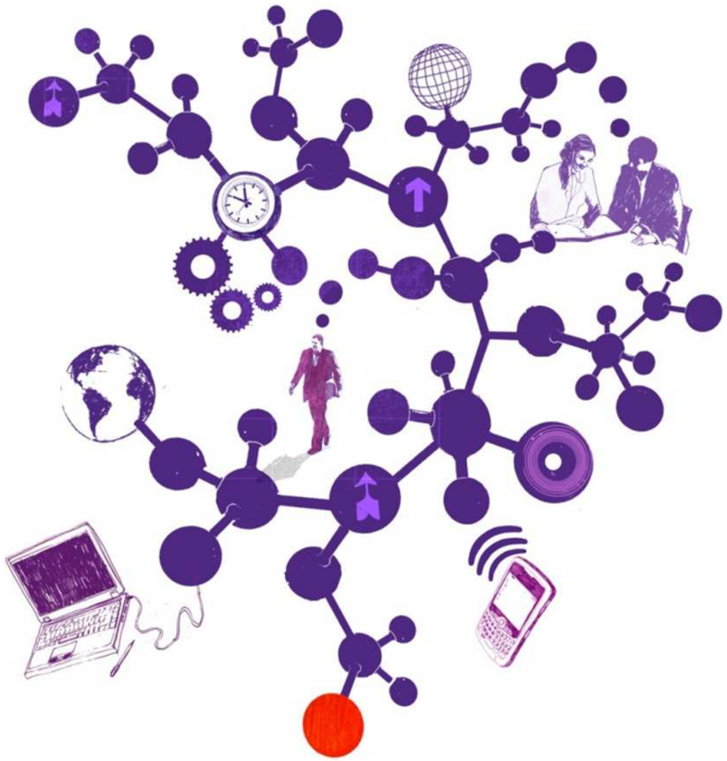
Grant Thornton

# Review of the Council's Arrangements for Securing Financial Resilience for Cumbria County Council

**Year ended 31 March 2013**

September 2013

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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 overall conclusion

Further detail on each of these areas is provided in the sections of the report that follow. Our overall conclusion is that, whilst the Council face some significant risks and challenges during 2012/13 and beyond, its current arrangements for achieving financial resilience are adequate.

Overall we have assessed the Council as GREEN.

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

| | |
|---|---|
| Green | **Arrangements meet or exceed adequate standards**. Adequate arrangements identified and key characteristics of good practice appear to be in place. |
| Amber | **Potential risks and/or weaknesses**. Adequate arrangements and characteristics are in place in some respects, but not all. Evidence that the Council is taking forward areas where arrangements need to be strengthened. |
| Red | **High risk**: The Council's arrangements are generally inadequate or may have a high risk of not succeeding |

# Executive Summary

## National and Local Context

### National Context

The Chancellor of the Exchequer announced the current Spending Review (SR10) to Parliament on 20 October 2010. SR10 represented the largest reductions in public spending since the 1920s. Revenue funding to local government was to reduce by 19% by 2014-15 (excluding schools, fire and police). After allowing for inflation, this equates to a 28% reduction in real terms with local government facing some of the largest cuts in the public sector. In addition, local government funding reductions were frontloaded, with 8% cash reductions in 2011-12. This followed a period of sustained growth in local government spending, which increased by 45% during the period 1997 to 2007.

The Chancellor of the Exchequer, in his Autumn Statement in November 2011, announced further public spending reductions of 0.9% in real terms in both 2015-16 and 2016-17. In his Autumn Statement on 5 December 2012, the Chancellor reinforced austerity measures announcing a further £6.6bn of savings during 2013-14 and 2014-15. Whilst health and schools will be continue to be protected in line with the Government's policy set out in SR10, local government will continue to face significant funding reductions. The Department for Communities and Local Government will contribute £470m of these additional savings, £445m of which will come from local authority funding during 2014-15, with local authorities being exempt from additional savings in 2013-14. In his March 2013 Budget the Chancellor announced further departmental 1% savings during each of 2013-14 and 2014-15. The NHS and schools remain protected, but police and local government will need to find an additional 0.5% over both years.

The next spending round period, 2015-16, was announced by the Chancellor on 26 June 2013. Local government will face a further 10% funding reduction for this period.

These funding reductions come at a time when demographic and recession based factors are increasing demand for some services, and there is a decreasing demand for 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

Cumbria is a sparsely populated county set in the north west with an ageing population of over 499,858 as per 2011 consensus , which covers a geographical area of 14,105 km sq. When compared to England & Wales, Cumbria has lower proportions of residents in the three youngest age groups (0-44 years) and higher proportions of residents in the four oldest age groups (aged 45+). Since Mid-2002, the population of Cumbria has increased by 10,400 people (+2.1%), with the greatest percentage increase occurring in the 85+ age group (+31.6%) and the greatest percentage decrease occurring in the 30-44 age group (-16.9%). (Source: Cumbria Observatory May 2012)

Overall, Cumbria is ranked as 85$^{th}$ out of 149 areas (1 being the most deprived area) in terms of deprivation as measured by DCLG's English Indices of Deprivation 2010 . Cumbria has a diverse landscape in terms of deprivation with the west of the County having pocket of more deprived areas compared to the east.

The Lake district is a major tourist area attracting people from the UK and from all over the world. However, its resident population is not as diverse relative to other areas of the UK. When compared to England & Wales, Cumbria has a much higher proportion of residents who are white British (Cumbria: 96.5%, England & Wales: 80.5%) and much lower proportions of residents from BME groups (Cumbria:3.5%, England & Wales: 19.5%).

# Executive Summary

## Overview of Arrangements

| Risk area | Summary observations | High level risk assessment |
| --- | --- | --- |
| **Key Indicators of Performance** | • Benchmarked key indicators of financial performance indicate that, in general terms, the Council is in the mid range and following recent trends in line with its nearest neighbours comparator group for most indicators. The Council's liquidity is improving and moving in a similar trend to its comparator benchmark group. Working capital will come under increasing pressure during the current spending review period and beyond, so it will need to be carefully monitored.<br>• Overall, the Council's level of available reserves and contingencies provide adequate cover for known financial risks.<br>•The trend of greater long tern borrowing to revenue and long term asset base ratio is as a direct result of more PFI schemes coming on balance sheet, including the development road, waste treatment plants and fire stations.<br>• The Council's 2012-13 net General Fund revenue outturn underspent against revised budget was £0.93m and against original budget it was £9.7m , during a year when around £20m savings have been realised.<br>• There is scope for better profiling of the capital programme, as there was slippage of £28m against the revised budget of £123m during 2012-13 and £40m was moved from original budget to 2013/14 and beyond on Connecting Cumbria. We do acknowledge there are valid reasons for much of the slippage. However, the capital programme update reports should include an assessment of the impact of delays in the capital programme on service standards and delivery.<br>• The Council needs to revisit its arrangements on absence management, which is particularly important in a transitional period of having to deliver challenging saving plans. Average of 12.44 and 10.6(excluding in house adult care provision) sickness absence days per FTE for non school staff is above local government, public and private sector averages.<br>• There is no real trend pattern across the benchmark group for the School balances to Dedicated Schools Grant (DSG) ratio. County's balance of 5% of the total DSG allocation unspent for 2011/12 was the second lowest in the benchmark group. | Green |
| **Strategic Financial Planning** | • The Council has a comprehensive approach to its Medium Term Financial Planning (MTFP), budgeting and identification of saving plans, which are agreed at a corporate level, by senior officers and Members.<br>• The Council has good planning assumptions built into the annual and three year budget processes. The Council is responsive to changes required. There is scope for the Council to consider a more structured approach to factoring in opportunities up side of risk as well as downside risk when considering budget financial risks, although we acknowledge some opportunities are factored into the strategic planning stage.<br>• Further work is required to meet the outstanding budget gap of £20.9m and £26.1m within the MTFP for 2014/15 and 2015/16 to provide greater certainty over the Council's financial health. There are significant financial challenges which require the MTFP to focus resources on Council priorities.<br>• The Council is faced with the continuing challenge of finding further savings which will become increasingly difficult. It will be essential therefore to ensure that its savings plans are clearly communicated, link to specific policy decisions, and that the impact on service levels and quality is clearly identified and monitored. | Green |

# Executive Summary

## Overview of Arrangements

| Risk area | Summary observations | High level risk assessment |
|---|---|---|
| **Financial Governance** | • The Council has a well established approach to financial governance in terms of understanding, stakeholder engagement and monitoring that has delivered positive results in recent financial years.<br>• It is critical that the Council continues to ensure regular on-going open engagement with all the Council's stakeholders in the context of the significant saving plans projected over the coming years. The Council may consider linking public reporting of performance against corporate objectives with future financial challenge consultation.<br>• We acknowledge the Finance Section has the roll out of training for budget holders as a priority in 2013/14. As part of this the Council needs to fully understand, communicate and support budget holders in the enhanced skills and experience required, especially in the context of the significant financial challenges facing the sector.<br>• Overall assessment is that the Council's finance function is well resourced with experienced and capable staff. | Green |
| **Financial Control** | • The Council's has a robust approach to financial management.<br>• The Council also demonstrates appropriate deployment of internal and external assurance mechanisms to give assurance over financial governance.<br>• There is clear evidence that the Council is proactively managing delivery of the savings required rather than just reporting on it. However, the enormity of savings already achieved of over £40m and a further £50m required over a five year period from 2011 to 2016 is significant.<br>• The Council's risk management arrangements are improving but more needs to be done to embed the opportunities and upside of risks to allow members and officers to see the totality of risk and support innovative and different service delivery, which will be required under the current climate.<br>• The Council needs to revisit its risk escalation arrangements as during the course of audit we are aware of one Legal Directorate level risk which should have been considered as a Corporate risk. | Green |

# Executive Summary

## Next Steps

| Area of review | Key points for consideration | Responsibility | Timescale | Management response |
|---|---|---|---|---|
| **Key Indicators of Performance** | • Conduct regular financial resilience reviews to maintain appropriate levels of reserves and monitor the Council's liquidity , which is critical in the current financial climate.<br><br>• Regularly re-profile the Capital programme and report to members an assessment of the impact of any capital project delays on service standards and delivery.<br><br>• Review sickness absence management arrangements and reporting to reduce the recent increasing trend in staff sickness days.<br><br>• Ensure that schools balances, in particular agreed deficits and surpluses continue to be carefully monitored, to ensure school reserves remain at an appropriate levels to Dedicated School Grants. | Corporate Management Team | To be reviewed by December 2013 | **Corporate Management Team to fully consider the recommendations and update the Audit and Assurance Committee in December 2013.** |
| **Strategic Financial Planning** | • Ensure that the MTFP remains responsive, given the scale of the savings still required, and the financial uncertainty that remains within the timeframe of the Plan.<br><br>• Develop a structured approach to considering opportunities/ upside of risk as well as downside risks when considering budget financial risks, to support innovation and change in service delivery. | Corporate Management Team | To be reviewed by December 2013 | **Corporate Management Team to fully consider the recommendations and update the Audit and Assurance Committee in December 2013.** |

# Executive Summary

## Next Steps

| Area of review | Key points for consideration | Responsibility | Timescale | Management response |
|---|---|---|---|---|
| **Financial Governance** | • Ensure regular on-going open engagement with all the Council's stakeholders in the context of the significant saving plans projected over the coming years.<br>• Consider linking public reporting of performance against corporate objectives with future financial challenge consultation.<br>• Ensure the roll out of training for budget holders covers the enhanced skills and experience required comprehensive, in the context of the significant financial challenges facing the sector.<br>• Work with other local authorities to establish new detailed service level and unit cost benchmarking data. | Corporate Management Team | To be reviewed by December 2013 | **Corporate Management Team to fully consider the recommendations and update the Audit and Assurance Committee in December 2013.** |
| **Financial Control** | • Embed the opportunities and upside of risks in the Council's risk management arrangements to allow members and officers to see the totality of risk and support innovative and different service delivery.<br>• Revisit the Council's risk escalation arrangements between directorate to corporate level to ensure risks are managed at the appropriate level. | Corporate Management Team | To be reviewed by December 2013 | **Corporate Management Team to fully consider the recommendations and update the Audit and Assurance Committee in December 2013.** |

# 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
- Useable Reserves: Gross Revenue Expenditure
- Long term borrowing to tax revenue
- Long term borrowing to long term assets
- Sickness absence levels
- Out-turn against budget
- Schools Reserves - Balances to DSG allocations

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

- Derbyshire County Council
- Warwickshire County Council
- Lincolnshire County Council
- Somerset County Council
- North Yorkshire County Council
- Norfolk County Council
- Leicestershire County Council
- Staffordshire County Council
- Gloucestershire County Council
- Worcestershire County Council
- Lancashire County Council
- Nottinghamshire County Council
- Northamptonshire County Council
- Cambridgeshire County Council
- Suffolk County Council

# Key Indicators

## Overview of performance

| Area of focus | Summary observations | Assessment |
|---|---|---|
| **Liquidity** | • Council's working capital ratio has reduced from 1.57:1 in 2007 to 1.3:1 in 2011, increasing again to 1.77:1 in 2011/12 and 1.81:1 against the unaudited 2012/13 accounts.<br>• The County is operating just below the preferred current assets to current liabilities working capital ratio of 2:1.<br>• The Council's liquidity is moving in a similar trend to its comparator benchmark group.<br>• Working capital will come under increasing pressure during the comprehensive spending review and beyond, so it will need to be carefully monitored. | Green |
| **Reserve Balances** | • Council's usable reserves as a share of gross revenue expenditure is in the mid range of its comparator group and has followed a similar upward trend since 2007/08 compared to the upper quartile within the group.<br>• Between 2007 and 2012 Cumbria County Council has increased the ratio of its useable reserves, from 0.07 to 0.12. We acknowledge other factors have influenced this trend. Such as the reduction in overall gross revenue expenditure and since the introduction of IFRS accounts in 2010/11, allowing for greater grant revenue recognition were conditions are met up front which improves the usable reserves position.<br>• Council's usable reserves as a share of gross revenue expenditure is continuing to improve to 0.14 as derived from the 2012/13 unaudited accounts, but we acknowledge this has been largely driven by the new road PFI front loaded grant of £7.8m.<br>• The Council's General Fund balance at 31 March 2013 is £15.133 million which is just above the Council's approved 3 year target level General Fund balances of £15m. The Medium Term Financial Plan for 2013/14 to 2015/16 shows that the Council's General Fund balance will be placed under significant pressure but the general fund reserves are budgeted to remain around £15m. | Green |
| **Borrowing** | • The Council's long term borrowing to tax revenue ratio of 1.09 indicates that its long term borrowing is broadly in line with its tax revenues, which is consistent with the majority of its benchmark group. Based on the 2012/13 unaudited accounts the Council's long term borrowing to tax revenue ratio is continuing to increase to 1.21 at 31 March 2013. This trend is as a direct result of the planned PFI schemes becoming operational and included in the Council's balance sheet.<br>• The ratio of 0.35 shows that the Council's long term borrowing represents approximately one third of its long term assets - i.e. long term borrowing does not exceed its long term assets. This is in the mid range relative to its comparator group. Based on the 2012/13 unaudited accounts the Council's long term borrowing to long term assets ratio is 0.38 at 31 March 2013.<br>• This trend of greater long tern borrowing to revenue and asset base is as a direct result of more PFI schemes coming on balance sheet, including the development road, waste treatment plants and fire stations.<br>• The Council has operated within the treasury limits and relevant prudential borrowing indicators set for 2012/13. | Green |

# Key Indicators

## Overview of performance

| Area of focus | Summary observations | Assessment |
|---|---|---|
| **Workforce** | • The County's sickness absence levels are above all sector averages. The Council's absence level during 2012/13 of 12.44 days per FTE is significantly above the national local government average of 8 days.<br>• The recent upward trend from 10.7days per FTE in 2010/11 rising to 12.44 days per FTE for 2012/13. This represents an increase of 16% over the past three years.<br>• The Council does carry out sickness related performance monitoring but it was not able to produce reliable sickness absence figures from I Trent from 2008 to 2010 and its reporting does not cover school staff.<br>• The Council is targeting specific high sickness areas such as in house adult care provision, which has 23.5 days per FTE in 2012/13. We acknowledge this area of poor performance does have an impact on the rest of the non school staff average for 2012/13, which is 10.6 days per FTE if in house adult care provision staff are excluded.<br>• Given the significant organisational change that is currently taking place, it will be important for senior management to take a robust approach to sickness absence monitoring following the last three year upward trend up to March 2013. | Amber |
| **Performance Against Budgets: revenue & capital** | **Revenue performance**<br>• The Council's total net expenditure actual outturn of £344.7m was £9.7m less than the original budget position of £354.4m. This was largely attributable to a combination of:<br>• £5.4m net transfers to/from reserves for planned expenditure by directorates that is realised in the next financial year.<br>• offset by £9.5m grossing up of PFI grant, which had been included in the budget net of the transfer to reserve at the year end, and Treasury management outperforming the budget by £4.1m.<br><br>**Capital performance**<br>• The County Council Capital Programme outturn for 2012/13 was £94m, which is £29m below the revised Capital Budget of £123m and £22.5m below the original capital budget of £116.5m. This shortfall is made up of £0.932m underspend and £28.270m slippage on schemes. The slippage relates to expenditure on projects agreed as part of the 2012/13 programme that will now fall beyond 31st March 2013, as is common with a rolling capital programme. Commitments are in place for these schemes and financing is in place.<br>Key elements of the slippage include:<br>• £14.1m relating to Children's Services capital schemes some of which are demand led by schools ( devolved formula capital spend) and others that comprise delays due to issues around planning consents, procuring contractors and ensuring minimum disruption by moving construction to during school holidays on school transforming learning schemes. In other areas such as prioritised maintenance schemes; these are being planned strategically, based on updated condition surveys, and will be delivered during 2013/14. | Amber |

# Key Indicators

## Overview of performance

| Area of focus | Summary observations | Assessment |
|---|---|---|
| **Performance Against Budgets: revenue & capital continued** | • £6.7m on Highways and Transportation relating to delays in the Integrated Transport improvement scheme budget where severe weather conditions caused delays to Improvement Schemes and Hadrian's Cycleway, and delays on the CNDR land purchase and ancillary schemes due to protracted legal procedures, which are likely to be concluded so that the expenditure will take place during 2013/14.<br>• £3.7m on Environment including the construction of the new Household Waste Recycling Centre at Lillyhall was programmed to be delivered during 2012/13 but £2.949m will now slip to 2013/14 due to operational issues linked to contractual negotiations.<br><br>Overall the slippage is due to unforeseen events, improved strategic planning for delivery of areas such as capital maintenance schemes and delays in contractual and legal discussions. The Council has re-profiled a number of schemes during the year reflecting up to date information on likely delivery dates e.g. re-profiling £39.4m for Connecting Cumbria into future years reflecting the delay in receiving a decision from Central Government re state aid and major projects approval. The Council could improve its profiling and delivery of the capital programme and in the monitoring reports it should include an assessment of the impact of delays on service standards and delivery | |
| **Schools Balances** | • The Council's share of schools balances in relation to the total DSG annual allocation unspent at year end has always been low or nil. Cumbria has consistently remained one of the benchmarked authorities with the one of the lowest ratios over this five-year period.<br>• For the past two years up to March 2013 the ratio has increased to 5% of the total DSG allocation remaining unspent at the end of the year. Note the establishment of 19 academies during 2011/12 will have influenced this trend as well.<br>• There is no real trend pattern across the benchmark group. Cumbria's balance of 5% of the total DSG allocation unspent for 2011/12 was the second lowest in the benchmark group.<br>• The Council has had a history of schools reserves being used up in the past but the Council has been working closely with schools to manage any deficits and to utilise reserves effectively. It is vitally important the Council continues to closely manage and support schools to manage their budgets. | Green |

# Strategic Financial Planning

## Key characteristics of good strategic financial planning

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

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

# Strategic Financial Planning

## Medium Term Financial Strategy

| Area of focus | Summary observations | Assessment |
|---|---|---|
| **Focus of the MTFP** | • The Council's updated Medium Term Financial Plan (MTFP) for 2013/14 to 2015/16 was approved in February 2013. The revenue and capital budgets for 2013/14 were also set in February 2013 alongside consideration of the updated Medium Term Financial Plan (MTFP) to 2015/16.<br>• The MTFP includes a Budget Risk which has high level sensitivity analysis of worst case scenario and likelihood impact on the budget. | Green |
| **Adequacy of planning assumptions** | • The key planning assumptions included with the MTFP are covered in the Council's "Statement of robustness, adequacy of reserves and budget risk". This does reflect on nationally expected assumptions such as CSR and likely funding trend reductions.<br>• The Council has taken on board a variety of key internal and external driven assumptions including saving plans, income-generating activities, managing assets effectively, inflation and other socio economic demand factors.<br>• The Council does scrutinise options and comparative data but it should also consider benchmarking against other similar authorities.<br>• The Council reviews the assumptions within its medium term plans as new information becomes available to mitigate against uncertainties in the level of future funding to be received from Government and the impact on savings required. However, given the national financial environment and current inherent uncertainties in the level of future funding to be received from Government and impact on savings required in the longer term, this has been assessed as amber. We acknowledge in the medium term up to 2016/17, the Council is effectively modelling the MTFP but external factor uncertainties remain post this period. | Amber |

# Strategic Financial Planning

## Medium Term Financial Strategy

| Area of focus | Summary observations | Assessment |
|---|---|---|
| **Scope of the MTFP and links to annual planning** | • The Full Council in February 2013, considered the MTFP up to 2015/16 alongside the delivery of the Council Plan 2011 to 2014 to help deliver strategic priorities and service need. We acknowledge the budget process considers the Council priorities up to 2015/16 but the Council needs to fully align its future Council Plan with its MTFP.<br>• The MTFP shows the links between the Council's policy and budget frameworks. These then feed into Directorate Service Budget Plans. The MTFP also links to the Capital Programme, Treasury Management Strategy and the Pay policy.<br>• The Workforce Strategy is factored into the MTFP but Organisational Development Plans also need to be aligned to the detailed saving plans. | Green |
| **Review processes** | • The MTFP projections are updated in February each year as part of the budget setting process. More frequent updates to the MTFP have been undertaken over the last couple of years to reflect the changing funding environment, which have been taken through the Cabinet, Scrutiny and Full Council. | Green |
| **Responsiveness of the Plan** | • The Council has demonstrated that it has a process in place to update the MTFP and that it is willing to undertake more frequent updates as required. The arrangements for monitoring savings means that progress can be assessed as part of the updating of the MTFP. The MTFP includes a Budget Risk assessment and mitigation used to reduce the risk level and assess the likelihood estimated financial risk.<br>• The Council does consider the opportunities presented to a degree as well as the downside risks. For example, restructuring Highways Service and Better Places for work project. Opportunities are also considered at the Strategic planning stage. There is scope for the Council to consider a more structured approach to factoring in opportunities up side of risk as well as downside risks when considering budget risks. | Green |

# Financial Governance

### Key characteristics of effective financial governance

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

**Understanding**

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

**Engagement**

- There is engagement with stakeholders including budget consultations.

**Monitoring and review**

- There are comprehensive policies and procedures in place for Members, Officers and budget holders which clearly outline responsibilities.
- Number of internal and external recommendations overdue for implementation.
- Committees and Cabinet regularly review performance and it is subject to appropriate levels of scrutiny.
- There are effective recovery plans in place (if required).

# Financial Governance

## Understanding and engagement

| Area of focus | Summary observations | Assessment |
|---|---|---|
| **Understanding the Financial Environment** | • The Senior Management Team (SMT) monitor the financial position on a monthly basis and any significant issues are highlighted to the relevant portfolio holder.<br>• On a quarterly basis the Cabinet formally considers the revenue and capital monitoring reports. The level of detail in these reports is appropriate, comprehensive and reliable.<br>• The financial instructions and standing orders cover financial management responsibilities and members and officers are adequately financially aware to manage the Council's resources, including impact of outstanding contractual disputes.<br>• Training is provided to improve both members and officers awareness and understanding of financial matters. For 2012/13 this has included training for new Members on financial governance and for officers within finance who have attended technical updates.<br>• One of the key deliverables in 2013/14 is to improved budget monitoring through training for budget holders. This is critical in the context of the savings each directorate will have to achieve over the next three years and beyond. | Green |
| **Executive and Member Engagement** | • The level of senior management and member level engagement in the financial management process is effective and remains appropriate. The S151 Officer has a strong presence and leads an effective finance team.<br>• In terms of consultation on the Budget strategy - annual budget and savings proposals the Council consults with the Chamber of Commerce, third sector organisations, trade unions and the Schools Forum. The Council has factored in this consultation but it will continue to be crucial to ensure regular on-going engagement with all the Council's stakeholders in the context of the significant saving plans projected over the coming years.<br>• The Cabinet and Audit and Assurance Committees provide adequate challenge on financial governance matters. For example, if the Audit and Assurance Committees deem it necessary they will ask for further work on a particular issue e.g. calling officers in to report back to them on overspends and service quality issues in children services. | Green |
| **Overview for controls over key cost categories** | • The quarterly revenue and capital monitoring reports identified a number of high-risk budgets which required detailed monitoring throughout the year.<br>• The quarterly monitoring reports also provided narrative commentary on the individual high risk/ overspend budgets and deployment of contingency revenue gains above budget or other reallocation from underspend areas. | Green |

# Financial Governance

## Understanding and engagement

| Area of focus | Summary observations | Assessment |
|---|---|---|
| **Budget reporting: revenue and capital** | • In year reporting of revenue and capital is sufficiently detailed in terms of high-level summary for year to date, issues affecting the current and forecast outturn positions, and forecast year-end outcome for Cabinet and Full Council to make effective decisions. We acknowledge the capital programme slippage in overall terms is due to unforeseen events, improved strategic planning for delivery of areas such as capital maintenance schemes and delays in contractual and legal discussions. The Council has re-profiled a number of schemes during the year reflecting up to date information on likely delivery dates e.g. re-profiling £39.4m for Connecting Cumbria into future years following the delay in receiving a decision from Central Government re state aid and major projects approval. The Council could further improve its profiling and explicit impact assessment of delays on corporate and service priorities. | Amber |
| **Adequacy of other Committee/ Cabinet Reporting** | • The Council has satisfactory reporting arrangements for reporting financial information to the Council, Cabinet, Scrutiny and the Audit and Assurance committees. Financial reports are now trying to include better links to performance.<br>• Directorate performance is reported to SMT on a monthly basis and any significant performance issues are escalated. However, public reporting of performance has been limited with no obvious public reporting of performance against corporate objectives in 2012/13. | Green |

# Financial Control

## Key characteristics of effective financial control

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

**Budget setting and budget monitoring**

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

**Savings Plans**

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

**Financial Systems**

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

**Finance Department**

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

**Internal Control**

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

# Financial Control

## Internal arrangements

| Area of focus | Summary observations | Assessment |
|---|---|---|
| **Budget setting and monitoring - revenue and capital** | • The Council has well established budget setting processes that encourage involvement and ownership from budget holders. Financial training is also provided to officers and members. The Council has a recent track record in managing finances within budget.<br>• Budget monitoring reports are discussed at SMT on a monthly basis with formal reporting of the financial position in terms of revenue, capital and treasury management on a quarterly basis to Cabinet.<br>• Monitoring arrangements are timely and capable of identifying areas requiring corrective action. | Green |
| **Performance against Savings Plans** | • There is a clear process in place to produce the annual savings plans and progress against the plan is monitored through SMT, Cabinet, Scrutiny and Full Council.<br>• The MTFP required savings of £20.2million in 2012/13 was largely delivered. The Budget planning gap as at February 2013 identified the need for recurrent savings of £24.5m in 2013/14, £20.9m in 2014/15 and a further £26.1m in 2015/16. The Council has plans to deliver the 2013/14 savings and is currently working up options to deliver on circa £50m savings.<br>• There is clear evidence that the Council is proactively managing delivery of the savings required rather than just reporting on it. However, the enormity of savings already achieved of over £40m and a further £50m required over a five year period from 2011 to 2016 is significant.<br>• The new Council priorities and plan will need robust affordability challenge and a focus on ensuring the provision of the right services to the people of Cumbria. | Amber |
| **Key Financial Accounting Systems** | • As part of Internal Audit's plan for 2012/13 it identified 17 systems and processes which were regarded as material to the Council's financial management and production of the Council's financial statements.<br>• Of the 17 material systems 6 were given 'Substantial assurance', 7 assessed as 'Reasonable assurance' and 2 partial assurance and 2 in progress (Capita ResourceLink and quarter 4 follow up financial system final check reports).<br>• Our work and that of Internal Audit has confirmed that the Council's financial system are capable of producing accurate and reliable information.<br>• Internal Audit concluded in its annual report that the Head of Internal Audit is able to provide a reasonable level of assurance that the Council "has adequate arrangements in place to support effective risk management, governance and internal control". | Green |

# Financial Control

## Internal and external assurances

| Area of focus | Summary observations | Assessment |
|---|---|---|
| **Finance Department Resourcing** | • The Acting Corporate Director – Finance and Assistant Corporate Director – Finance (the S151 officer) have corporate responsibility for the finance function. They are supported by the Finance Section who are responsible for the day to day management of the finance function. Senior staff in the finance function are CIPFA or other CCAB qualified.<br>• The Finance function is responsible for financial planning, budget consultation and monitoring, producing the financial statements, treasury management, insurance, creditor payments, financial information systems, procurement and monitoring .<br>• The Council's Finance Team skills and capability have improved significantly recently and this is reflected in the quality of the accounts produced for 2012/13. compared with a poor track record in recent years of not delivering good quality accounts.<br>• Overall assessment is that the Council's finance function is well resourced with experienced and capable staff. | Green |
| **Internal audit arrangements** | • The Council has adequate arrangements in place. The Internal audit function is provided by a shared internal audit consortium hosted by Cumbria County Council.<br>• The internal audit consortium is substantially compliant with the CIPFA Code of Practice, per its self assessment .<br>• Internal Audit provided 2,403 days against the 2,342 day target (102.6%) and 94% of planned audits for year were issued.<br>• 2012/13 saw an increase in proportion of internal audit reports providing reasonable assurance from 40% to 78% between 2011/12 and 2012/13.<br>• Process is in place to follow up implementation of Internal Audit recommendations and report any where no action taken to implement an agreed recommendation. Internal Audit reported no instances where agreed recommendations were not being implemented in 2012/13.<br>• There are a number of improvement areas for Internal Audit required to ensure full compliance with the new Public Sector standards on internal auditing and to realise the benefits of an effective co-ordinated shared Internal Audit Service. | Green |

# Financial Control

## Internal and external assurances

| Area of focus | Summary observations | Assessment |
|---|---|---|
| **External audit arrangements** | • There were a large number of errors identified and related recommendations made in the 2011/12 Annual Governance Report (ISA260 report), including significant issues on PFI related accounting and disclosure, PPE disclosures, Cash flow Statement errors and a classification error in the group accounts.<br>• Management reported progress on implementing the recommendation in the 2011/12 Annual Governance Report to the Audit and Assurance Committee during 2013. This showed that action had been taken on all the recommendations.<br>• Our assessment of progress is very positive as reported in our Audit Findings Report (ISA260 report). | Green |
| **Assurance framework/risk management** | • The Council has a Risk Management policy and strategy in place. and there is a portfolio holder responsible for risk management.<br>• There is an officer based Corporate Risk Management Group who are responsible for risk management within the Council. The Senior Management Team (SMT) review the Corporate Risk register which is then considered on a regular basis by the Cabinet. It is also presented to the Audit and Assurance Committee to assure them that corporate risks and significant project risk are being managed. The Audit and Assurance Committee also actively calls in officers on any high risk area they have concerns about.<br>• The Corporate Risk Register assesses each new and existing risk against likelihood and impact and gives this a score. There is a current action status / control strategy and a target date and target risk score. Individual risks are allocated to a senior management team officers.<br>• Directorate risk registers are also maintained. However, the Council needs to revisit its risk escalation arrangements as during the course of audit we are aware of one Legal Directorate level risk which should have been considered as a corporate risk.<br>• The Council's risk management arrangements are improving but more needs to be done to embed the opportunities and upside of risks to allow members and officers to see the totality of risk and support innovation and different service delivery which will be required under the current climate. | Green |

## Appendix - Key indicators of financial performance

# Key Indicators of Financial Performance

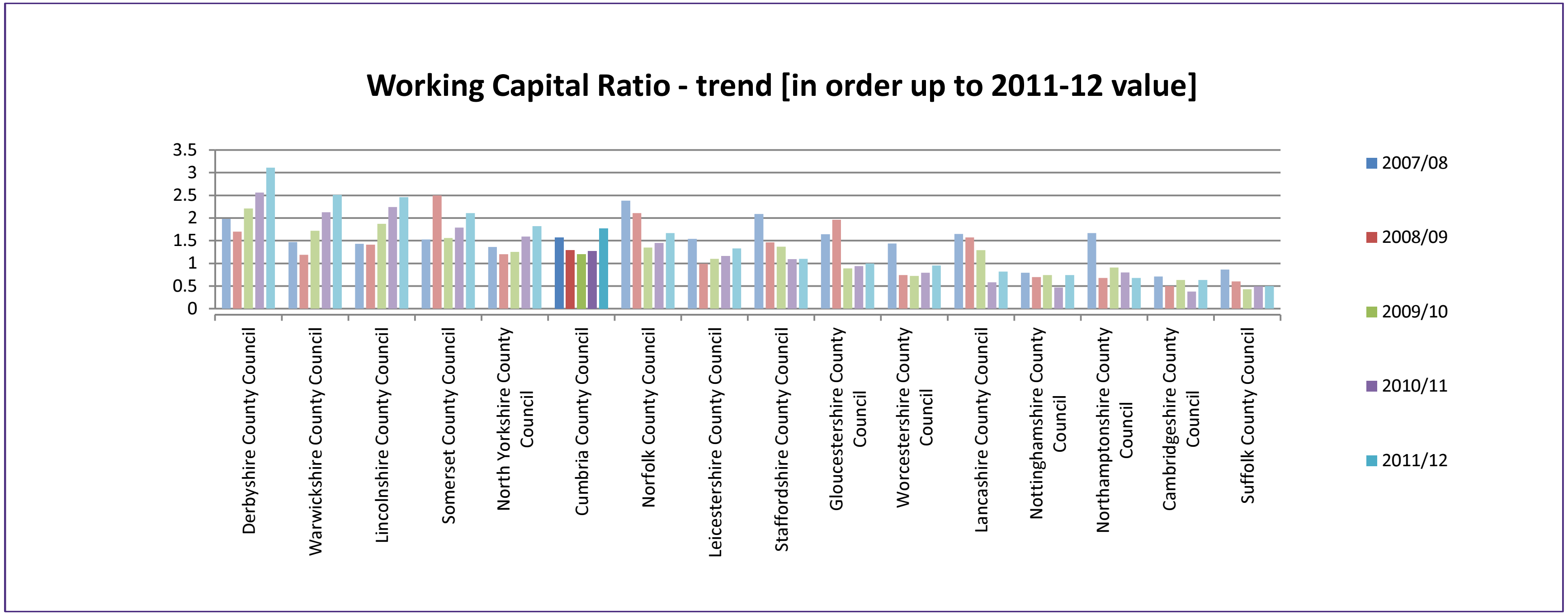
## Working Capital - Benchmarked

### Definition

The working capital ratio indicates if an authority has enough current assets, or resources, to cover its immediate liabilities - i.e. those liabilities to be met over the next twelve month period. A ratio of assets to liabilities of 2:1 is usually considered to be acceptable , whilst a ratio of less than one - i.e. current liabilities exceed current assets - indicates potential liquidity problems. It should be noted that a high working capital ratio isn't always a good thing; it could indicate that an authority is not effectively investing its excess cash.

### Findings

Cumbria County Council's working capital ratio has reduced from 1.57:1 in 2007 to 1.3:1 until 2010/11, increasing again to 1.77:1 in 2011/12. The County is operating just below the preferred range of 2:1. The chart indicates that the Council's liquidity is moving in a similar trend to its comparator benchmark group. Working capital will come under increasing pressure during SR10 and beyond, so it will need to be carefully monitored.




**Source: Audit Commission's Technical Directory**

# Key Indicators of Financial Performance

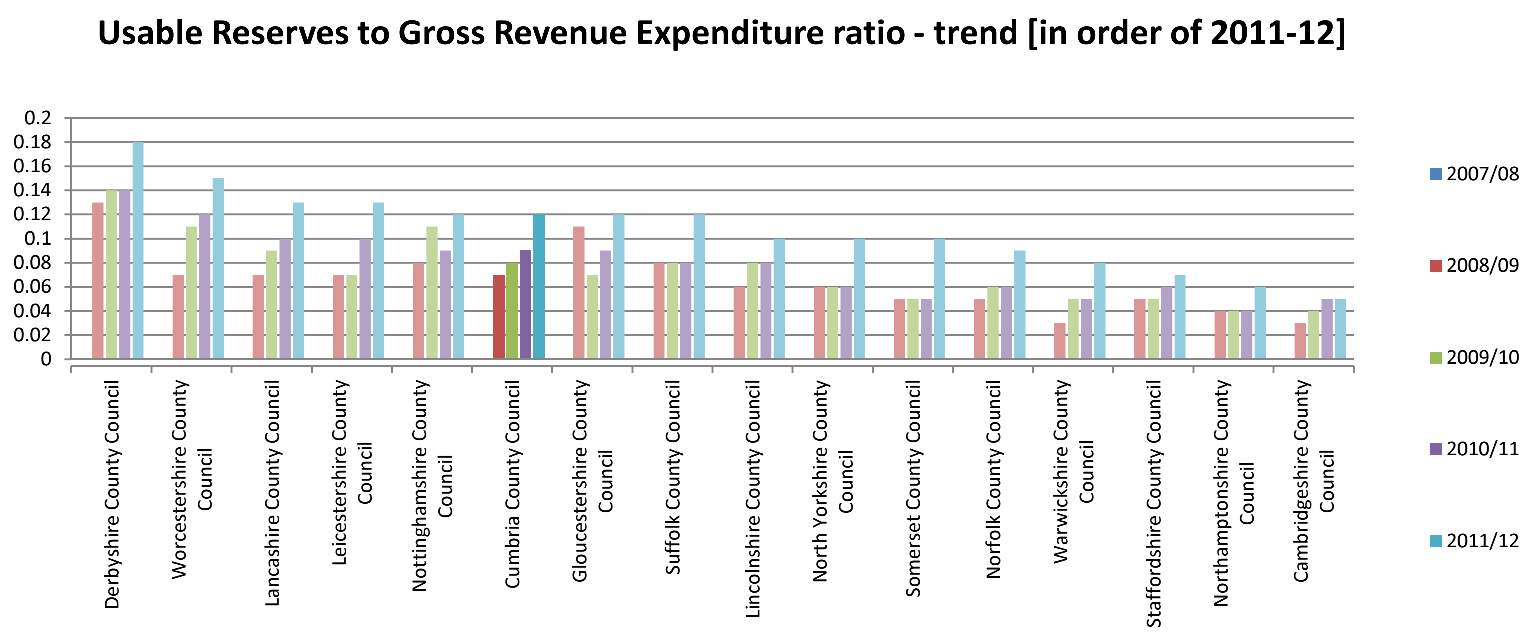
### Useable Reserves - Benchmarked

## 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

Cumbria County Council's usable reserves as a share of gross revenue expenditure is in the mid range of its comparator group and has followed a similar upward trend since 2007/08 compared to the upper quartile within the group. Between 2007 and 2012 Cumbria County Council has increased the value of its useable reserves, from 0.07 to 0.12. We acknowledge other factors have influenced this trend such as the reduction in overall gross revenue expenditure and that since the introduction of IFRS accounts in 2010/11, allows for greater grant revenue recognition were conditions are met which improves the usable reserves position.




Source: Audit Commission's Technical Directory

# Key Indicators of Financial Performance

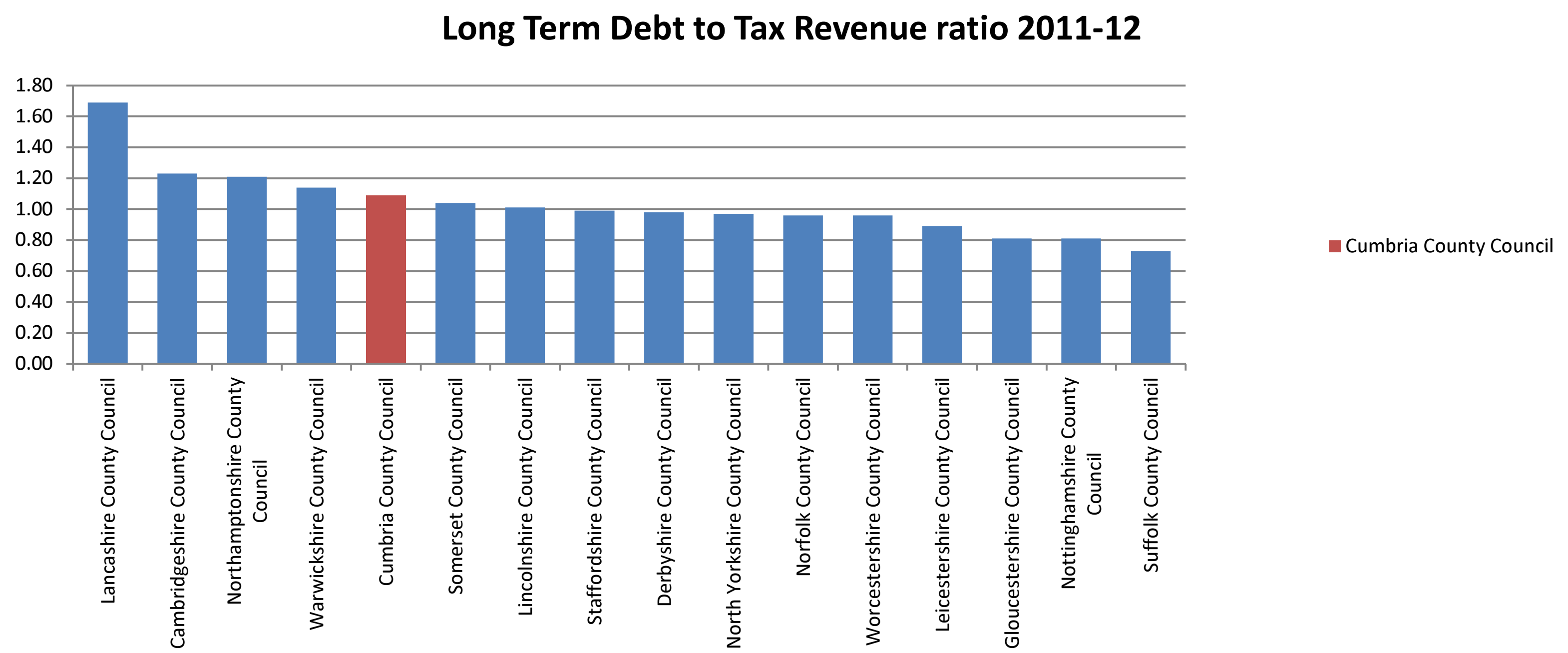
**Long Term Borrowing to Tax Revenue - Benchmarked**

## Definition

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

## Findings

Cumbria County Council's ratio of 1.09 indicates that its long term borrowing is broadly in line with its tax revenues, which is consistent with the majority of its benchmark group.




**Source: Audit Commission's Technical Directory**

# Key Indicators of Financial Performance

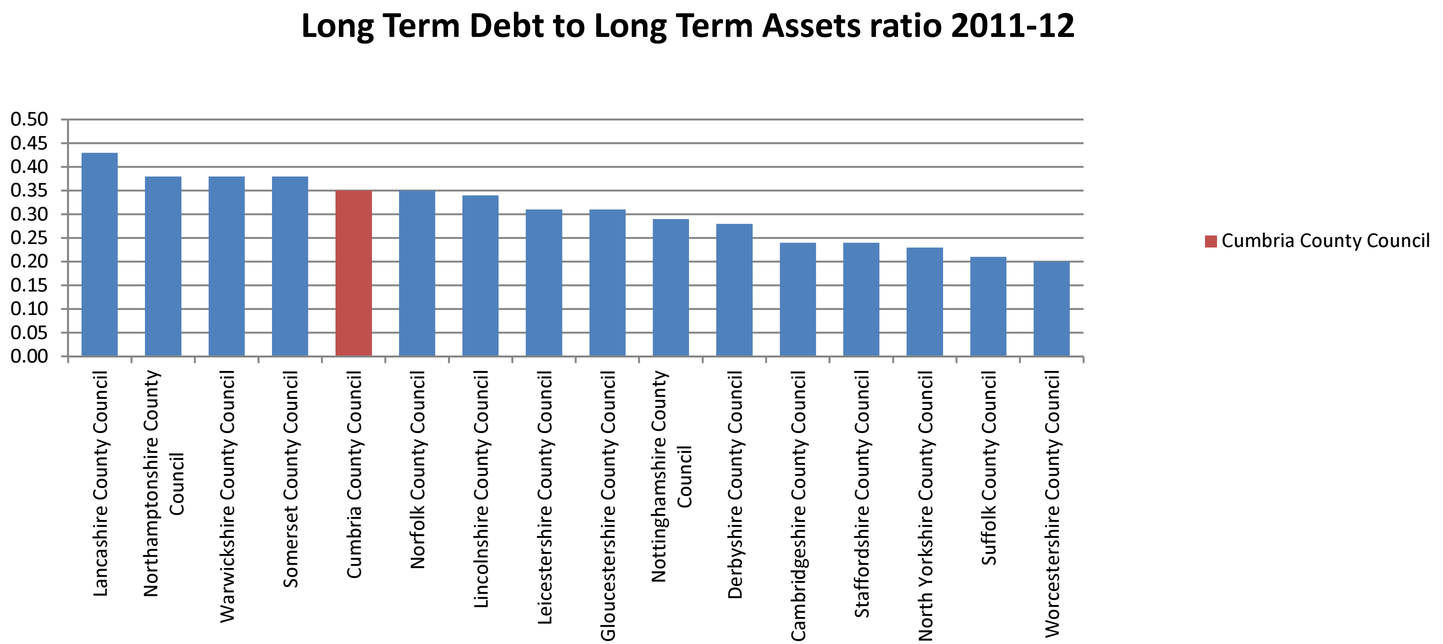
## Long-term borrowing to Long-term assets - Benchmarked

### 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

County's ratio of 0.35 shows that the Council's long term borrowing represents approximately one third of its long term assets - i.e. long term borrowing does not exceed its long term assets. County is in the mid range on its long term debt to long term assets ratio relative to its comparator group.



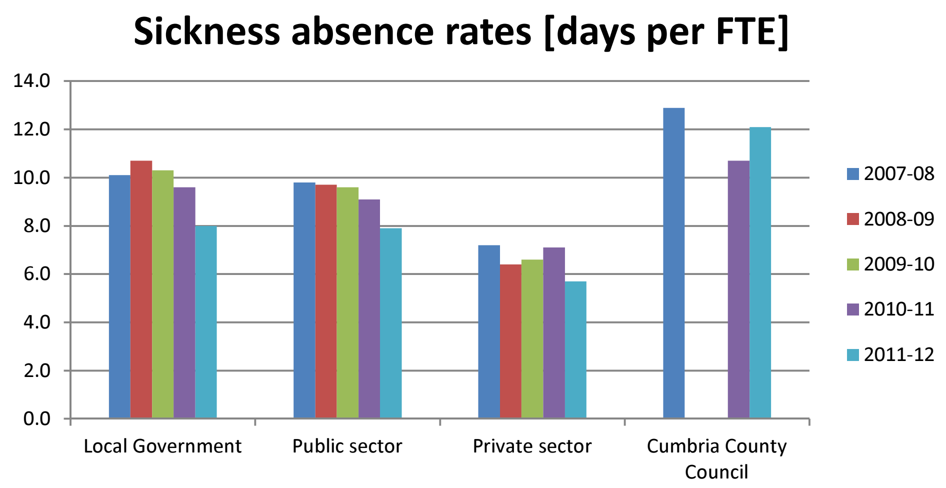

**Source: Audit Commission's Technical Directory**

# Key Indicators of Financial Performance

## Sickness Absence Levels

### Background

The average sickness absence level for the public sector overall is 7.9 days per full time equivalent (FTE) with local government being 8.0 days per FTE. The average sickness level in the private sector is 5.7 days per FTE. Reducing absenteeism saves money, improves productivity and can have a positive customer benefit. Many councils have taken a proactive approach to reducing the number of days lost to sickness each year. 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. Absence management will be a particular challenge for all authorities during Comprehensive Spending Review, given the context of significant pressures on staff to deliver "more for less".




**Source: Comparators taken from CIPD Annual Survey Reports on Absence management but County figures are from I Trent and are for non school staff only. Reliable figures not available for 2008 to 2010**

### Findings

The County's sickness absence levels are above all sector averages. The Council's absence level during 2012/13 of 12.44 days per FTE is significantly above the national local government average of 8 days.

The recent trend is upward moving from 10.7days per FTE rising to 12.44 for 2012/13. Over the past three years, this represents an increase of 16%.

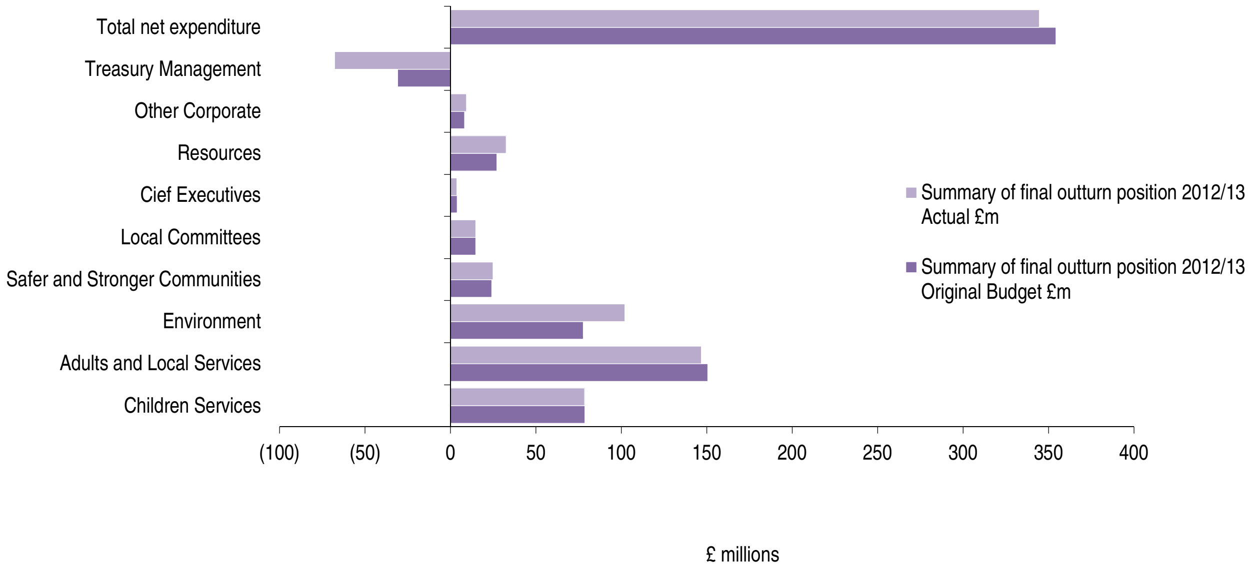
The Council does some sickness related performance monitoring but it was not able to produce reliable sickness absence figures from I Trent from 2008 to 2010 and its reporting does not cover school staff.

The Council is targeting specific high sickness areas such as in house adult care provision, which has 23.5 days per FTE in 2012/13. We acknowledge this area of poor performance does have an impact on the rest of the non school staff average for 2012/13, which is 10.6 days per FTE if in house adult care provision staff are excluded.

Given the significant organisational change that is currently taking place, it will be important for senior management to take a robust approach to sickness absence monitoring following the recent upward trend.

# Key Indicators of Financial Performance

## Performance Against Revenue Budget: Major variances from original budget



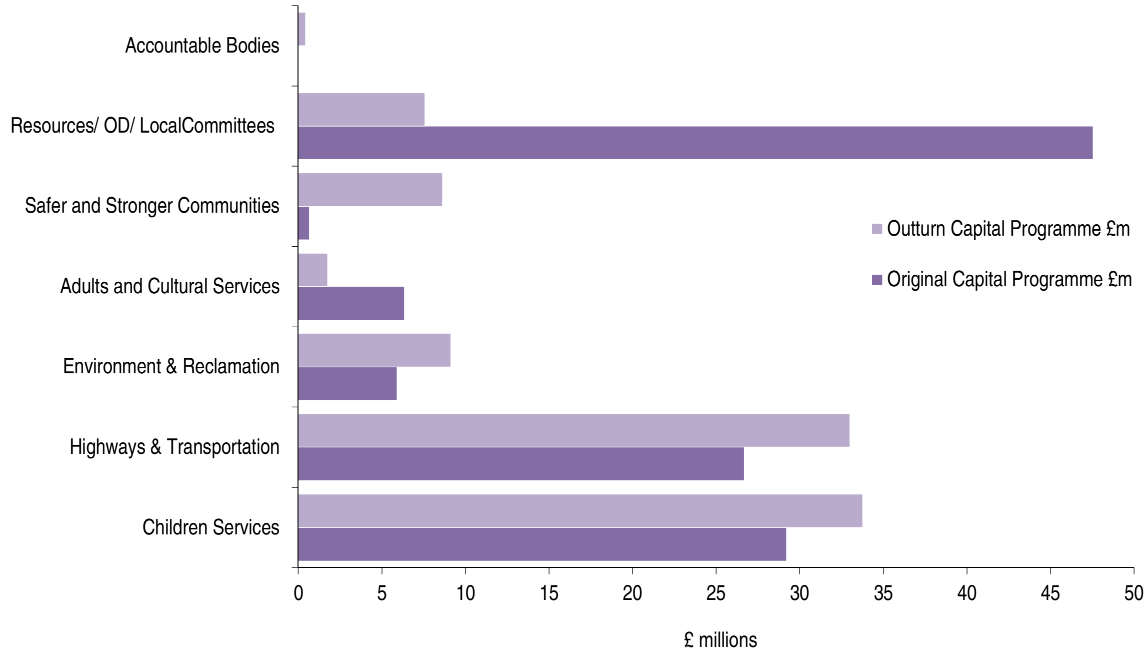

**Source: Statement of Accounts 2012/13**

**The Council's total net expenditure actual outturn of £344.7m was £9.7m less than the original budget position of £354.4m. This was largely attributable to a combination of:**

- **£5.4m net transfers to/from reserves for planned expenditure by directorates that is realised in the next financial year.**
- **offset by £9.5m grossing up of PFI grant, which had been included in the budget net of the transfer to reserve at the year end, and Treasury management outperforming the budget by £4.1m**

# Key Indicators of Financial Performance

## Performance Against Capital Programme Budget: Major variances from original budget




**Source: Provisional Outturn Report June 2013**

**The capital programme outturn for 2012/13 is £94m, which is £29m below the revised budget and £22.5 below original February 2012 approved capital programme.**

**The £29m revised to outturn variance is largely made up of £28.3m slippage on schemes, including:**

- **£14.1m relates to Children Services**
- **£6.7m is on Highways and Transportation on road and flooding betterment.**
- **£3.9m is on Environment Household waste recycling amenities.**

**Overall the slippage is due to unforeseen events, improved strategic planning for delivery of areas such as capital maintenance schemes and delays in contractual and legal discussions. The Council has re-profiled a number of schemes during the year reflecting up to date information on likely delivery dates e.g. re-profiling £39.4m for Connecting Cumbria into future years reflecting the delay in receiving a decision from Central Government re state aid and major projects approval**

# Key Indicators of Financial Performance

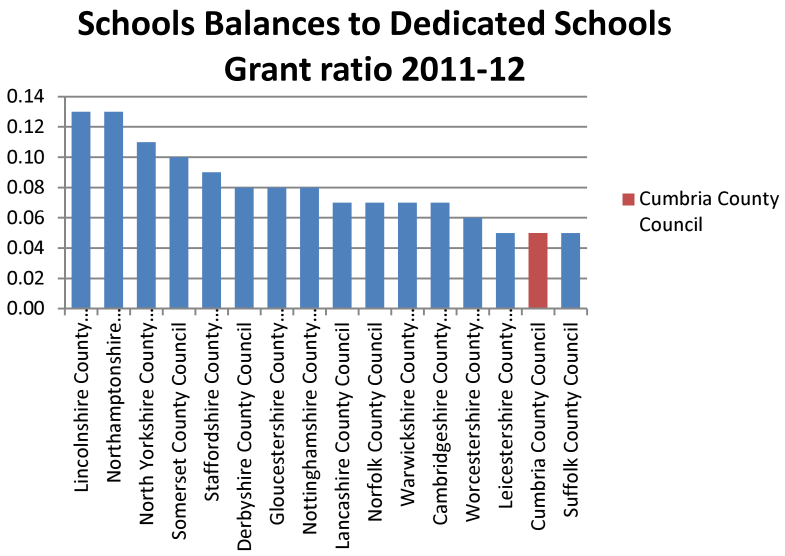
### Schools balances to DSG allocation - Benchmarked

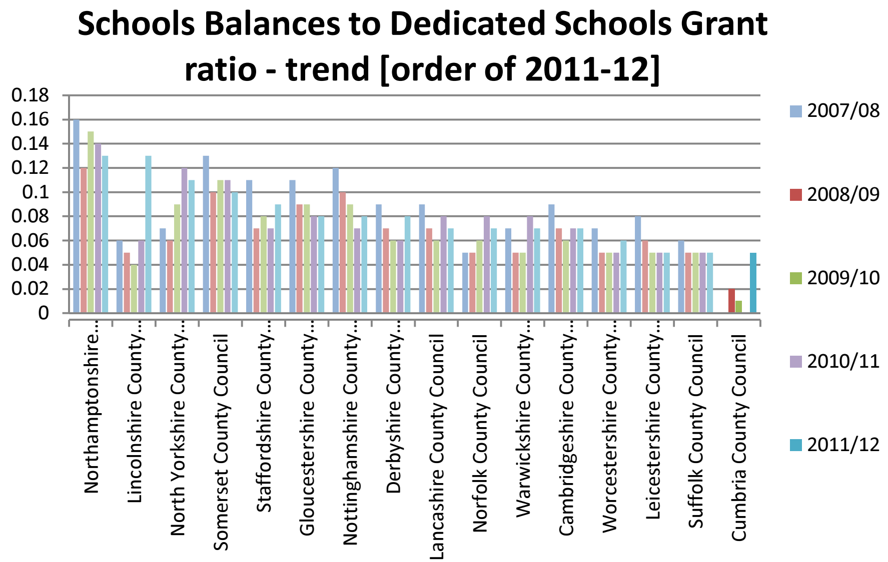
## Definition

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 Council's share of schools balances in relation to the total DSG annual allocation unspent at year end has always been low or nil. Cumbria has consistently remained one of the authorities with the one of the lowest ratios over this five-year period. For the past two years up to March 2013 the ratio has increased to 5% of the total DSG allocation remained unspent at the end of the year. There is no real trend pattern across the benchmark group. County's balance of 5% of the total DSG allocation unspent for 2011/12 was the second lowest in the benchmark group.




Source: Audit Commission's Technical Directory