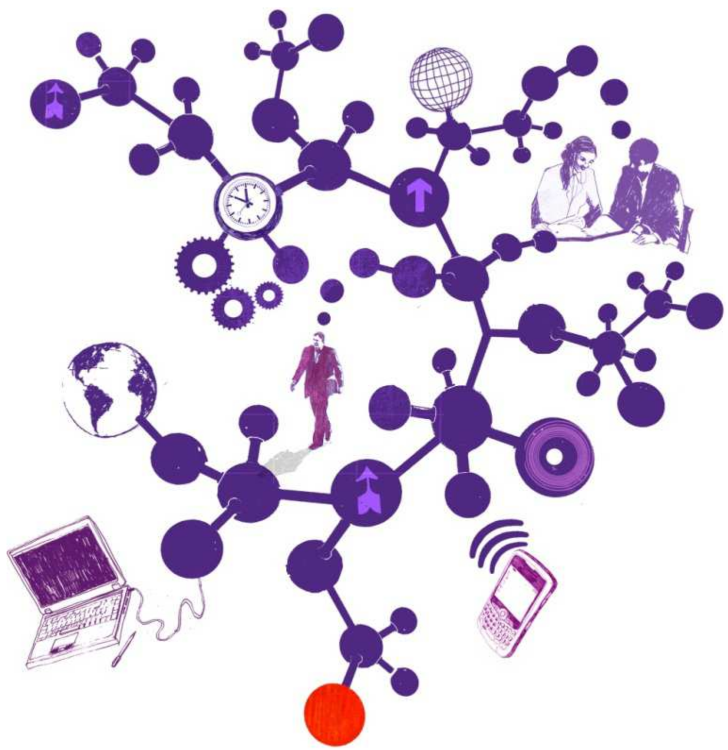
Report on Value for Money for Wirral Council

Year ended 31 March 2014

September 2014



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Introduction

What is this report?

This report summarises the findings from our work supporting our Value for Money (VfM) conclusion, which is required as part of the statutory external audit responsibilities.

It compliments our Audit Findings Report, by providing additional detail on the themes that underpin our VfM conclusion.

Value for Money Conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VfM conclusion based on two criteria specified by the Audit Commission, which support our reporting responsibilities under the Code.

These criteria are:

The Council has proper arrangements in place for securing financial resilience: the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future (defined by the Audit Commission as "twelve months from the date of issue of the report".

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness: the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

The Code require auditors to identify significant risks to the VfM conclusion and to plan sufficient work to evaluate the impact of those risks, if any.

Our approach

The approach involves:

- desktop analysis of relevant documentation
- meetings with key internal stakeholders
- a risk assessment to identify any significant risks.

Our approach is designed to assess:

- arrangements in place related to the specified criteria
- performance during 2013-14 and what that says about those arrangements
- any significant risks that we have identified.

Introduction

What is this context?

Nationally

The 2010 Spending Review set the Coalition Government's financial settlement for the four years to 2014/15, and the 2013 Review then covered 2015/16. By the end of this period, central funding to local government will have reduced by 35%.

2013/14 is the third year of councils having to deliver efficiency savings in response to the 2010 Spending Review and, given the 2013 Review and the budget statement in 2014, this will need to continue for the foreseeable future. Delivering these efficiency savings and maintaining financial resilience is becoming increasingly difficult, even for top-performing councils. The challenges include:

- responding to welfare reform; and
- the drive towards more integrated health and social care.

Demand for many demography-driven council services is expected to rise, whereas demand for some income-earning services is falling.

To fulfil their statutory requirements, councils must continue to provide certain services. But the opposing trends in funding and demand will create a sizeable funding gap even if carefully managed. In short, the sector is working through its greatest financial challenge of recent times.

Locally

Between 2011/12 and 2013/14 the Council was required to achieve savings of £106.8 million., including a £39 million budget shortfall in 2013/14. The Council achieved the required financial position, that included the planned use of £10.1 million from General Fund balances, and delivered a £5million underspend at 31 March 2014 mainly due to the early delivery of planned savings.

In February 2014 the Council updated its Medium Term Financial Strategy (MTFS) 2014 – 17 to reflect the further considerable financial pressures that the Council will face including the reduced local government finance settlement and to reflect more realistic budget assumptions. The MTFS sets out a forecast funding gap of £27.5 m in 2014/15 rising to a cumulative position of £83.3m by 2016/17.

The Council completed an extensive consultation exercise between September and December 2013 called "What Really Matters" to help inform the budget setting process. The 2014/15 budget includes savings options totalling £27.5 million., and the financial position reflects a 2% rise in Council Tax and additional funding to the Council Tax support scheme.

The Council has recognised the scale of the financial challenges that it will face and has developed a fundamental proposal designed to transform the Council and help deliver the major savings that are required. The Future Council Programme will seek to ensure that resources are used effectively to achieve the outcomes needed by residents.

Now, more than ever, it is important that councils have sound arrangements for securing Value for Money.

Executive Summary

Overall Risk Assessment

The following significant risks were identified during our VfM planning, which we needed to respond to in the course of our work:

Follow up the progress made on the issues raised in our 2012-13 work and update our understanding of the Council's current position. Our findings will be reflected in our final conclusion.

Assessment of the updates to revenue budgets and the Medium Term Financial Strategy 2014 – 2017 in light of the most recent local government finance settlement and the comprehensive spending review

Review the Council's joint working arrangements with its partners to implement the Better Care Fund.

Overall VfM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against key indicators of financial performance and the three expected characteristics of proper arrangements, as defined by the Audit Commission:

- strategic financial planning
- financial governance
- financial control.

Overall our work highlighted that the Council has made significant progress and has appropriate arrangements in place to manage the financial risks and challenges that it faces.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

Overall our work highlighted that arrangements are in place to help ensure that the Council delivers Value for money.

Executive Summary

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

Green	Adequate arrangements appear to be in place
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

Overview of arrangements

Risk area	Summary observations	High level risk assessment
Key Indicators of Financial Performance	Overall there has been an improvement in the key indicators of financial performance arrangements there is clear evidence that the Council is taking forward areas that need to be strengthened. The majority of indicators highlight an improved position including: • a £5m underspend achieved against the 2013/14 net revenue budget primarily due to the early delivery of planned savings; • The working capital ratio has increased from 1.23 in 2012/13 to 1.51 in 2013/14; • There was slippage of £10.234 million against the revised capital programme agreed in January 2014 of £35.882 million; • Risks around borrowing have continued to be addressed with a further reduction in unsupported borrowing down to £0.7m in 2013/14 greatly limiting the impact on revenue. Long term debt levels have fallen, reflective of management action in year to reduce borrowing; • Long term borrowing a a percentage of tax revenues has decreased by 7% to 0.96, where annual tax revenues now exceed long term borrowing; • A detailed treasury management strategy is in place that is approved by Cabinet annually and the 2013/14 report confirms compliance with treasury limits set and all prudential indicators; • The Council's collection performance during 2013/14 was 95.4% for Council Tax and above the 95.1% target , however, down from the 96.8% achieved in 2012/13. The collection rate for Non Domestic Rates was 96.9% an improvement on the 2012/13 level of 95.3% and above the 2013/14 target level of 95.4%; • Action has been taken to begin to address the issue of historical arrears .In 2012/13 money was set aside for the purpose of writing off old debts and in 2013/14 £2.2m was written off with work continuing in 2014/15; and • Sickness absence across the Council was projected to be 9.17 days per employee in 2013/14 compared to 10.23 days in 2012/13.	Green

Executive Summary

Overview of arrangements

Risk area	Summary observations	High level risk assessment
Strategic Financial Planning	Our 2012/13 report recognised that following the appointment of the new management team in Autumn 2012 significant action was taken to address the critical financial position and to develop a financial strategy for 2013/14 and beyond with the Council approving a revised Medium Term Financial Strategy 2013-16 and annual budget in March 2013. This action has continued throughout 2013/14 with a revised Corporate Plan agreed by the Council in December 2013 and a revised Medium Term Financial Strategy (MTFS) 2014-17 approved by Council in March 2014. This builds on the realistic assumptions established in the previous MTFS and clearly sets out the plans the Council is putting in place to respond to the financial challenges it continues to face. 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 …' Our assessment confirmed that both the MTFS and Corporate Plan had been revised and updated during 2013/14. The current MTFS sets out a revised financial forecast for the period 2014-17 with a total anticipated budget gap of £83.3m over the three years covered by the strategy confirming the significant financial challenges that the Council will continue to face. The Council will need to develop detailed savings plans to address not just the following financial year but for the three years covered by the MTFS.	**Amber**

Executive Summary

Overview of arrangements

Risk area	Summary observations	High level risk assessment
Financial Governance	A senior management restructure was completed in April 2013 with three new Strategic Directors being appointed. The Council recognised that governance arrangements required strengthening to improve decision making including key financial decisions. The Council's Constitution has been fully reviewed with a revised version agreed and adopted in April 2013. A revised set of contract procedure rules and financial regulations to help ensure transparent and robust arrangements are also n place. To help improve financial governance the Council established an Officer Planning, Risk and Governance Group chaired and supported by the Strategic Director for Transformation and Resources, The group met regularly in 2013/14 and worked to provide assurance to both to the Chief Executives Strategy Group and the Audit and Risk Management Committee. This included the comprehensive action report covering the Significant Governance Issues arising from the 2012/13 Annual Governance Statement. This has helped strengthen governance arrangements and lead to fewer issues needing to be included as significant within the AGS. The Council has continued has continued to seek to respond positively to previous governance issues. There has been a marked improvement in both Executive and Member engagement in recent years. The Chair of the Improvement Board concluded that .."It could not have worked successfully though without the work of all 3 group Leaders from Wirral, the strong partnership of the Leader of the Council and the new Chief Executive, the Portfolio Holder for Governance and Improvement and the reformed senior management team."……….. The s151 officer is now part of the Management team and a permanent Director of Resources was finally appointed in November 2013. The budget setting process for 2013/14 was more robust and included an extensive budget consultation exercise , including workshops with both Members and senior officers. We concluded in 12/13 that revised revenue and capital monitoring reports had "begun to provide good information to enable effective decision-making". - This has continued into 2013/14 with the Council continuing to report concise and understandable financial information that uses appropriate terminology.	Green

Executive Summary

Overview of arrangements

Risk area	Summary observations	High level risk assessment
Financial Control	Our 2012/13 Financial Resilience report recognise that 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. The Council introduced a more robust processes to identify, review and assess both growth and savings proposals and a balanced budget was set in March 2013. Further work has continued and the Council has identified the £27.5 million savings required to set a balanced budget for 2014/15. The Council completed a thorough review of income and expenditure ahead of setting balanced budgets for 2013/14 and 2014/15, now supported by appropriate levels of reserves and balances. SMT have demonstrated a sound understanding of the significant future years challenges that the Council face and the Future Council work is well underway where the management team has established a blueprint and basis for this further work on a strategic basis reviewing the whole authority and all of its services. Based on our updated assessment we concluded in our Audit Plan 2013/14 - "that the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council. Our review of internal audit work has not identified any weaknesses which impact on our audit approach" A risk based Internal Audit Plan is developed annually in consultation with service managers and others. The 2013/14 plan was delivered in full and the section met or exceeded 3 of the 4 Key Performance Indicators, narrowly missing the challenging 100% target to issue reports within 10 days of the completion of the fieldwork. Our on going discussions with the Director of Finance have clearly demonstrated a full understanding of the financial implications of the risks facing the Council. The Chief Internal Auditor annual report for 2013/14 concluded that "Assurance can be given that there is a substantively sound system of internal control, designed to meet the Council's objectives, and that controls are generally being applied consistently." – This is a marked improvement from the "less than adequate assurance" conclusion issued in 2012/13. The Finance department continues to have a number of unfilled vacancies and required temporary support to ensure the appropriate completion of the 2013/14 statement of accounts. The Council will need to ensure that sufficient capacity is maintained to meet the continuing financial challenges and to help support the Future Council Programme.	Amber

Executive Summary

Overview of arrangements

Risk area	Summary observations	High level risk assessment
Prioritising Resources	The Senior Management Team have demonstrated an appreciation of the scale of the challenge to reshape the Council to ensure that resources are prioritised and spending reductions achieved with new ways of working being explored. The Council has embarked on the Future Council programme designed to help deliver the significant savings targets required in future years and to ensure that remaining resources are used effectively to achieve the outcomes desired by residents and set out as Council priorities. The Future Council programme builds on proposals developed with consultants , to remodel the organisation aimed at delivering a new organisational structure and a new system of job profiles and pay grades that it is expected will modernise the Council. The programme utilises a business-case approach where every Council service will be reviewed in order that a series of options can be developed to reshape how best to deliver services. The options developed were the subject of wide-ranging stakeholder engagement and public consultation that commenced in June 2014. The approach will involve Council services being grouped and presented according to policy priority and outcome, rather than by directorates and departments. This will enable Members and partners to inform and scrutinise the emerging options with particular emphasis on the outcomes delivered to meet the needs of residents. The approach will consider all the services and expenditure against those outcomes rather than looking at individual services in isolation. This will provide the opportunity for Members to consider potential options for service transformation and alternative models of service delivery. The Council has become more pro-active in its response to the changing needs of their communities and in the face of diminishing levels of funding. Clear evidence of thorough cost/benefit analysis being completed ahead of the decision to postpone pursuing the shared services arrangement with a neighbouring Council while the Future Council programme is taken forward. The Council is now part of the Liverpool City Region Combined Authority designed to bring about closer partnership working and City –regional strategies to secure improvements in the City Regions economy. A joint plan Better Care Fund Plan is in place and it has been signed by the Wirral Health and Wellbeing Board, NHS Wirral CCG, and Wirral MBC. The Better Care Fund plan has a clear vision and strategy provided by 'Vision 2018' and agreed funding levels are in place for future years. The Council have undertaken extensive consultation covering areas that include the transforming Council agenda, as part of the formulation of the current corporate Plan and the MTFS. As part of the preparation of the budget for 2014/15 the Council consulted on its budget proposals, What Really Matters 2013, to achieve the required savings target included in the Medium Term Financial Strategy by a number of means including Public consultation sessions with over 100 events held, a series of direct engagement events, emails being sent to Wirral residents, Statutory consultation with the voluntary, community and faith organisations, Staff consultation via meetings and consultation on specific service budget proposals as necessary.	Amber

Executive Summary

Overview of arrangements

Risk area	Summary observations	High level risk assessment
Improving Efficiency & Productivity	SMT have demonstrated a greater understanding in terms of cost determination and evaluation to inform decision making. The Council realised that alternative delivery models needed to be pursued to help generate savings. A concordat for a shared corporate service was signed by Cheshire West and Chester Council and Wirral Council in July 2013 to explore a shared service including HR, Payroll, Legal, IT, Procurement and Finance. A programme team came together to review their current operating model and identify opportunities for improvement that would result from the partnership. In February 2014, a draft business case was prepared that , currently , did not provide a sound basis for Wirral to recommend to Members to proceed at this moment in time. Whilst the level of eventual benefit (£4m estimated annual) was attractive, the level of investment (over £8m) means that the payback period (three to four years) was not fast enough to meet the budget challenges facing the Council. This is indicative of a Council who understands costs and completes an appropriate review ahead of making an informed decision. SMT realised that a more fundamental and Council wide review was required to fully understand the cost base to then redesign and challenge service delivery. The Future Council programme has been developed to facilitate these requirements.	Amber
Management of Natural Resources	Annual carbon reduction targets are in place and the Council monitor performance throughout the year. In 2013/14 the Council exceeded the target to reduce CO_2 emissions by 13.6% . This has been achieved due to a number of factors including the rationalisation of the Councils estate and continued energy efficient initiatives. The Council has a Sustainability Unit tasked with actively managing a sustainable approach to climate change through the implementation of the Climate Change Strategy and the Corporate Carbon Reduction Programme. The Council has put a range of sustainable policies in place including a Climate Change Strategy 2014 – 2019 and Action Plan, establishing a multi agency Wirral climate change group and supporting the "Cool Wirral" initiative .	Green

Executive Summary

Next Steps

Area for consideration	Recommendation	Responsibility	Timescale	Management response
Key indicators of performance	Continued action is required to address the issue of historic arrears and the Council need to ensure that the management of current debt is also robust. The Council need to closely monitor sickness absence rates and take appropriate action to work toward achieving the target of 8 days.			
Strategic Financial Planning	Ensure that key plans and strategies, including the Corporate Plan and MTFS are updated to reflect the outcome of the Future Council Programme. The Council should develop savings plans for each of the three years covered by the MTFS and set these out within the strategy.			
Financial Governance	As the need for robust governance in local government continues to grow, the Council should ensure it provides support to Members and Officers with responsibility for managing budgets.			
Financial Control	Ensure that the staffing levels within finance are appropriate to allow the Council to address the financial challenges that it faces and to support the delivery of the Future Council Programme. The Council should continue to closely monitor budgets to identify variances at an early stage and ensure appropriate corrective action is taken.			

Appendix 1 – Benchmarking

Our approach

We have made use of the Audit Commission's Financial Ratios Analysis Tool and VfM Profiles Tool to benchmark the authority against its statistical nearest neighbours for relevant KPIs up to and including 2012-13.

We have also made use of published material on rates of sickness absence.

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

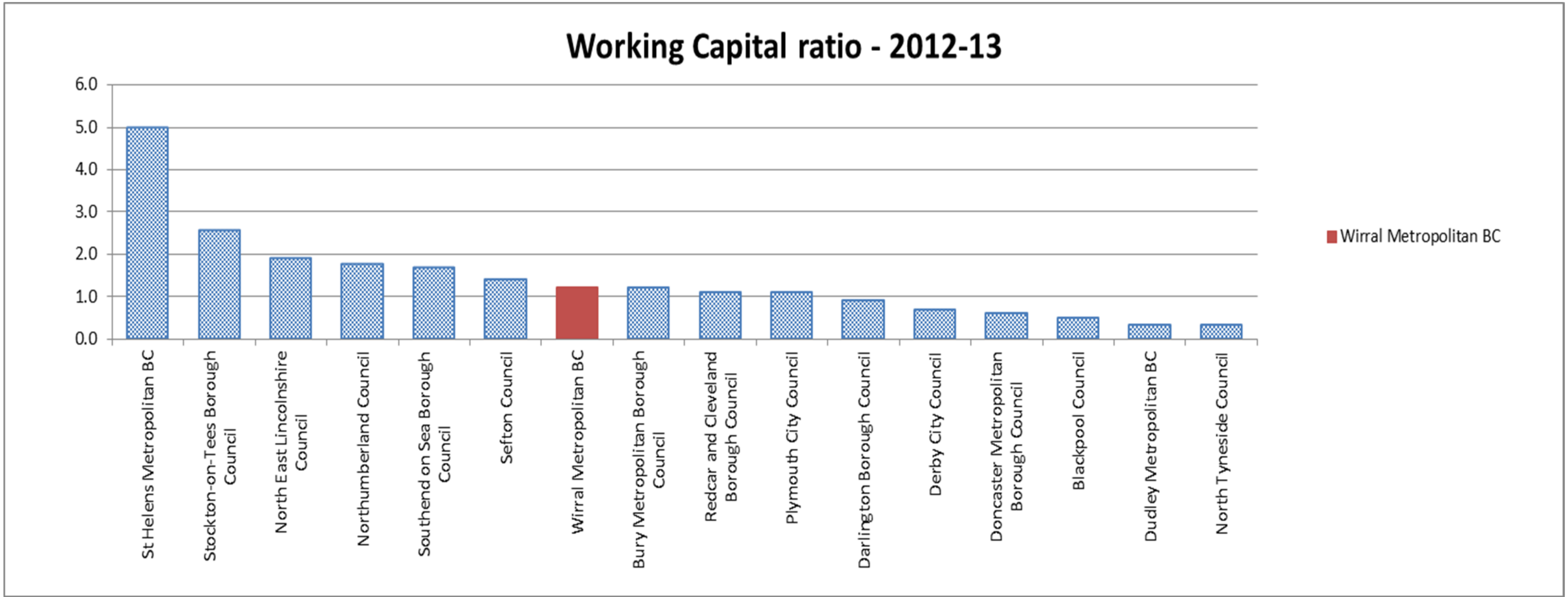
Wirral Metropolitan BC

Benchmarking

Working Capital Ratio – 2012/2013

Definition - The working capital ratio indicates if a Council 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 a Council is not effectively investing its excess cash

Findings - The Council's 2012-13 working capital ratio is 1.23 placing the Council at the mid point of the comparator group. The working capital ratio further increased to 1.51 in 2013-14

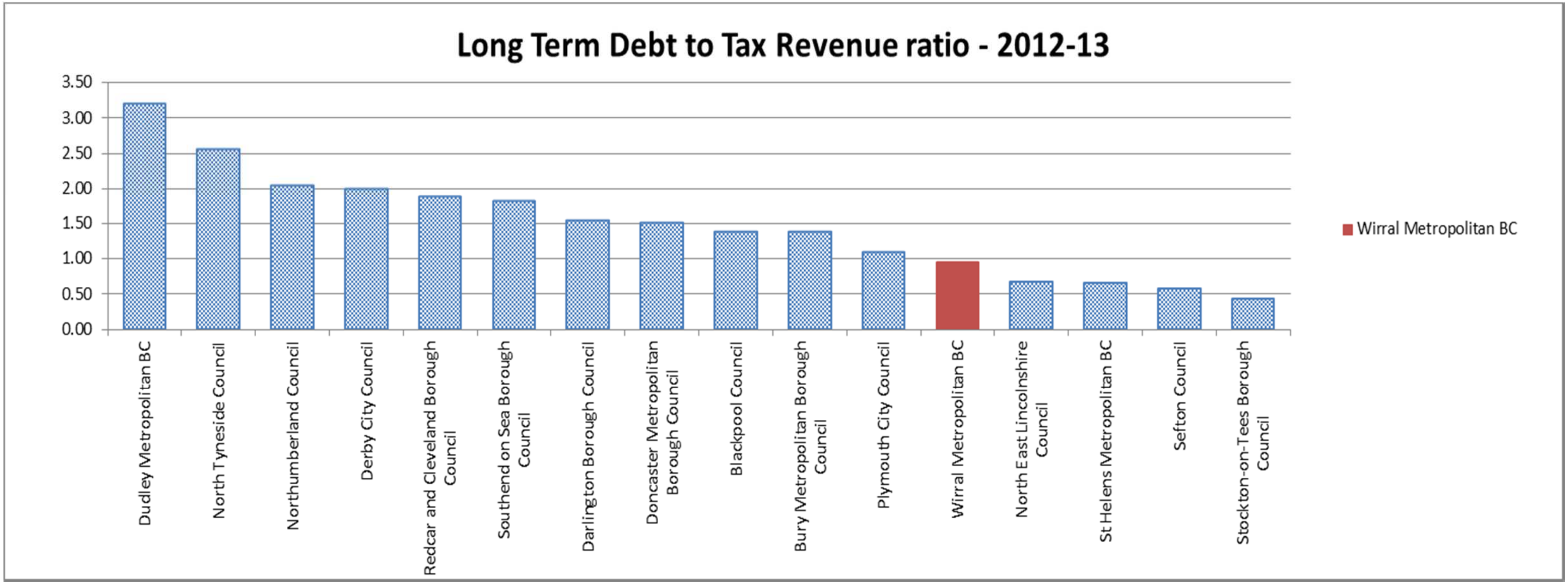


Benchmarking

Long Term Borrowing to Tax Ratio - 2012-2013

Definition - Shows long tem borrowing as a share of tax revenue. A ratio of more than one means that long term borrowing exceeds the total of council tax revenue, national non domestic rate income and revenue support grant.

Findings - The Council's 2012-13 long term borrowing ratio as a proportion of tax revenue is 0.96 (1.03 in 2012-13) placing the Council in the bottom third of its benchmarked group

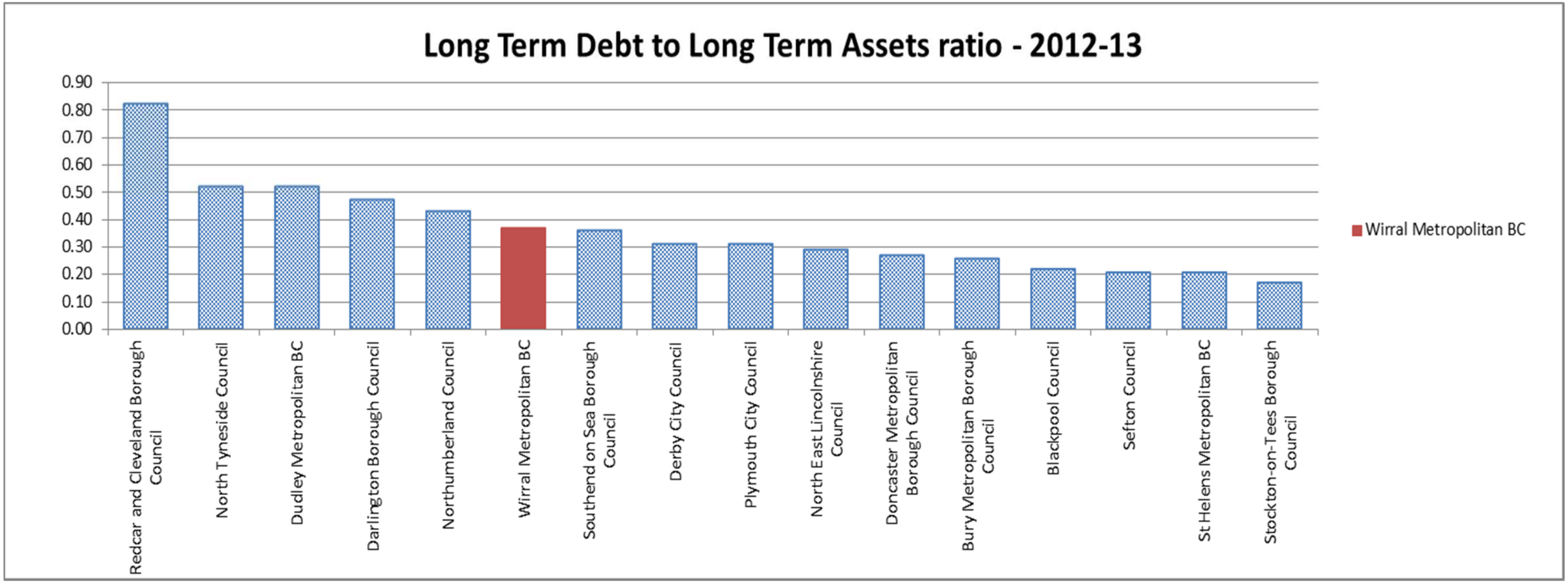


Benchmarking

Long Term Debt to Long Term Assets - 2012/2013

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

Findings - The Council's 2012-13 long term borrowing to long term assets ratio is 0.37, where the value of long term assets is approximately 3 times the value of long term borrowing.



Benchmarking

Usable Reserves to Gross Revenue Expenditure - 2012-13

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 0.12, placing the Council toward the top end of the benchmarked group. This ratio further increased to 0.15 based on 2013-14 draft financial statements.