

Review of Wirral Council's Arrangements for Securing Financial Resilience

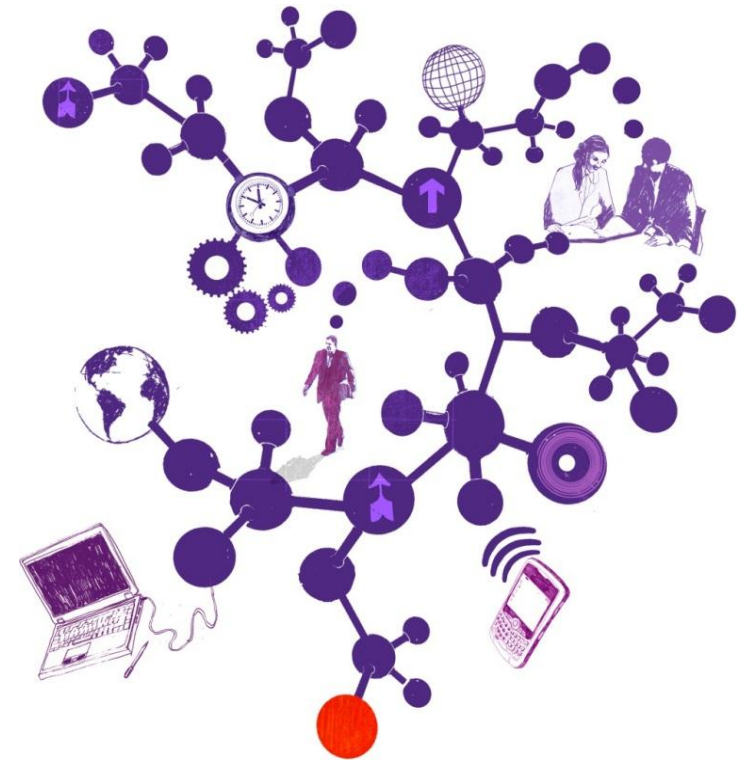
Year ended 31 March 2013

4 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.

Our report supports our VfM conclusion for 2012/13 and as a necessity comments on arrangements in place during the year, as well as taking a forward view on current and emerging arrangements.

For overall arrangements in 2012/13 we have assessed the Council as  Red


However, our view is that more robust arrangements have been introduced during the latter part of the year and the outlook is now  Amber


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


Wirral Council experienced a particularly challenging year during 2012/13 with the loss of key officers, the need to make significant savings, the introduction of a voluntary Improvement Board and continuing concerns raised by regulators. Residents also raised a number of concerns with us. Against this background of change and uncertainty our conclusion is that the Council's arrangements for securing financial resilience were inadequate during this time. A new Chief Executive and Interim Director of Resources joined the Council in Autumn 2012 and put in place improved arrangements to manage the financial risks.

More robust arrangements have now been put in place and are taking effect but the Council accepts that for 2012/13 it was less than adequate and improvements were needed in its financial management. Future financial challenges and changes in the overall governance and control environment will continue to test these arrangements and whilst improvements have been made some significant risks still remain.

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 equated 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 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 some services, such as car parking, where customers pay a fee or charge. Financial austerity is expected to continue until at least 2017.

Local Context









The Council's 2012-13 budget of £297 million was set in the context of a significant reduction of around 10% from the finance settlement and the need to generate some £16.5 million in savings during the year.

When the Council set its budget for 2013/14 it faced a £109 million budget deficit over the next three years and estimated that it would receive a 57% reduction in grants or £62 million less from central government to spend on services. Wirral is also facing increased demand of approximately £47million over the next three years, including costs associated with increasing numbers of older people in local communities who are living longer and requiring more support from the Council.

For 2013/14 alone the Council faced a £39 million budget shortfall due to a combination of cuts by government to grant, together with unfunded demographic growth and demand for social care services. There were also exceptional items totalling £38.4 million including the potential £17 million overspend at June identified by the new Chief Executive and Interim Director of Resources in September 2012.

Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment 2012/13	High level risk assessment outlook
Key Indicators of Performance	<p>Key indicators overall indicate that adequate arrangements and characteristics were in place in some respects and there is evidence that the Council is taking forward areas that need to be strengthened. School balances are in line with comparators. Risks around borrowing are being addressed with the reduction of unsupported borrowing to limit the impact on revenue, debt is being brought under control, and there has been prudent consideration of the level of reserves and balances required for the future. Performance against revenue and capital budgets was radically managed from the latter part of the year with the result that a balanced budget was set and current year performance is on track. Sickness absence remains high against comparators but capacity issues are being addressed.</p>	 Amber	 Amber
Strategic Financial Planning	<p>During 2011/12 and the first half of 2012/13 the Corporate Plan was subject to constant change impacting adversely on the Authority's ability to plan and prioritise over the medium to longer term. It was not underpinned by a robust medium term financial plan that clearly set out how to address the projected shortfall of around £100 million for 2012– 2015. Following the appointment of new management in Autumn 2012 the leadership team has taken action to address the critical financial position and been developing the financial strategy for 2013/14 and beyond. A new Corporate Plan was approved by Cabinet on 18th February 2013. The latest update to the MTFS was approved by Council in March 2013 and includes more realistic assumptions and a clear and transparent strategy. The Council recognises that there are still risks to the achievement of financial resilience going forward.</p>	 Red	 Amber
Financial Governance	<p>Until the appointment of new and interim senior management part way through the year, there was a lack of impetus on the impact of the financial challenges. Limited capacity due to the suspension and redundancy of a number of senior officers, poor controls over key cost categories and inadequate reporting meant that there was not robust challenge and effective leadership. The recent update to the Corporate Peer Challenge noted significant improvements in financial governance and arrangements are now being put in place to strengthen understanding and engagement going forward, supported by a new organisational structure.</p>	 Red	 Amber
Financial Control	<p>The processes in place for budget setting and monitoring, savings plans and assurance were not robust as demonstrated by the critical issues and financial position that new management started to report from mid way through the year. More robust arrangements are now being put in place but the Council accepts that for 2012/13 the control environment was less than adequate.</p>	 Red	 Amber

Executive Summary

Next Steps

Officers have agreed to incorporate and monitor the issues raised below in the Improvement Plan

Area of review	Key points for consideration
Key Indicators of Performance	<ul style="list-style-type: none">• Closely monitor sickness absence rates and take appropriate action to reduce it to a more comparable level.• Ensure key performance indicators are developed and closely monitored.
Strategic Financial Planning	Ensure the key characteristics of good financial planning continue to be developed and are closely monitored in your Improvement Plan.
Financial Governance	Ensure that the key characteristics of effective financial governance continue to be developed and closely monitored in your Improvement Plan. In particular, review the effectiveness of your leadership programmes, management reorganisation and reporting mechanisms in improving understanding and decision making as part of the development of the Annual Governance Statement.
Financial Control	Ensure that the key characteristics of effective financial control continue to be developed and closely monitored in your Improvement Plan. In particular, performance and risk management need to be improved and assurance mechanisms, including Internal Audit and the Audit and Risk Management Committee developed further.

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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
- Schools Reserves - Balances to DSG allocations

We have used the Audit Commission's nearest neighbours benchmarking group comprising the following 16 authorities:

Blackpool Council
Bury Metropolitan Borough Council
Darlington Borough Council
Derby City Council
Doncaster Metropolitan Borough Council
Dudley Metropolitan BC
North East Lincolnshire Council
North Tyneside Council
Northumberland Council
Plymouth City Council
Redcar and Cleveland Borough Council
Sefton Council
Southend on Sea Borough Council
St Helens Metropolitan BC
Stockton-on-Tees Borough Council
Wirral Metropolitan BC




Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment 2012/13
Liquidity	<p>The working capital ratio has reduced over the three years since 2009-10 from 1.96 to 1.61 in 2011/12 reflecting the Council's use of available cash balances. Compared to its nearest neighbours in 2011/12 Wirral has the 5th highest ratio out of the 16 authorities in the family group. Cash balances have fallen by £18.8 million to £19m during 2012/13 and the working capital ratio has reduced further to 1.23.</p> <p>Council Tax collection was 96.8% in 2012/13 which was consistent with 2011/12 but lower than the target of 98.5%. NNDR collection fell from 97% to 95.3% in 2012/13. The Council wrote-off £2.9 million of council tax and NNDR in 2012/13. Sundry debtors had been steadily increasing from £25.7m in 2009/12 to £31.1m in 2011/12. At the end of 2012/13 it had reduced to £30 million, though it would have been higher if action had not been taken in the latter part of the year to write off irrecoverable debts of £1.5m and improve collection. The bad debt provision was deemed to be inadequate and increased by £3.3m.</p> <p>The ratio of locally-collected taxes to revenue grants has risen from 0.78 to 0.84 between 2011/12 and 2012/13 reflecting the impact of reductions in government funding.</p>	 Amber
Borrowing	<p>The long term borrowing ratio (as a percentage of tax revenue) has decreased by 12% reflecting the Council's decreased borrowings since 2009-10. The Council is below the midpoint of its comparator group for the data to 2011/12. It remains at 1.04 for 2012/13.</p> <p>The long term debt to long term assets ratio is 0.41 in 2011/12, having increased from 0.33 in 2008/09. Wirral was the 5th highest in the family group in 2011/12. During 2012/13 the ratio has fallen to 0.37 reflecting management action in the year to reduce borrowing. The Council took action in the latter part of the year to limit unsupported borrowing and reduced it from £17.6m in 2011/12 to £5.6m in 2012/13.</p>	 Amber
Workforce	<p>The Council's sickness absence rate in 2012/13 was 10.5 per FTE which was considerably higher than 2011/12 local government (8) public (7.9) and private sector comparators (5.7) and whilst the trend in local government and the public sector over the last five years has been reducing, the trend at Wirral has increased. The Council needs to closely monitor sickness absence rates and work towards a target more consistent with the local government or public sector average.</p> <p>During the year the Council spent £2m on agency and consultancy costs to deal with capacity issues and drive improvement.</p>	 Red

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment 2012/13
Performance Against Budgets: revenue & capital	<p>The Council's 2012-13 revenue outturn was an overspend of £4.7 million including overspends against revised budgets within individual departments totalling £16.3 million made up of Adult Social Services £11.4 million, Children and Young People £1.9 million, Law, HR and Asset Management £1.6 million and Technical Services £1.4 million. The total gross overspend against individual budgets was £19.0 m. This was offset by action in Finance and Regeneration.</p> <p>The capital programme underspent by some £8.7 million against the approved budget of £42 million. This budget had already reduced from the £74.4 million approved in 2011/12 and included slippage of £34 million from that year.</p>	 Red
Reserve Balances	<p>Overall, the Council's level of available reserves stood at 13% of the Council's gross revenue expenditure in 2011/12 although the £20.8m general fund balance did not take into account the use of £14.6 million to fund committed expenditure in 2012/13 which would have resulted in a reduction to 12% and meant that the general fund balance was less than 1% of gross expenditure. In 2012/13 earmarked reserves have been reduced by 25% to help fund the overspend identified in September 2012. However, the level of available reserves remains at 12% of the Council's gross expenditure as the general fund balance was re-assessed and increased during the year. The general fund balance at the end of 2012/13 was £27.4m including £10.2m to fund the 2013/14 budget leaving £17.2m in available balances (2.3% of gross expenditure).</p>	 Amber
Schools Balances	<p>The level of school balances was 6% of the Dedicated Schools Grant in 2011/12 which was around the median for the family group. For 2012/13 the level increased slightly to 6.6%.</p>	 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

2012/13



Red

Outlook



Amber

Area of focus	Summary observations
<p>Focus of the MTFP</p>	<p>During 2011/12 and the first half of 2012/13 the Corporate Plan was subject to constant change impacting adversely on the Authority’s ability to plan and prioritise over the medium to longer term. It was not underpinned by a robust medium term financial plan that clearly set out how to address the projected shortfall of around £100 million for 2012– 2015. The last Medium Term Financial Strategy (MTFS) was approved by Cabinet on 13th October 2011. Following the appointment of new management in Autumn 2012 the leadership team has been developing the financial strategy for 2013/14 and beyond. A new Corporate Plan was approved by Cabinet on 18th February 2013, informed by the What Really Matters consultation. The latest update to the MTFS was approved by Council in March 2013 and the budget for 2013/14 which relies on over £40 million in savings was approved by the Council on 5th March. The Council recognises that there are still risks to the achievement of financial resilience going forward.</p>
<p>Adequacy of planning assumptions</p>	<p>A report to members in January 2013 identified that the Council has had under budgeting issues for a number of years resulting in substantial year end overspends mainly funded by one off non-recurring income or savings. The projected overspend of £17m at month 3 was identified by the new leadership team in September 2012 and a further report in January 2013 identified that the impact on 2013/14 could be over £25m. This includes £4m for income targets not being met, £10.8m for savings not being achieved and £13.9m for increased demand. The assumptions made in setting the 2013/16 MTFS and the 2013/14 revenue and capital budgets include more realistic income targets, inflation, demand, savings plan level and impact assessments. The 2012/13 budget planning assumptions were not robust and this has had a significant impact on financial plans going forward.</p>
<p>Scope of the MTFP and links to annual planning</p>	<p>Following the approval of the 2013-16 MTFS in March 2013 the Council has been progressing to develop Directorate business plans. These went to members in May 2013 and other strategies including ICT, Asset Management and People are now being similarly updated. Although arrangements were still being developed during 2012/13 the improvement has been recognised in the recent update to the Corporate Peer Challenge in May 2013 that acknowledges that Wirral has established a clear and transparent strategy and timetable for future budget development.</p>

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations
Review processes	<p>The council did well to update its strategic priorities, the Corporate Plan and the MTFS between October 2012 and March 2013 in advance of setting the 2013/14 revenue and capital budgets. However, in the first half of the year there was not sufficient focus on reviewing the previous MTFS approved in October 2011 as illustrated by the reports in September 2012 and January 2013 on the £17m potential overspend at month three and under budgeting respectively.</p> <p>The Council presented a paper to members in April 2013 on planning the budget process for 2014-17 and as part of this refreshed the MTFS to take into account the Chancellor's Budget of March 20th 2013. The Council has also identified that the impact of Government welfare reforms means that Wirral will need an extra £3.2m to help struggling tenants. This clear consideration and the plan to regularly update and report the MTFS to Cabinet demonstrates that there are now more robust arrangements that were not in place during all of 2012/13.</p>
Responsiveness of the Plan	<p>The critical financial position identified by new management in Autumn 2012 and subsequent reports on under budgeting demonstrate that the 2011 MTFS and financial planning to half way through 2012/13 did not employ realistic scenario planning or risk management.</p> <p>The Corporate Peer Challenge in May 2013 recognised that since October 2012 'a great deal of energy and determination has been put into devising plans that are capable of stabilising the finances of the organisation and identifying the savings required for future viability. You have adopted plans for a balanced budget for 2013/14 after an extensive budget consultation exercise... You have rightly put in place robust monitoring arrangements (and) improved financial management discipline across the organisation ...'</p>

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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

2012/13



Red

Outlook



Amber

Understanding and engagement

Area of focus	Summary observations
<p>Understanding the Financial Environment</p>	<p>Until new management was appointed in Autumn 2012, reports to officers and members identified 'pressures' rather than the overspend, 'bad budgets' and the debt position subsequently identified. Members and officers were aware of the challenges but had not considered the full impact of these and it was not until half way through the year that the leadership team started to understand the scale of the problem and acknowledge it as an 'overspend' rather than a 'pressure'.</p> <p>This was acknowledged in the LGA Improvement Plan and a number of leadership programmes were instigated. A new organisational structure was approved during the year and three new strategic directors were in post by the end of the year.</p>
<p>Executive and Member Engagement</p>	<p>For a part of the year, June - October 2012, the s151 officer did not sit on the management team and there were three different Directors of Finance/s151 officers between the start of April and mid October. The new Interim Director of Resources was approved as s151 officer in October 2012 and was on the management team. Since the start of 2012 there have been four different Chief Executives.</p> <p>With the retirement of the substantive Chief Executive and the suspension of four of the directors from June 2012 there was significant reduced capacity during the year though a number of independent consultants were engaged to address this whilst the Council considered its organisation structure. This limited the capacity of members and officers to challenge robustly and lead effectively. Officer and member engagement was identified in the Improvement Plan and the Corporate Peer Challenge in May 2012 identified "There are palpable changes in attitudes and behaviours, and many of the officers and members we met demonstrated and articulated a clearer sense of ownership and responsibility."</p> <p>The budget setting process for 2012/13 was not robust as illustrated by the performance against the budget and the total gross overspend against individual budgets of £19m. The budget setting process for 2013/14 was more robust and included an extensive budget consultation exercise. including a number of workshops with members and senior officers.</p>
<p>Overview for controls over key cost categories</p>	<p>The Council's 2012-13 revenue outturn was an overspend of £4.7 million including overspends against revised budgets within individual departments totalling £16.3 million and a total gross overspend against individual budgets of £19m. This was offset in year by actions in Finance and Regeneration.</p> <p>This demonstrates poor controls over key cost categories although the financial position could have been considerably worse if action had not been taken mid-year to instigate a freeze on expenditure and utilise reserves.</p>

Financial Governance

Understanding and engagement

Area of focus	Summary observations
Budget reporting: revenue and capital	The budget reporting format in place at the start of the year did not highlight the issues that the leadership team needed to address as overspends were termed 'pressures'. In September 2012 new style financial reports were introduced at Cabinet meetings and at Month 3 showed the potential revenue overspend of £17m. These and the new style capital monitoring reports have begun to provide good information to enable effective decision-making.
Adequacy of other Committee/ Cabinet Reporting	The new style revenue monitoring reports also improved the other information used by Cabinet and its Committees, highlighting more clearly and realistically the issues affecting the current and forecast outturn positions, savings and freeze plan position, a discussion of the main financial risks especially those affecting year-end outturn and the increased frequency of reporting has enabled prompt action and steady and managed reduction in the potential overspend. More forward-looking information was incorporated to help promote longer-term financial thinking. The re-styled capital monitoring report provided better management information, for example, the impact of capital borrowing on the revenue fund.

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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

2012/13



Red

Outlook



Amber

Area of focus

Summary observations

Budget setting and monitoring - revenue and capital

The process in place for budget preparation was not robust as it was not capable of ensuring a reliable achievable budget without the significant use of balances, expenditure freeze and other mechanisms put in place to reduce the potential overspend identified part way through the 2012/13 year.

From mid-year the focus of the new senior management team and members was on setting a balanced budget for 2013/14 and a more robust MTFS for 2013/16. During the budget setting process, the Interim Director of Resources raised concerns about the significant challenges for the Council in setting a balanced budget. However, the Council introduced a more robust process to identify, review and assess both growth and savings proposals and a balanced budget was set in March 2013.

Performance against Savings Plans

A report to members in November 2012 identified that savings plans had been 'too vague ... no real criteria ... long payback period ... no prioritisation ... first come rather than strategic ... raided for budget cuts ...' The process now in place to prepare the annual savings programme has improved and the Council is reporting at month three that £28m savings have been achieved against the target of £40m for 2013/14. The 'freeze' is still in place and more difficult decisions will need to be taken to ensure any slippage from, for example, the phasing of staff reductions and restructure and new challenges such as the impact of the welfare reforms can be accommodated within adequate headroom. The budget process for 2014/15 has started early and the processes in place to monitor and report on in-year progress against plan shows evidence of an adequate project management structure where responsibilities and outcomes are identified, those responsible for monitoring have the ability to be able to affect outcomes and there is growing evidence that the Council is proactively managing delivery rather than just reporting on it.

Key Financial Accounting Systems

Our reviews and Internal Audit reviews of critical financial systems over the last year indicate that overall they are generally adequate to produce the information required for financial reporting and monitoring. The Council is currently considering entering into a shared services partnership with another local Council to ensure that systems develop and are appropriate to the business and its future requirements. The accuracy and reliability of accounting systems including payroll, accounts payable, accounts receivable and property, plant and equipment need to be improved and there is still a number of errors in some systems as identified by the Audit Commission's National Fraud Initiative (NFI) exercise.

Financial Control

Internal and external assurances

Area of focus	Summary observations
Finance Department Resourcing	The Finance Department has been subject to considerable disruption and change during the year, including the effect of senior management suspensions, the redundancy exercise, the demands of new and improved reporting and the challenges of reducing the 2012/13 potential overspend, setting a balanced budget for 2013/14 and a robust MTFS going forward. The Council has been reliant on interim arrangements to increase capacity in the short term but has recently restructured and further reduced finance resources. It has appointed a Strategic Director for Transformation and Resources and a new Director of Resources will be starting in November 2013. The Council has also recently entered into an agreement with a neighbouring council for shared resources going forward.
Internal audit arrangements	In our external audit plan presented to the Council in March 2013 we assessed that 'The Internal Audit Service has been subject to significant changes during the year. For the first part of the year we would assess that the Internal Audit service has not provided an independent and satisfactory service to the Council and we can not take assurance from their work in contributing to an effective internal control environment at the Council.' During the second half of the year new arrangements have been put in place and our review of its more recent work indicates an improvement in the judgements made and the evidence that supports them. The Chief Internal Auditor provided his annual assurance statement to the Audit and Risk Management Committee in June 2013 and concluded that limited assurance could be given in respect of the Council's overall control environment.
External audit arrangements	The key conclusions from the last external audit Annual Audit Letter and ISA 260 report were that the Council had not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources: '... during 2011/12 the Council did not have robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. In particular there were weaknesses in leadership and financial governance that have diverted action from delivering improvement...' These inadequate arrangements continued for at least half of the year but the new senior management team has quickly taken responsibility for driving improvement.
Assurance framework/risk management	The Chief Internal Auditor's annual report for 2012/13 concluded that 'the Council's internal control environment, taken as a whole for the year has provided less than adequate assurance'. In particular, key areas of concern that received 'limited assurance' following review by Internal Audit included performance management and risk management. The Annual Governance Statement published with the Statement of Accounts 2012/13 also acknowledges a large number of significant governance issues. An action plan has recently been agreed to respond to these issues.

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Key Indicators of Financial Performance

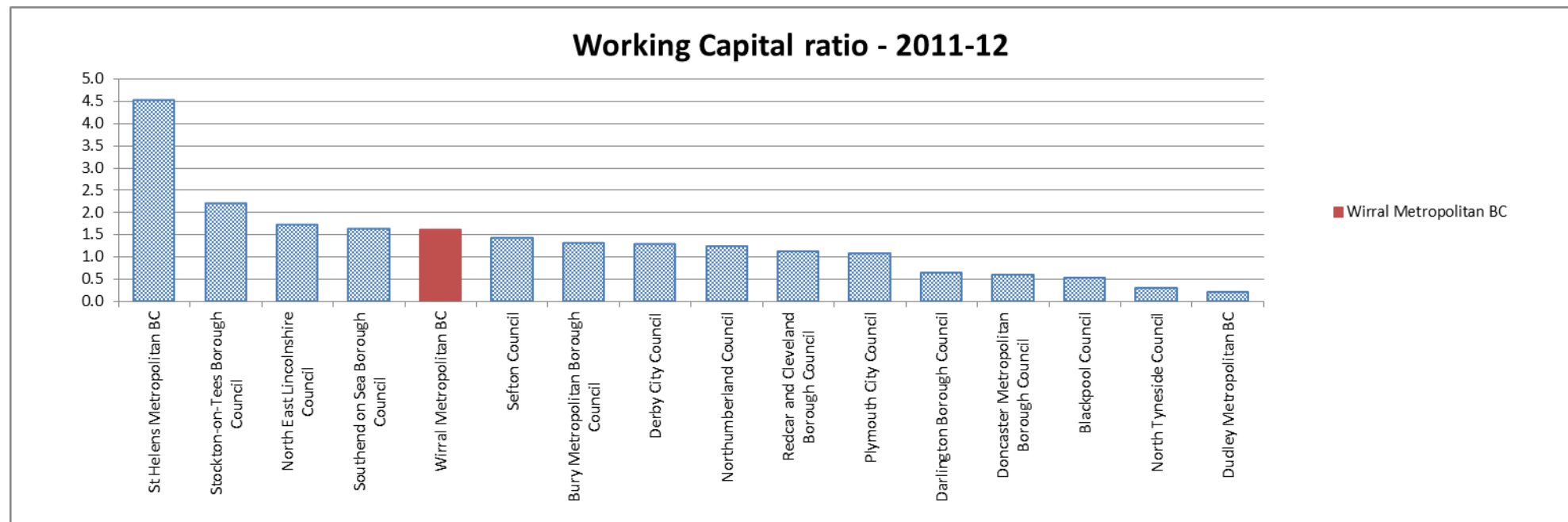
Working Capital - Benchmarked

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

Wirral's working capital ratio was 1.16 in 2011/12 and in 2012/13 has reduced to 1.23, still in the preferred range of 2:1.

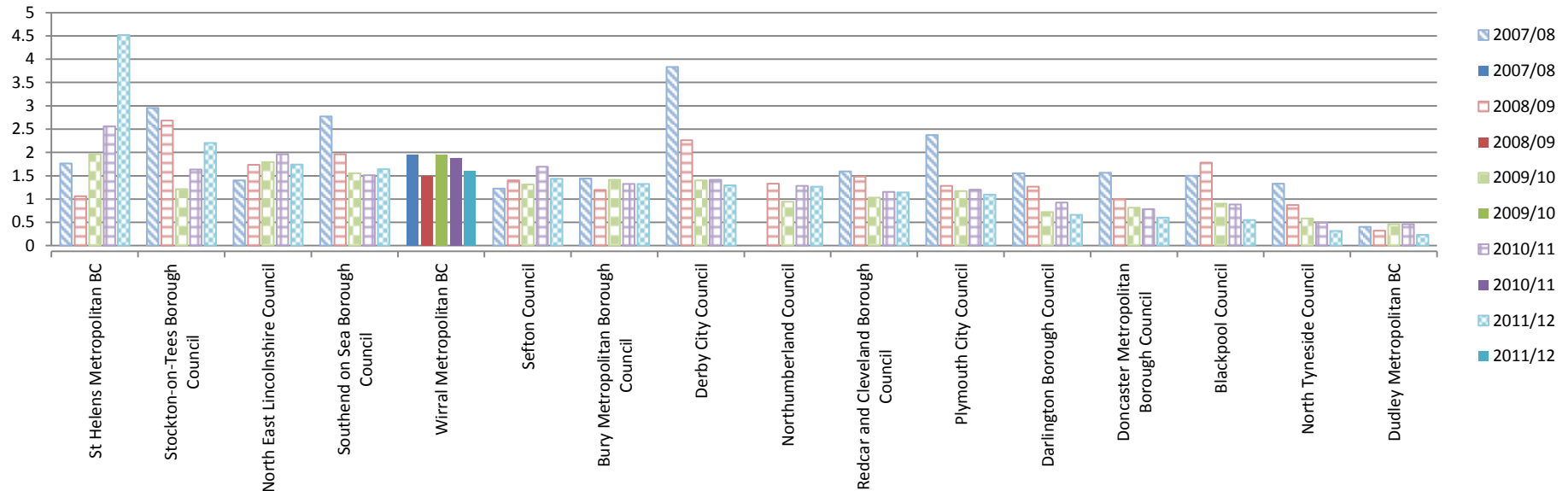


Key Indicators of Financial Performance

Working Capital - Trend

Wirral's working capital ratio has reduced from 1.96 in 2009/10 to 1.16 in 2011/12. In 2012/13 it has reduced to 1.23 indicating the Council's use of available cash balances.

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



Key Indicators of Financial Performance

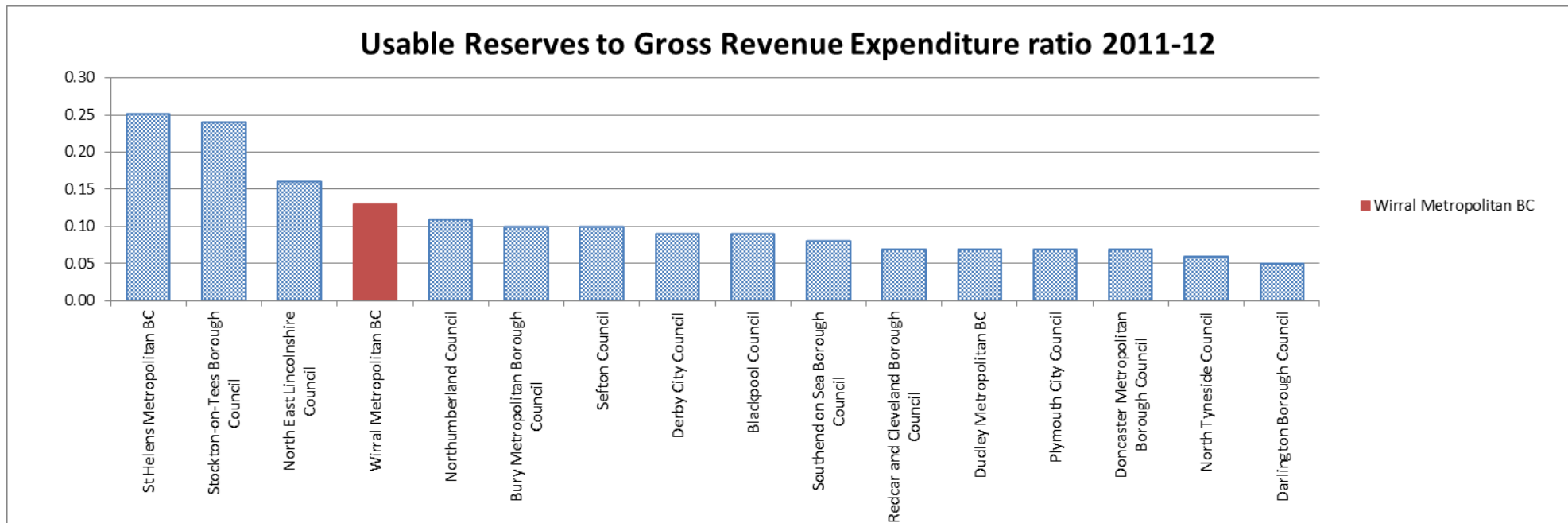
Useable Reserves - Benchmarked

Definition

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

Findings

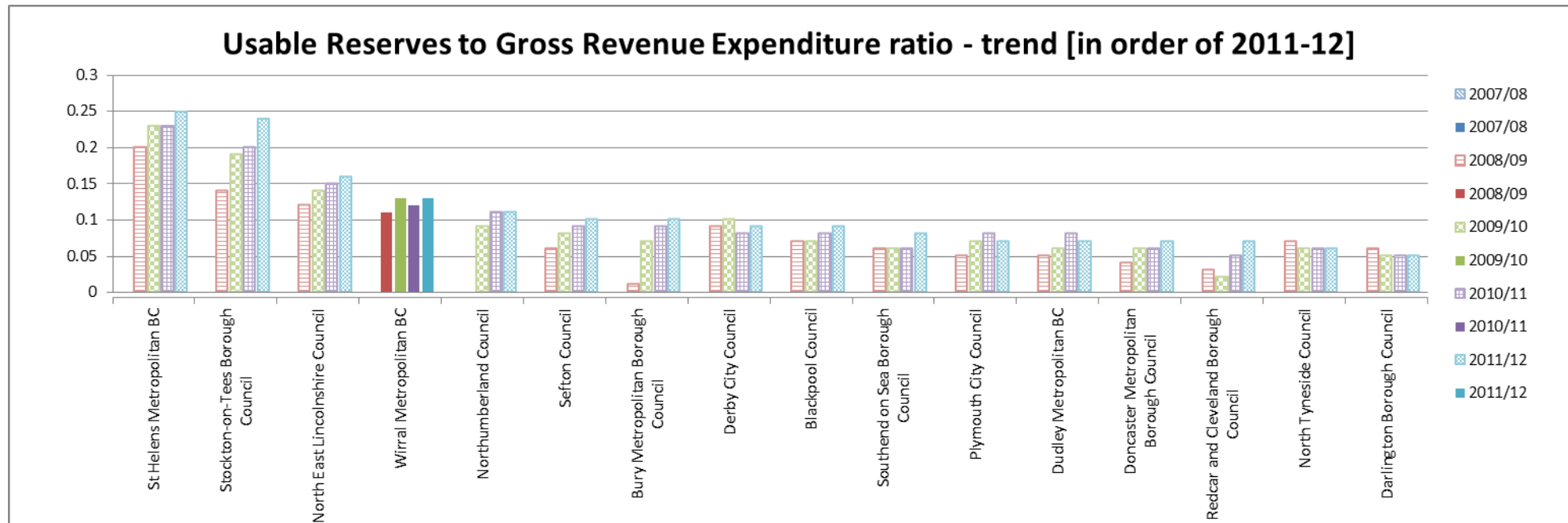
Overall, the Council's level of available reserves stood at 13% of the Council's gross revenue expenditure in 2011/12 although the £20.8m general fund balance did not take into account the use of £14.6 million to fund overspends from the year before which would have resulted in a reduction to 12% and meant that the general fund balance was less than 1% of gross expenditure. In 2012/13 earmarked reserves have been reduced by 25% to help fund the overspend identified in September 2012. However, the level of available reserves remains at 12% of the Council's gross expenditure as the general fund balance was re-assessed and increased during the year. The general fund balance at the end of 2012/13 was £27.4m including £10.2m to fund the 2013/14 budget leaving £17.2m in available balances (2.3% of gross expenditure).



Key Indicators of Financial Performance

Useable Reserves - Trend by Type

Wirral's usable reserves to gross expenditure ratio was higher than comparators although this did not take into account the large overspends being rolled forward between years.



Key Indicators of Financial Performance

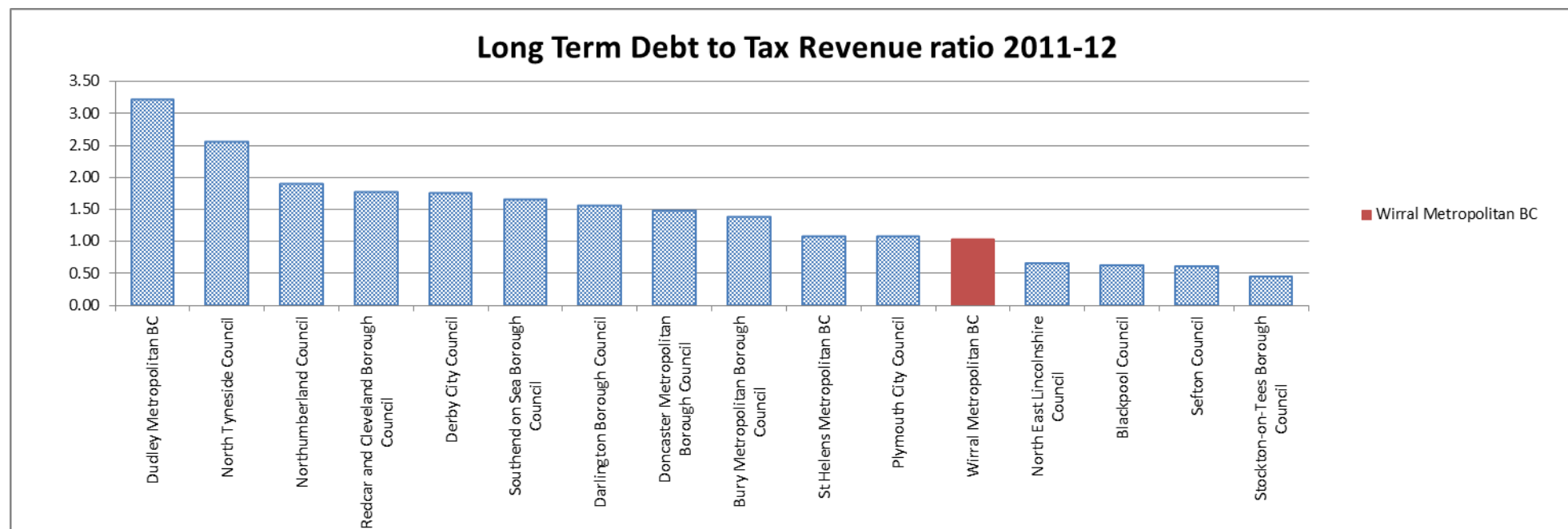
Long Term Borrowing to Tax Revenue - Benchmarked

Definition

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

Findings

The long term borrowing ratio (as a percentage of tax revenue) has decreased by 12% reflecting the Council's decreased borrowings since 2009-10. The Council is below the midpoint of its comparator group for the data to 2011/12. It remains at 1.04 for 2012/13.



Key Indicators of Financial Performance

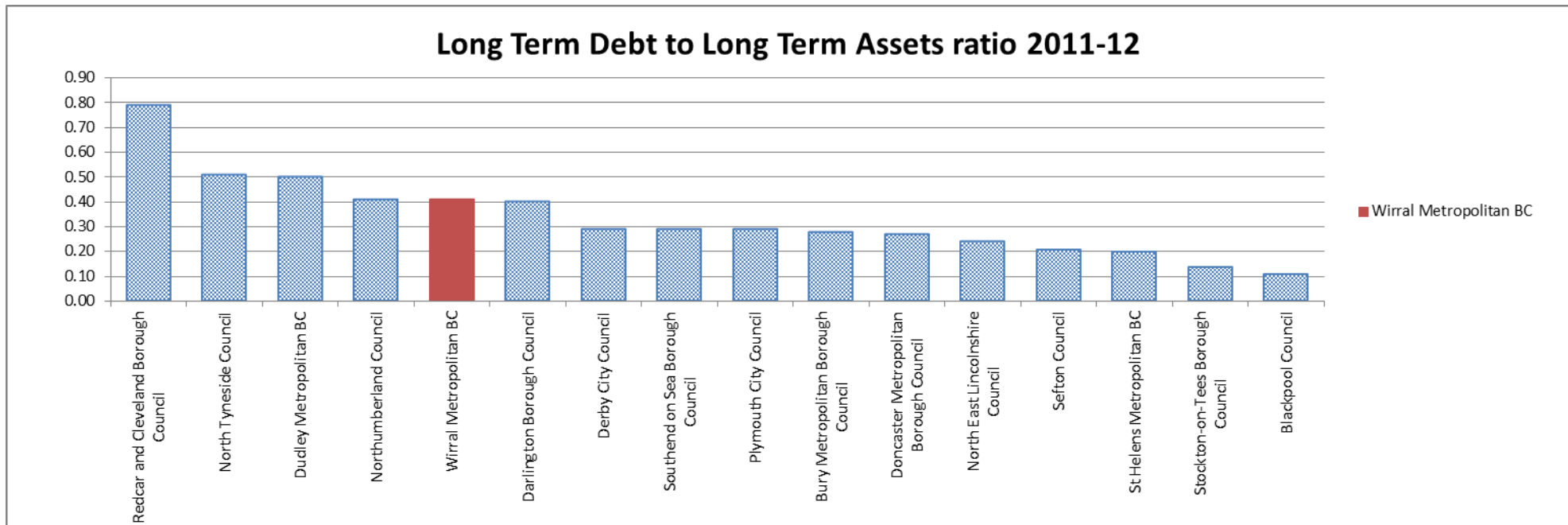
Long-term borrowing to Long-term assets - Benchmarked

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 long term debt to long term assets ratio is 0.41 in 2011/12, having increased from 0.33 in 2008/09 . Wirral was the 5th highest in the family group in 2011/12. During 2012/13 the ratio has fallen to 0.37 reflecting management action in the year to reduce borrowing. The Council took action in the latter part of the year to limit unsupported borrowing and reduced it from £17.6m in 2011/12 to £5.6m in 2012/13.



Key Indicators of Financial Performance

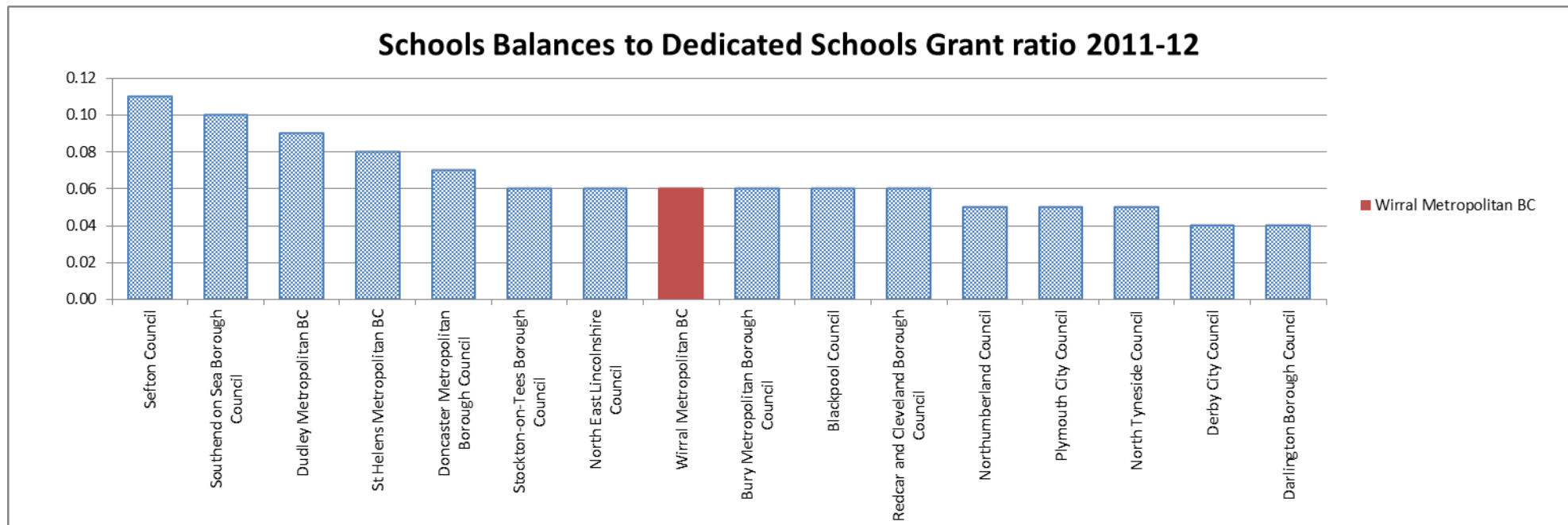
Schools balances to DSG allocation - Benchmarked

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

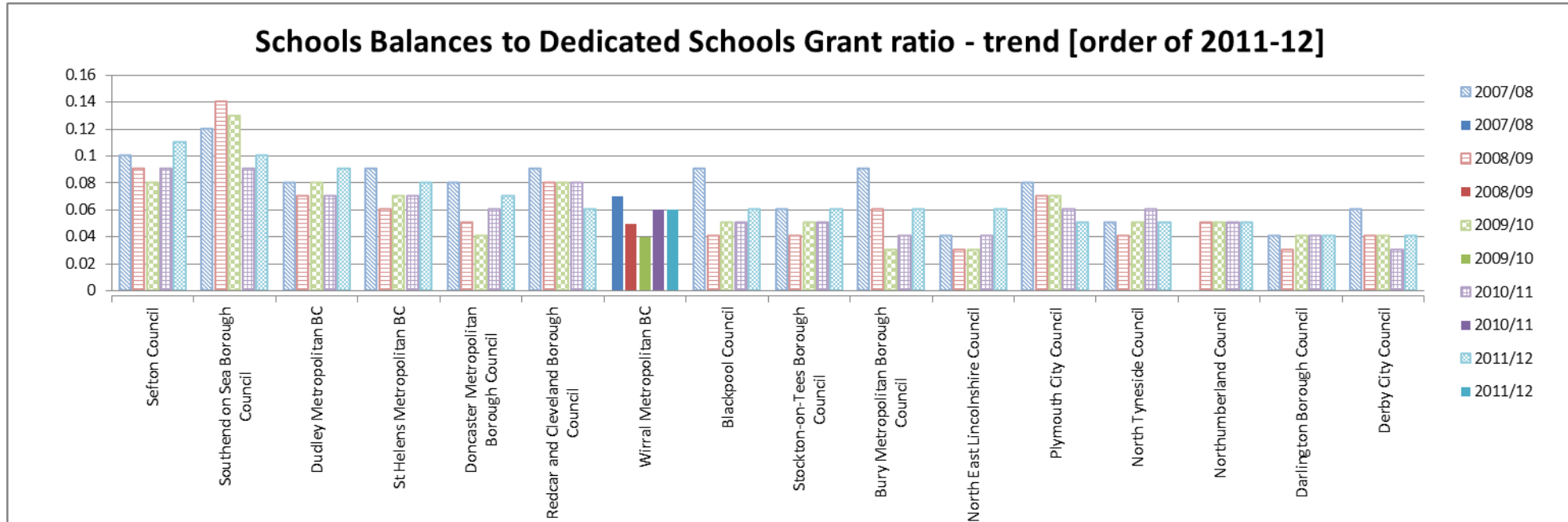
The level of school balances was 6% of the Dedicated Schools Grant in 2011/12 which was around the median for the family group. For 2012/13 the level increased slightly to almost 7%.



Key Indicators of Financial Performance

Schools balances to DSG allocation - Trend

The level of school balances dipped in 2009/10 but have generally remained at an adequate level.



Key Indicators of Financial Performance

Sickness Absence Levels

Background

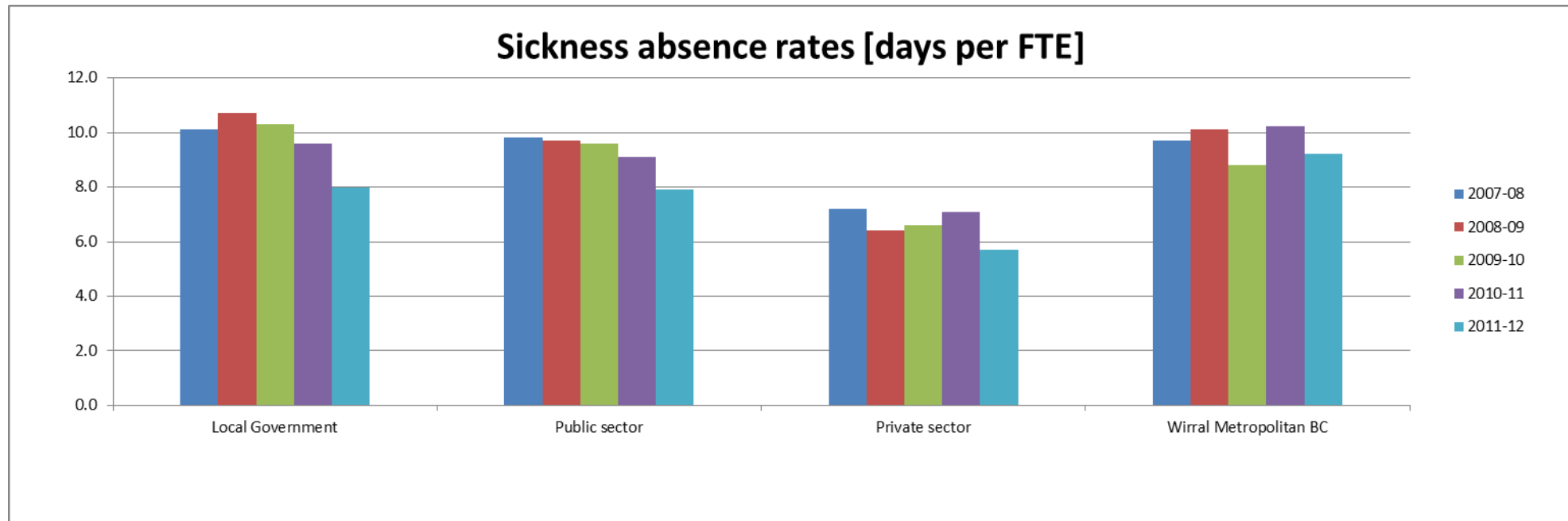
The average sickness absence level for the public sector is 9.6 days per FTE, whilst the private sector average is 6.6. Many councils have taken a proactive approach to reducing the number of days lost to sickness each year. For example:

- 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.
- 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.

Findings

The Council's sickness absence rate in 2012/13 was 10.5 per FTE which was considerably higher than 2011/12 local government (8) public (7.9) and private sector comparators (5.7) and whilst the trend in local government and the public sector over the last five years has been reducing, the trend at Wirral has increased.





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