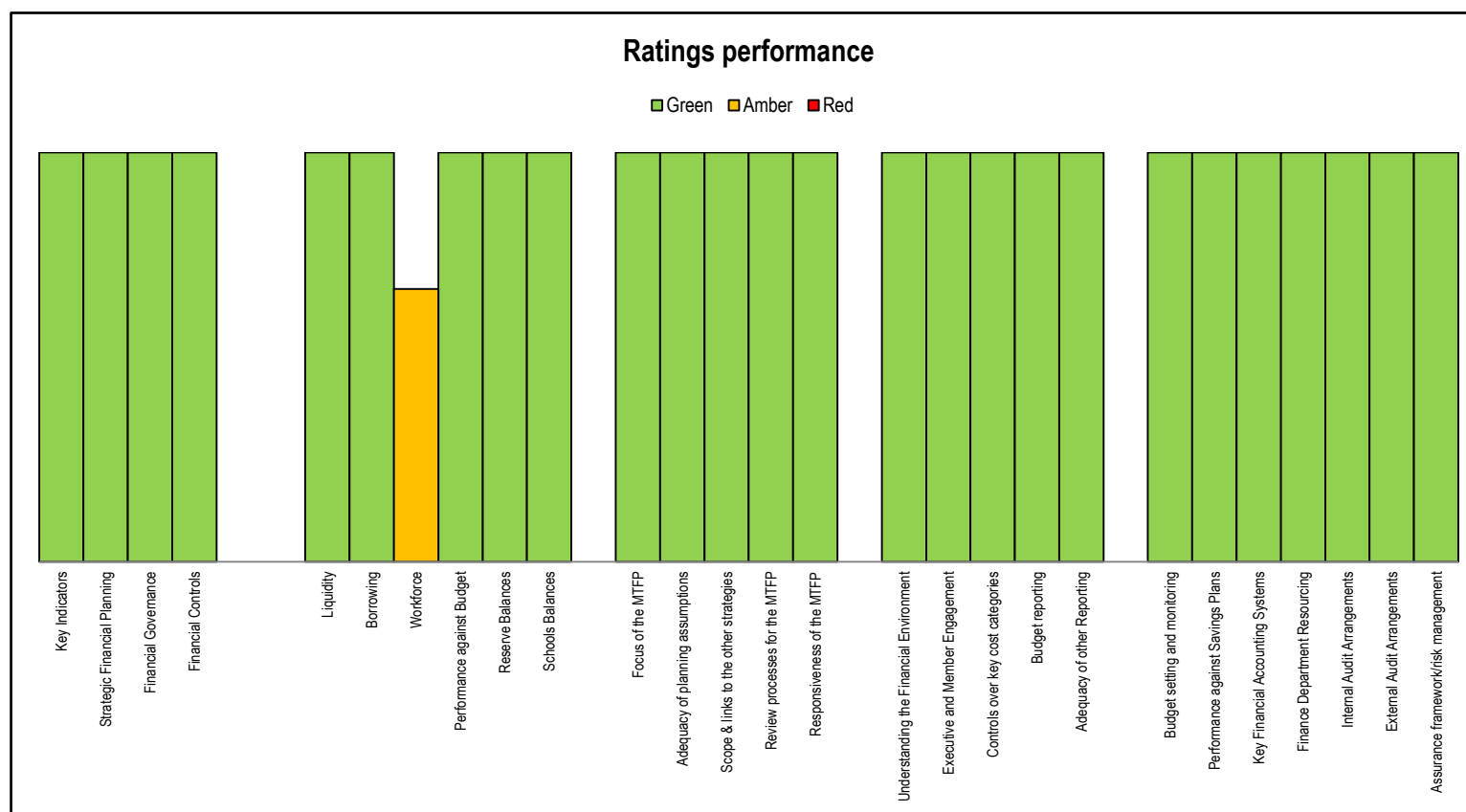
Within these thematic areas we looked at 23 different categories and the graph below shows your performance in these categories. To the left are the overall ratings for the four themes, and to the right are the 23 categories.

A green rating indicates that the Council's arrangements meet or exceed adequate standards.

Calderdale has a green rating for each of the areas relating to:

- strategic financial planning;
- financial governance; and
- financial controls.

The Council also has green ratings for five of the six *Key indicators of financial performance*. The only amber rating is in the Workforce category.



How did you compare last year?

Benchmarking against all Councils

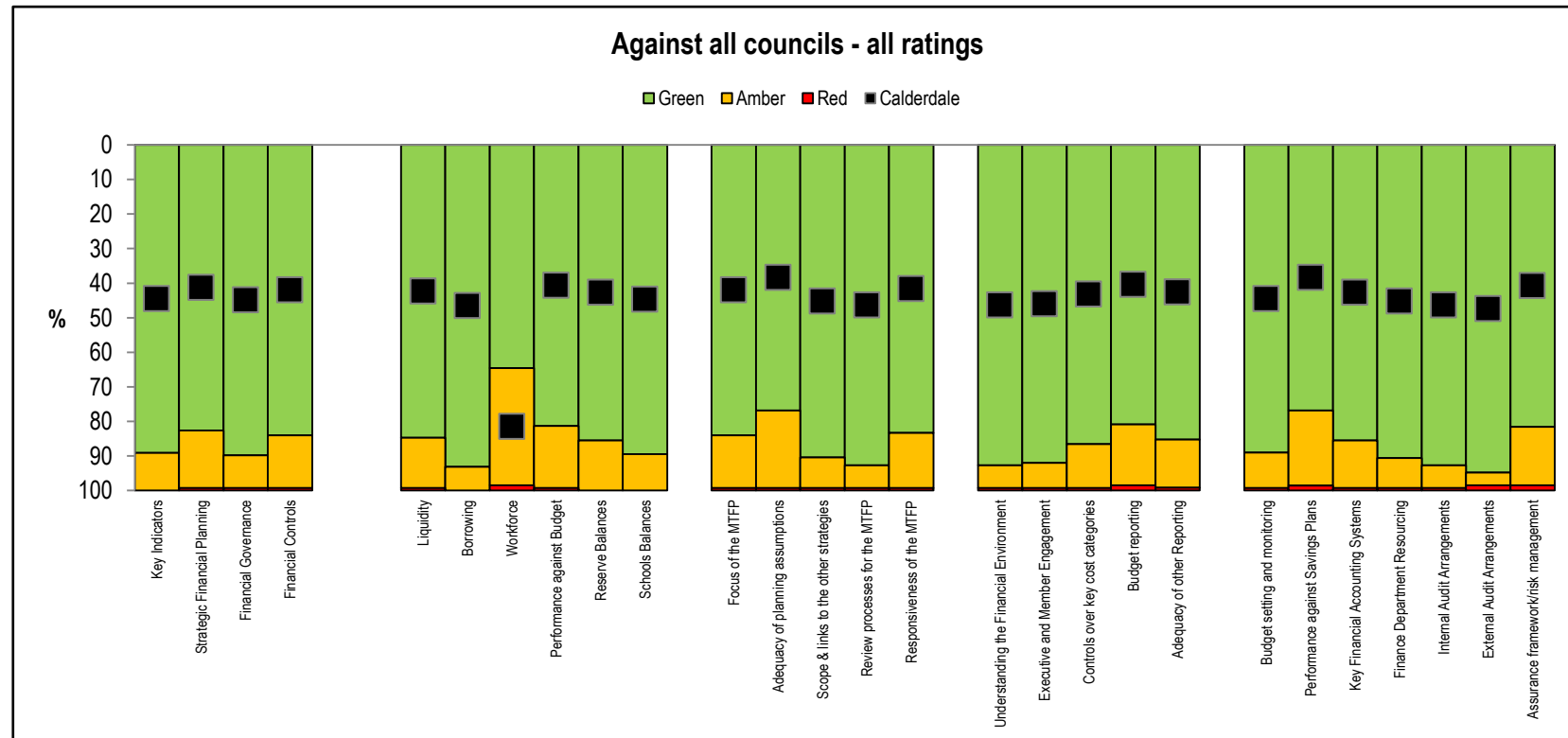
The graph below shows how the Council performed against the results for all Councils in 2012-13. Your scores are plotted as the black squares overlying the population performance: the colour that your black square lies in indicates the level you achieved.

You can draw the following conclusions about the population:

- local government's performance overall is good – in all categories, the majority of Councils achieve green status and the incidence of red ratings is very small;
- none of the thematic areas is demonstrably weaker than any other; and
- previous reviews show that the *Key indicators of performance* theme has seen every one of its categories weaken since 2011-12, notably in the Workforce category.

Calderdale is in line with the overall good ratings for all Councils in the 22 of the 23 areas reviewed.

The only exception is Workforce which is amber as already mentioned on the previous slide.



How did you compare with Metropolitan District Councils last year?

Benchmarking against Metropolitan District Council type only

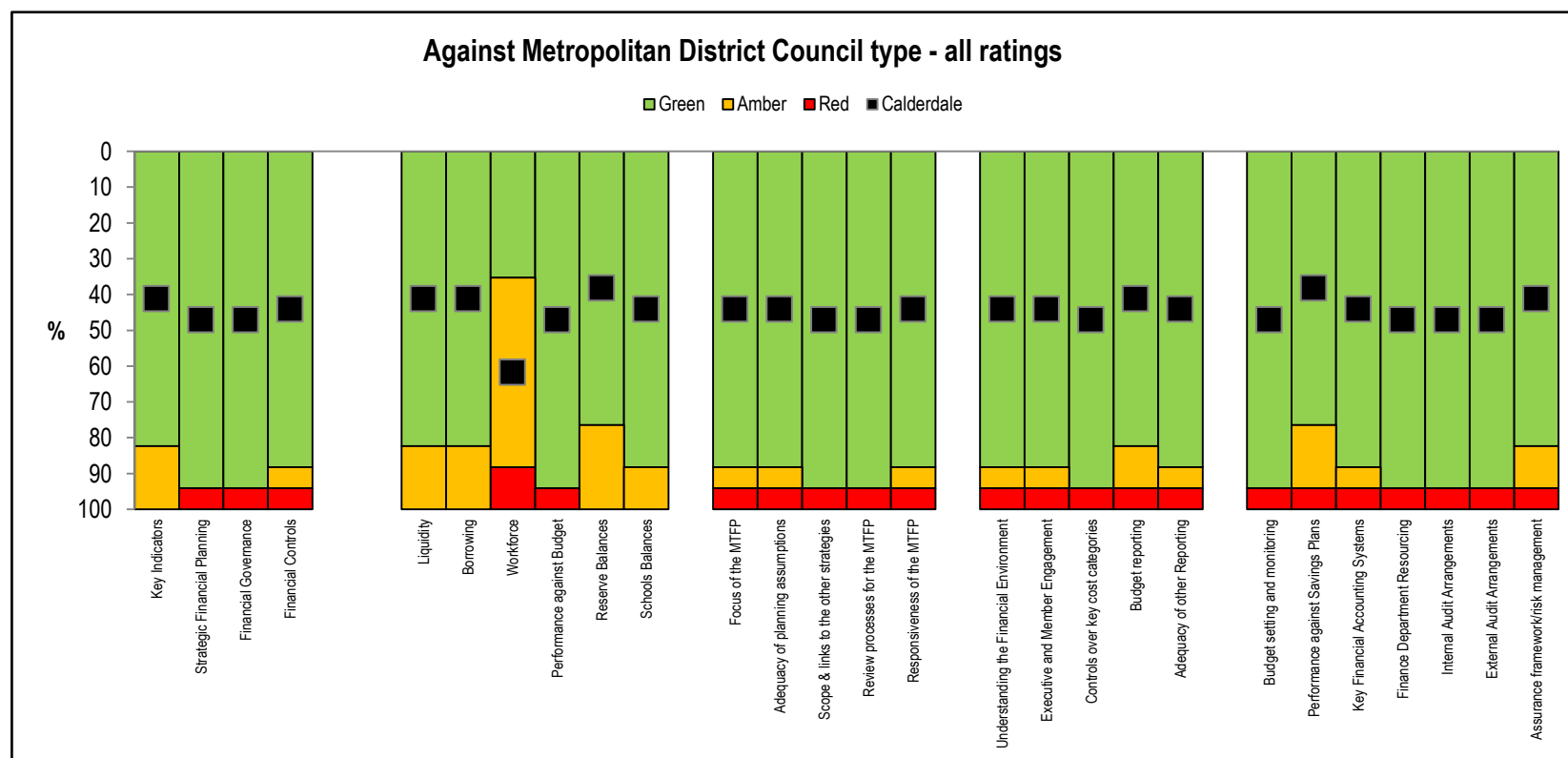
The graph below shows how you perform against the results for our Metropolitan District Council clients.

Overall the performance of Metropolitan District Councils is good but there is a higher proportion of red ratings than for all Councils.

You can draw the following conclusions about Calderdale's performance:

- the Council is in line with the overall good Metropolitan District Council ratings for 22 of the 23 areas reviewed;

- the amber *Workforce* is comparative the level achieved by around half of Metropolitan District Councils.





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