

Review of the Council's Arrangements for Securing Financial Resilience for West Lancashire Borough Council

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

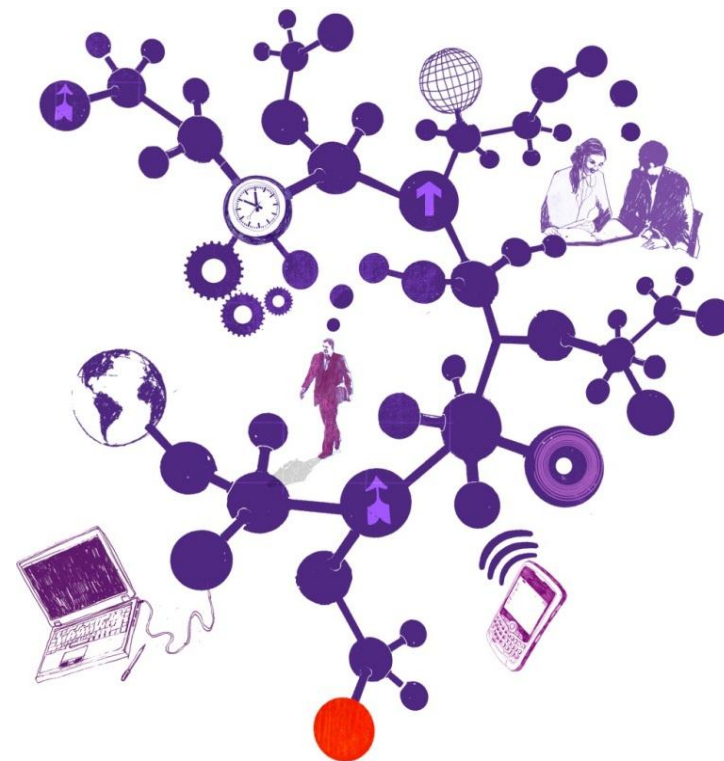
Year ended 31 March 2013

16 September 2013

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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.

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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.

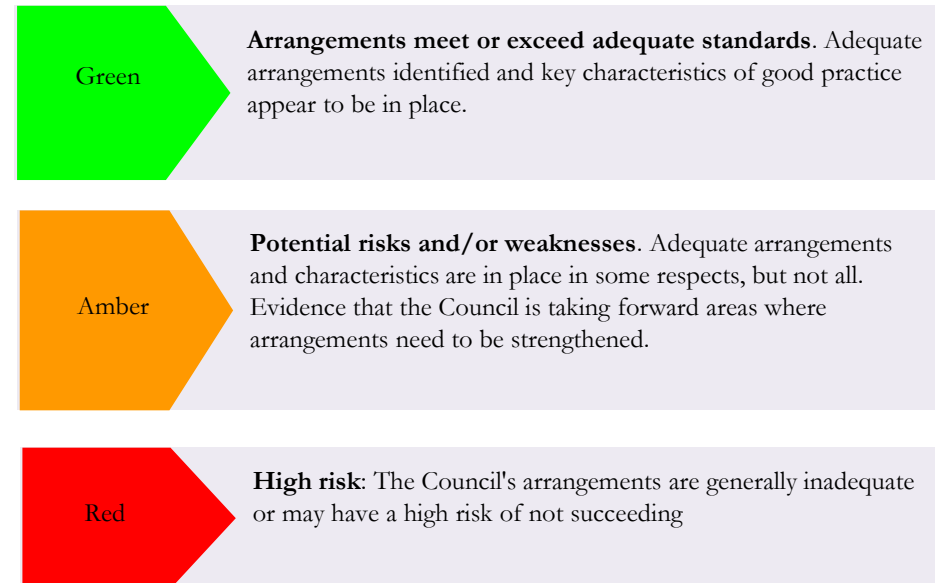
The definition of foreseeable future for the purposes of this financial resilience review is 12 months from the date of this report.

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 the Council's arrangements exceed adequate standards.

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



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 1920's. 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 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 some services, such as car parking, where customers pay a fee or charge.

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.





The next spending review period will be for a single financial year, 2015-16. Financial austerity is expected to continue until at least 2017.

Local Context

West Lancashire Borough Council was formed in 1974 as a non-metropolitan district. It is made up of two towns, Ormskirk and Skelmersdale, and a range of rural parishes with an overall population of approximately 110,000. The areas is mixed between the urban new town within Skelmersdale, a former coal mining area, and the more affluent rural areas. Politically the district is split between Conservative and Labour, with the Council controlled by the Conservatives with a majority of two seats. The Council has experienced significant funding cuts, consistent with the national position. Over the 2011-2015 the Council expects to find over £5million of financial savings and have factored this into the medium term financial plan.

Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Key Indicators of Performance	The Council overall performs well against specific performance indicators. There has been some deterioration in tax collection rates and workforce absence in 2012/13 but the Council currently has action plans in place to address these	 Green
Strategic Financial Planning	The Council has a business plan in place covering the period of the central government spending review (2011-15) and is currently working and the 2015-18 period. Processes for developing and reviewing the plan are effective, including appropriate stakeholder, member and officer input. Local and annual plans and strategies and consistent with the overarching business plan and to date, the Council has been effective in achieving the focus and savings it has set out to achieve.	 Green
Financial Governance	Overall financial governance arrangements are operating effectively with appropriate reporting to members and officers. There are proper processes and procedures in place to understand and manage risk and a programme of training in place to support members in their governance role.	 Green
Financial Control	The Council has maintained an appropriately staffed finance team and appropriate budget monitoring procedures. Input from internal and external auditors is appropriate and the Council has maintained a strong track record in effective and informed financial management.	 Green

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Appendix - Key indicators of financial performance

Key Indicators

Introduction

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




- Working capital ratio
- Long term borrowing to tax revenue
- Long term borrowing to long term assets
- Sickness absence levels
- Out-turn against budget
- Useable Reserves: Gross Revenue Expenditure

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

Braintree District Council
Erewash Borough Council
South Staffordshire Council
Rugby Borough Council
Amber Valley Borough Council
Chorley Borough Council
Lichfield District Council
North Warwickshire Borough Council
Newcastle under Lyme Borough Council
Nuneaton and Bedworth Borough Council
Newark and Sherwood District Council
Bassetlaw District Council
High Peak Borough Council
Kettering Borough Council
North East Derbyshire Borough Council



Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Liquidity	<p>The Council's working capital ratio in 2011/12 was 3 and has remained stable between 3 and 4 over this last five years. This compared well with similar Councils, as shown in the graphs attached as an appendix to this report.</p> <p>Council Tax and Non-Domestic Rates (NNDR) collection rates in 2012/13 have fallen below target and below prior years as follows:</p> <ul style="list-style-type: none">• Council Tax 96.4% (target 98.06%) and• NNDR 95.4% (target 97.77%). <p>The Council considers that the fall in collection rates is due to the implementation of new revenues software in January 2013 which resulted in some system downtime and the impact of benefit reforms from April 2013.</p> <p>Overall there is no indication of deterioration in liquidity in the Council and no significant concerns have been identified in our review.</p>	 Green
Borrowing	<p>Prior to 2011/12 the Council had negligible long term debt, and no long term borrowing. During 2011/12 the Council took out a loan in order to move to Housing Revenue Account (HRA) self-financing. The borrowing ratios for the Council are very similar to other Councils subject to HRA self-financing, and are supported by a large long term asset base. The loans are all at fixed rates with the Public Works Loans Board (PWLB) and the interest charges are more than offset by the savings from no longer paying housing subsidy.</p> <p>The Council's prudential limit for external debt is currently £108million. At the end of 2012/13 total external debt was £93.8million, most of which related to the £88million borrowed to fund HRA self-financing.</p> <p>We have not identified any concerns about borrowing levels or management in our review.</p>	 Green
Workforce	<p>The Council's sickness absence rates for 2012/13 is calculated at an average of 9.14 days per member of staff. This exceeds the Council's target level of 8.08 days but is consistent with the last national survey on local government sickness absence (using data from 2008/09) which showed an average of 9.2 days.</p> <p>The Council has identified that changes in human resources arrangements (when payroll services transferred to Wigan MBC during the period) has had a short term impact on sickness monitoring and support for managers and an action plan in place to improve sickness absence levels in 2013/14.</p> <p>Agency staff costs in 2012/13 were £1.3million or 7.25% of the Council's total staff costs and the Council spent approximately £340,000 on consultancy costs.</p> <p>We have no significant concerns to raise</p>	 Green

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Performance Against Budgets	The Council has over performed modestly against its revenue budget in 2012/13, achieving a £211,000 underspend. Similar underspends were also achieved in the previous two years. The Council's track record in budget management for both revenue and capital, including HRA, has been effective and prudent. We have no concerns following our review.	 Green
Reserve Balances	The Council's usable reserves to gross revenue expenditure ratio included in the graphs within the appendix to this report show a comparable and prudent level of usable reserves in 2011/12 and across the five years from 2007/08. From the draft 2012/13 accounts, the ratio has increased to 0.22. The Council have set up a specific "budget and efficiency saving" reserve to manage short term timing differences as saving plans take effect. In 2011/12 £250,000 of the reserve was utilised and £474,000 is planned in 2014/15. The current balance on the reserve is £950,000. We have not identified any concerns from this area of review.	 Green

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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	<p>The Council has a medium term financial plan in place covering 2011-2015, to mirror the Government spending review period. This is refreshed annually and is split into workstreams which are in turn underpinned by a range of more detailed savings plans and strategic projects.</p> <p>The Council is currently developing its 2015/18 plan. The period of each business plan is based on the central government spending review period which provides a more solid grounding for planning and strategy.</p>	 Green
Adequacy of planning assumptions	<p>As noted above, the business plan period has been set against the central government spending review period to ensure that the overall assumptions on savings targets are reasonable. The track record in effective planning assumptions has been good, as evidenced by consistent achievement of savings throughout the current planning period.</p> <p>A review of individual projects within the service review process showed detailed underlying plans, including a clear understanding of income and expenditure relating to each service.</p>	 Green
Scope of the MTFP and links to annual planning	<p>The business plan directly links into annual planning processes. It is underpinned by more detailed projects. For example, the major savings review process each year is supported by individual savings projects with detailed analysis. Other strategies within the Council, for example asset management and workforce, are consistent with the overall business plan.</p>	 Green
Review processes	<p>The business plan is refreshed annually for members, taking into account progress on the main areas of saving and investment. Quarterly reporting on budgets and performance are presented to members and more regular reviews of specific projects is undertaken by officers within each service area. Review processes appear to be operating effectively as evidenced through effective achievement of savings to date within the current business plan period.</p>	 Green
Responsiveness of the Plan	<p>The business plan is refreshed annually and underpinned by more detailed in year budgetary processes and savings plans. The Council also has an appropriate risk management framework in place at corporate and departmental level. Public and stakeholder consultation has been evident, particularly through the major service review process. The emphasis of the plan has been on changed service delivery patterns, such as shared services with Lancashire County Council and Wigan Metropolitan Borough Council and the involvement of voluntary organisations in managing and running community assets, rather than direct service cuts.</p>	 Green

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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	<p>The Council has arrangements in place to provide Cabinet and Committees with a range of financial information and training. In particular, a training session is provided prior to each Audit and Governance Committee meeting, to which all members are invited. The Council maintains financial regulations, and these are available on the Council's intranet and were presented to members in a training session in the early part of 2013/14. These include clear roles and responsibilities around financial management. Risk management arrangements have also been subject to specific member training during the period under review and reports are presented by the responsible officer to ensure that members can ask questions and clarify areas of concern.</p>	 Green
Executive and Member Engagement	<p>As noted above, members are provided with training and on-going support on key financial and governance issues. Members of the Audit and Governance Committee have direct involvement in and influence of the selection, timing and focus of training sessions. External audit have attended the Audit and Governance Committees throughout the period. Key officers including the monitoring officer and section 151 officer have attended and presented their reports and answered members questions. Overall members seem engaged and able to give robust challenge to officers. The budget setting process and the major service reviews include appropriate member engagement from both the main political parties.</p>	 Green
Overview for controls over key cost categories	<p>The Council's detailed budget book breaks down costs by service area and department, split between sources of cost (ie payroll, operating costs, recharges etc) and income. Quarterly reporting to cabinet and the mid-year review are at a higher level, concentrating on variance at service area level. However, this is underpinned by more detailed budget monitoring processes within each service area. Arrangements operate effectively so officers and members have timely notification of any required changes to budget allocations.</p>	 Green
Budget reporting	<p>The Council's progress against budget is reported quarterly to Cabinet with a high level mid year review provided each November. The budget setting process includes detailed service area and departmental information within the budget book with higher level narrative reporting, Quarterly and half yearly reporting focuses on higher level variances.</p>	 Green
Adequacy of other Committee/ Cabinet Reporting	<p>In addition to budget monitoring reports Cabinet is also provided with quarterly performance reports considering the Council's performance against key indicators. Where the Council's performance is below target, the reports include an action plan. The Council has maintained a strong cash flow position and a good level of usable reserves, Therefore cash flow and balance sheet information is not generally reported to members during the period. In recent years, the only borrowing the council has engaged in has been specifically to fund the HRA self-financing process. This was explained and reported to members during 2011/12 but there has been no change in the borrowing requirement in 2012/13. Investment, borrowing and general treasury management issues are the subject of three reports to Council in each financial year.</p>	 Green

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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 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	<p>The Council has as good track record of budget management, having achieved its budgetary position, with a small underspend, in each of the last three years. The capital programme is supported by a detailed asset management programme and long term strategy.</p> <p>Treasury management processes are in place to ensure an appropriate spread of investments with high credit rated British institutions. Loans are with the PWLB and on fixed interest rates with a range of repayment dates.</p> <p>Budget monitoring is robust and reported quarterly to cabinet. Changes and variances are identified and reported. Overall, the Council has a good track record in this area with consistent modest underspend on budget year on year.</p>	 Green
Performance against Savings Plans	<p>The Council has a detailed process for preparing the annual savings programme. Since 2011 the Council has undertaken major service reviews each year to identify areas where reorganisation is feasible and where savings can be achieved. The major service reviews have been subject to a three month consultation period to take into account the views of members, staff, the public and other stakeholders. Each savings opportunity has been underpinned by more detailed reports and the broader implications of changes to service scope or delivery have been considered. For example, our review indicated that identified saving opportunities took into account the impact of recharges costs and lost income streams in identifying a net savings figure.</p> <p>The Council has maintained appropriate "headroom" for timing and slippage on plans through an ear-marked "budget and efficiency saving" reserve. This was used in 2011/12 to support a significant redundancy cost and further use is planned in 2014/15 as a proportion of the gap closing exercise. The Council will carry around £475,000 of this ear-marked reserve into the 2015-2018 period.</p>	 Green
Key Financial Accounting Systems	<p>During 2012/13 the Internal Audit team have undertaken reviews of the critical financial systems and have reported their findings to the Audit and Governance Committee. Some weaknesses have been reported to members, but overall the head of internal audit annual report indicated a sound system of internal control and no significant issues requiring disclosure in the Annual Governance Statement. The Council has experienced some changes to accounting systems. Their revenue and benefits provider, One Connect Limited (OCL), implemented a new payment system in January 2013 and payroll was transferred to two providers, Wigan Metropolitan Borough Council, and OCL, during the period. To date our external audit work has not identified any significant issues. We will report our audit findings to the September 2013 Audit and Governance Committee.</p>	 Green

Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
Finance Department Resourcing	The finance department remains appropriately resourced with low staff turnover. Two recent retirements have been managed effectively without impact on the quality or timeliness of service. There have been no concerns raised during external audit work during 2012/13 or prior years. The quality of financial reporting has been good.	 Green
Internal audit arrangements	Internal audit is provided in-house with a core audit team. Their work in 2012/13 and in previous years has covered all the main accounting systems as well as other areas of risk agreed with the Audit and Governance Committee. The head of internal audit has a good profile in the Council and appropriate access to members. The department has experienced some resourcing challenges in the period and has managed a staff vacancy since 2011/12 but this has now been filled. The 2012/13 programme is currently progressing as planned. The Audit Commission undertook a formal review of the internal audit function during 2009/10 and concluded that it was compliant with the CIPFA Code of Practice for Internal Audit. We have not identified any deterioration in the service since that review.	 Green
External audit arrangements	External audit service have transferred from the Audit Commission to Grant Thornton from 1 September 2012. There were no significant issues raised in the auditors' reports and annual audit letter in 2011/12. A minor recommendation regarding arrangements for declarations of interest was made. No significant issues have arisen to date during the 2012/13 audit. External audit have appropriate access to members on the Audit and Governance Committee and management are responsive to audit recommendations and queries.	 Green
Assurance framework/risk management	The Council maintains an appropriate risk assurance framework. The risk management strategy is reviewed annually and the corporate risk register is presented to the Cabinet twice each year. The corporate register is underpinned by service area risk registers, managed locally by each service risk co-ordinator. Risks are scored on the basis of likelihood and impact and "RAG" rated accordingly. All risks are allocated to a named role and mitigating controls and activities are updates for each review.	 Green

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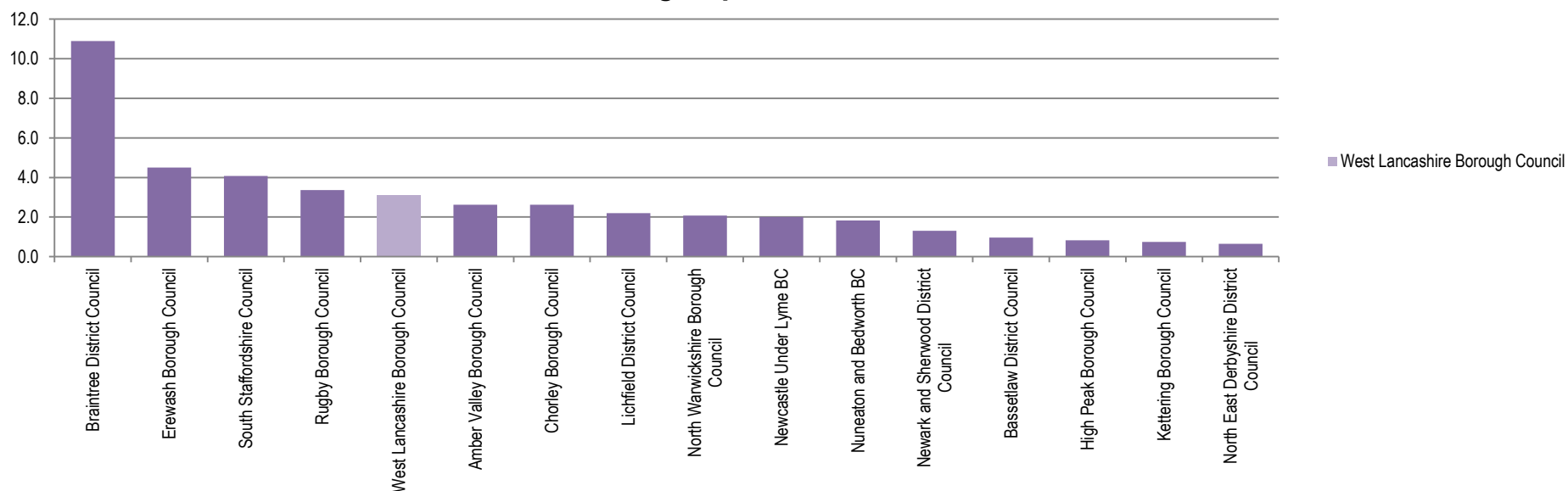
Key Indicators of Financial Performance

Working Capital Ratio - 2011/2012

Definition: This compares current assets with current liabilities. A ratio of less than one indicates that a Council has more current liabilities than current assets. If a ratio is too high it could indicate that a Council is not investing cash appropriately and is therefore not obtaining value for money on its assets.

Findings: West Lancashire Borough Council had a working capital ratio of 3, and therefore had three times as many current assets as current liabilities at 31 March 2012. The graph on the next page, showing trends over the last five years, shows that their working capital ratio has consistently remained between 3 and 4 since 2007/08. In comparison with other Councils within the comparator group, West Lancashire Borough Council's working capital ratio appears prudent and reasonable.

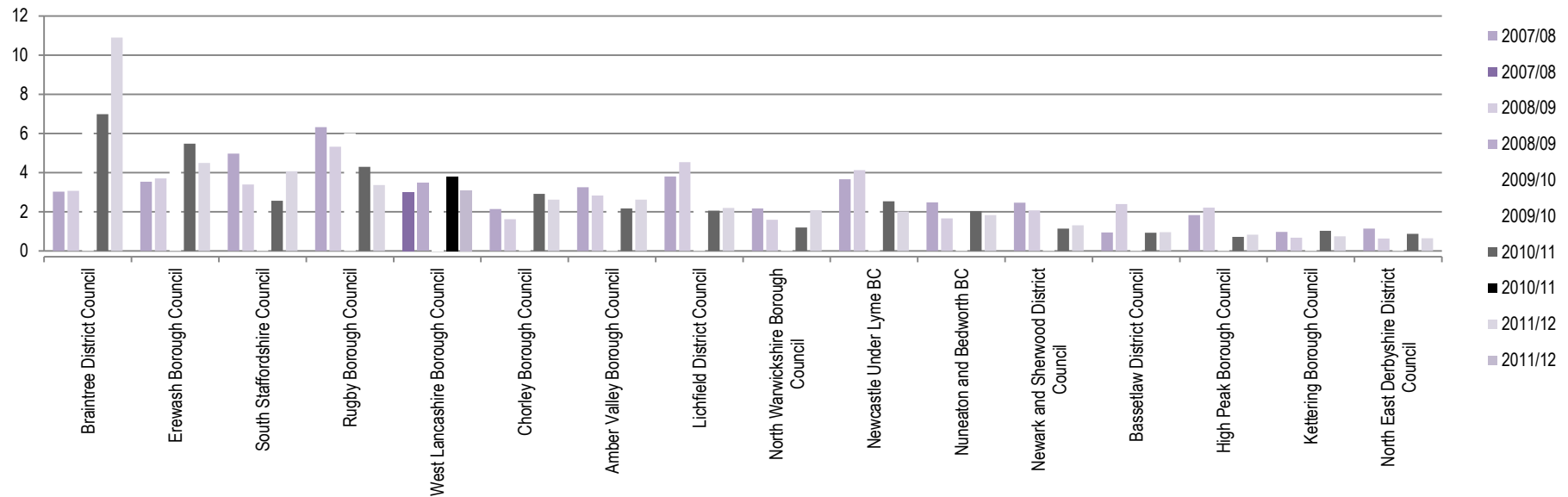
Working Capital ratio - 2011-12



Key Indicators of Financial Performance

Working Capital Ratio - Trend

Working Capital Ratio - trend [in order of 2011-12 value]



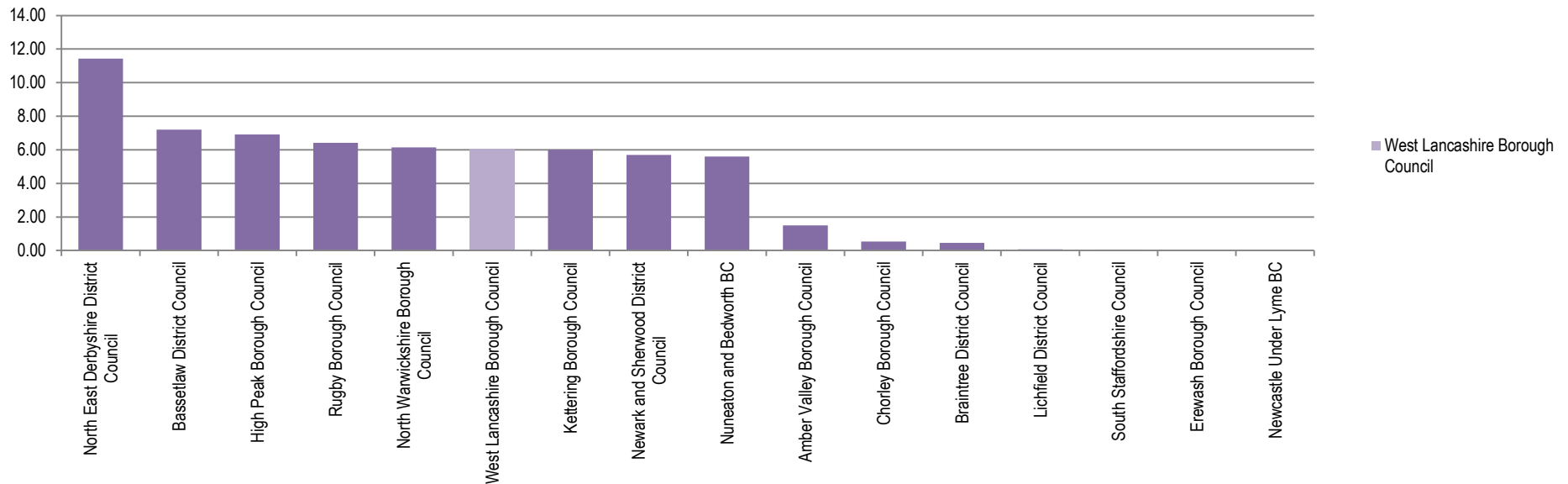
Key Indicators of Financial Performance

Long Term Debt to Tax Ratio - 2011/2012

Definition: This compares long term debt (including borrowings and finance leases) with annual tax revenues. There is a large disparity between Councils which were subject to Housing Revenue Account (HRA) self-financing in 2011/12 and those who do not hold housing stock.

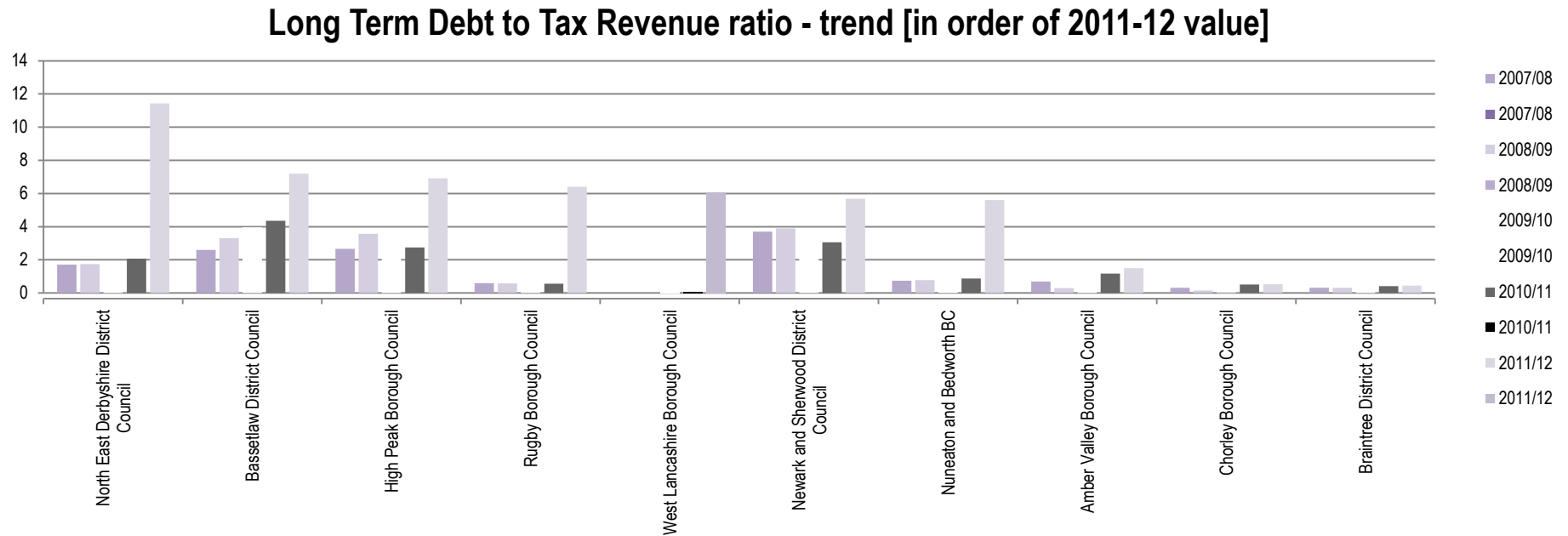
Findings: West Lancashire Borough Council borrowed £88m in 2011/12 in order to comply with the HRA self-financing requirements. The graph on the next page, showing trends over the last five years shows that the Council had negligible borrowing prior to 2011/12. These loans are on fixed long term interest arrangements with the Public Works Loans Board (PWLB) and the interest costs have been factored into the Council's financial plans. The long term debt to tax revenue ratio in 2011/12 was 6, and is comparable with other Councils subject to HRA self-financing.

Long Term Debt to Tax Revenue ratio 2011-12



Key Indicators of Financial Performance

Long Term Debt to Tax - Trend



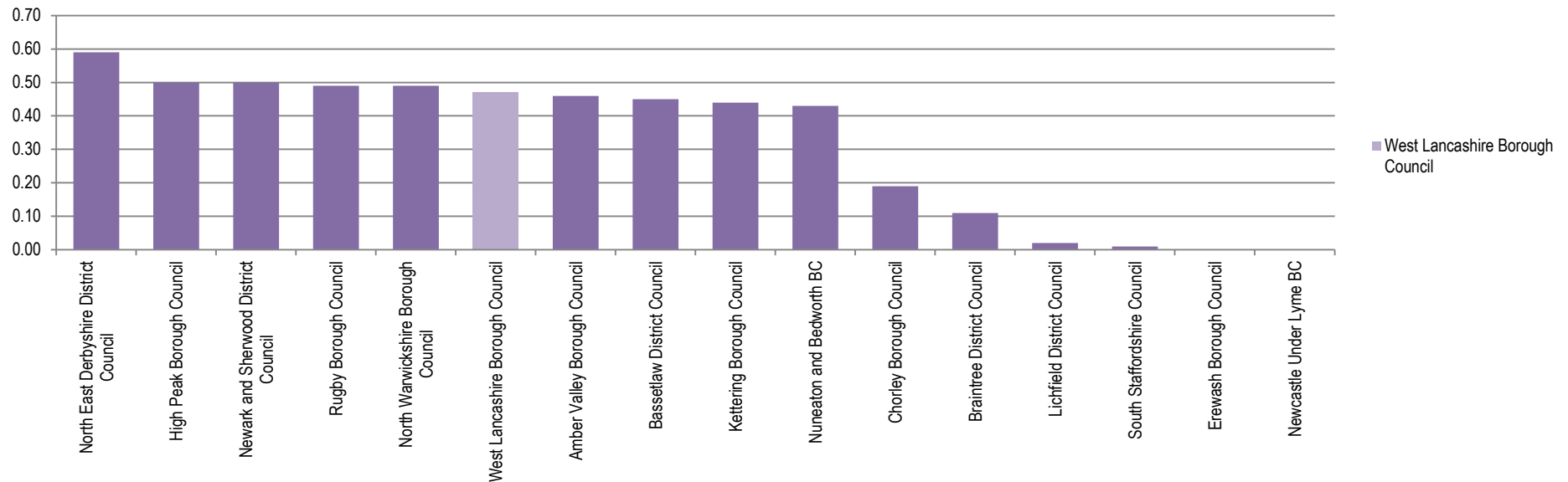
Key Indicators of Financial Performance

Long Term Debt to Long Term Assets - 2011/2012

Definition: This compares the proportion of long term debt (including borrowing and finance leases) to long term assets (including housing stock, land and buildings and long term investments)

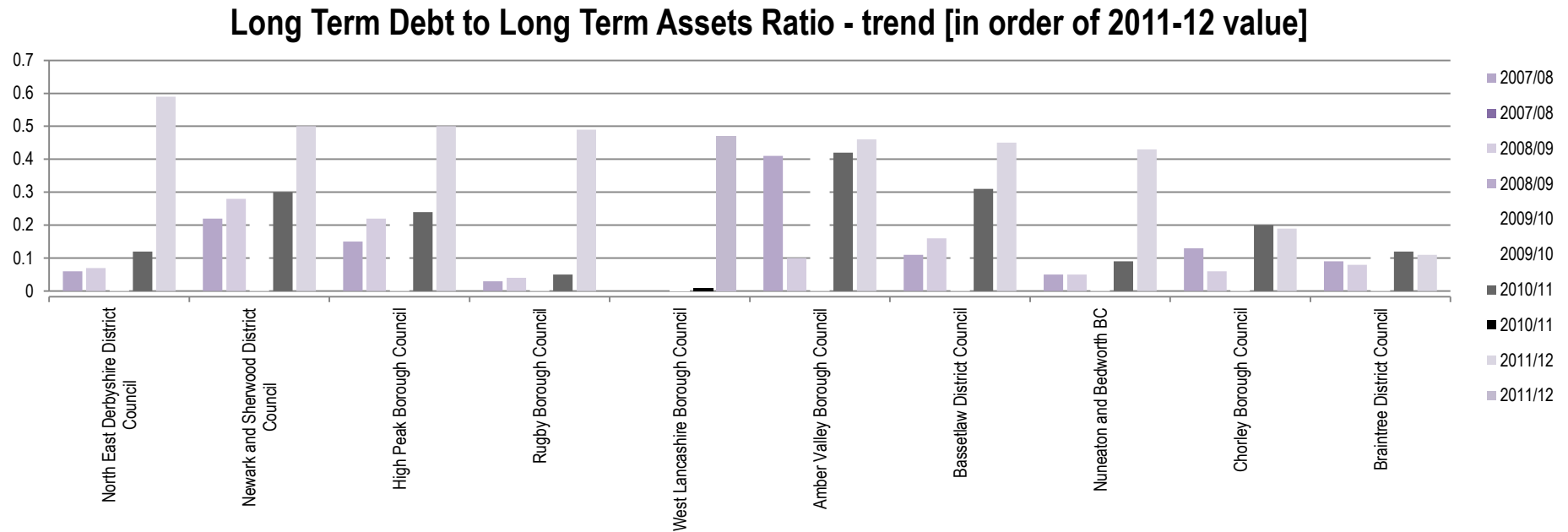
Findings: As noted on the previous graph, West Lancashire Borough Council had negligible long term debt prior to the HRA self-financing exercise in 2011/12. In 2011/12 it had a ratio of 0.45, indicating it had significantly more long term assets than long term debt. It is comparable with other Councils subject to HRA self-financing.

Long Term Debt to Long Term Assets ratio 2011-12



Key Indicators of Financial Performance

Long Term Debt to Long Term Assets - Trend



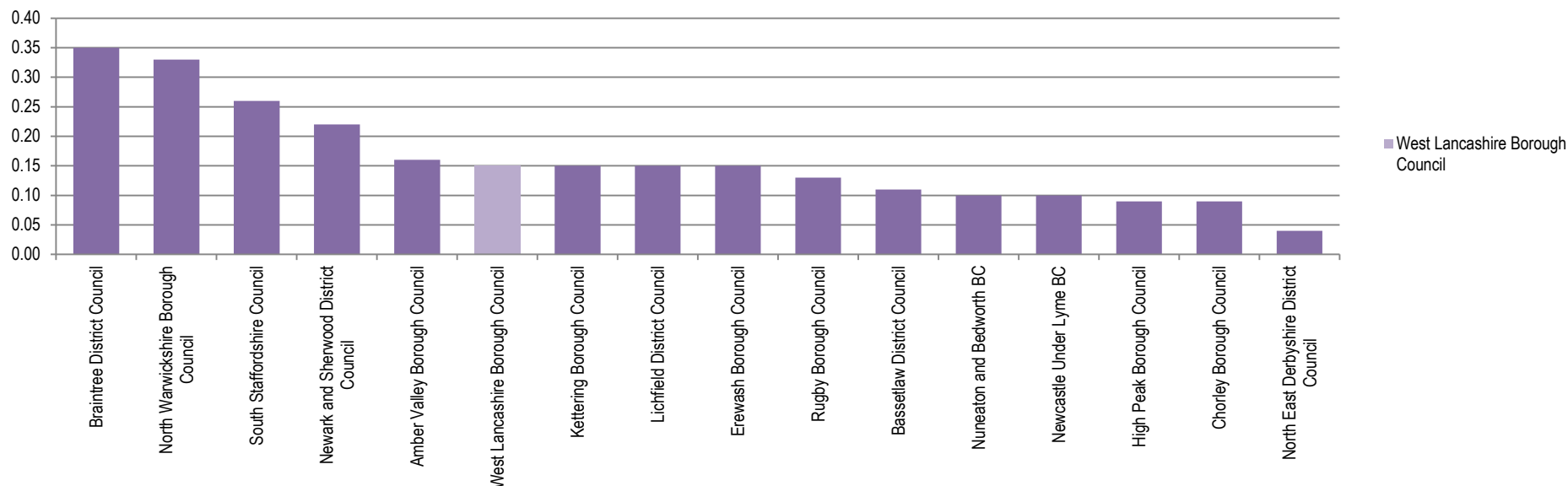
Key Indicators of Financial Performance

Usable Reserves to Gross Revenue Expenditure - 2011/2012

Definition: This compares the usable reserves held with annual gross expenditure on revenue items. A Council's reserves are split between usable and unusable reserves. Unusable reserves will include items which are restricted by statute, for example revaluation reserve, capital adjustment account and pensions reserve. A Council needs to achieve a balance between holding enough reserves to manage unexpected challenges, but also spending taxpayers funds on local services rather than amassing excessive reserves.

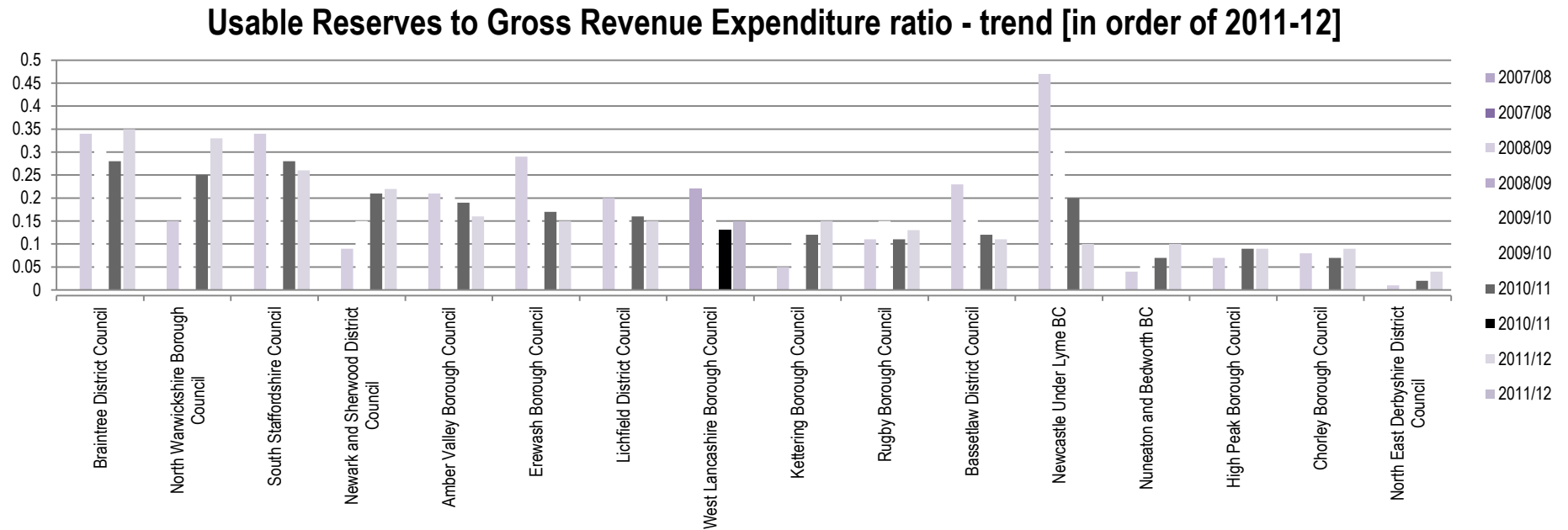
Findings: West Lancashire Borough Council had a ratio of 0.15 in 2011/12, indicating that it had 6-7 times more gross expenditure than usable reserves. This is reasonable and comparable with other Councils in the "statistical neighbour Councils" group. The trend over five years shows some reduction in reserves, but not enough to raise concerns.

Usable Reserves to Gross Revenue Expenditure ratio 2011-12



Key Indicators of Financial Performance

Usable Reserves to Gross Revenue Expenditure - Trend





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