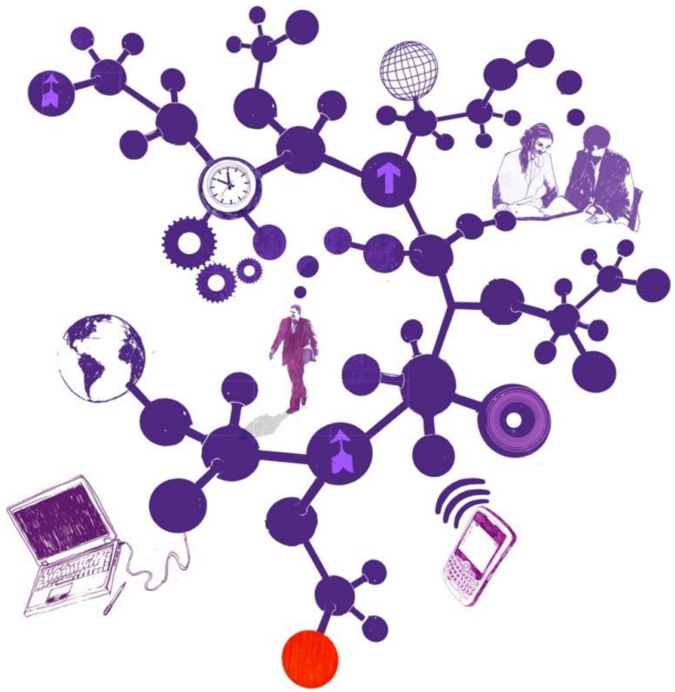
Report on Value for Money for Halton Borough Council

Year ended 31 March 2014

Report date 12 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 requires 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

The Council's 2013-14 budget of £115m was set in the context of a significant reduction of around 6% from the finance settlement and the need to generate some £14 million in savings during the year. The Local Government Finance Settlement announced on 5th February 2014 confirmed a 9.9% reduction in the Council’s Formula funding for 2014/15. Indicative figures show Halton will see a reduction to the 2015/16 Settlement of over £10m or 14%. Halton Council has historically relied heavily on Government grant funding and this means that the austerity measures and the downturn in the UK economy are having a significant impact upon the Council’s funding.

The Council has reflected this in its Medium Term Financial Strategy (MTFS) that was approved in November 2013 and updated in February 2014 as part of the budget report. It identified that revenue savings of approximately £46m are required over the three years from 2014/15 to 2016/17, representing 26% of the gross expenditure budget.

Although officers and members feel that the Council’s current financial position is sound. and there are sufficient reserves and balances to meet existing known risks, it has acknowledged that the funding outlook for Halton over the medium term 'continues to look very gloomy' and significant savings will need to be found.

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

Executive Summary

Overall Risk Assessment

There were no significant risks identified during our VfM planning.

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 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.

However, during the year members did not take officers' recommendations to approve a planning variation in respect of the INEOS/Viridor waste site. This resulted in an appeal to the Secretary of State and a Public Enquiry where members' decision was overruled and full costs awarded to INEOS/Viridor. The Planning Inspector was critical of members' decision and although there has been no claim made yet, the decision by members has put the Council at risk of a claim that could have a significant financial impact.

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 the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

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	There were no significant adverse indicators of performance during the year except for sickness absence that has seen a steady increase from 9.02 days per FTE in 2011/12 to 10.06 days in 2012/13. and 11.24 in 2013/14. Halton's 2012/13 rate of 10.06 days per FTE was higher than the averages of 8.8 days for Local Government and 8.7 days for the Public Sector. Details of key indicators benchmarked against the Council's nearest neighbours is set out at Appendix 1 below.	Green
Strategic Financial Planning	The financial planning process is focussed on the achievement of corporate priorities. The Medium Term Financial Strategy (MTFS) shows that local and national issues are adequately taken into account, assumptions are reasonable and resources are focussed on corporate priorities. The MTFS is kept up to date and supports the annual budget setting process, development of business and other plans and strategies. Halton Council has a good track record of setting a balanced budget, achieving both a positive outturn and savings/efficiencies. • The MTFS has regard to the Councils priority areas: Healthy Halton; Environment & Regeneration in Halton; Children and Young People in Halton; Employment Learning and Skills in Halton; and Safer Halton. It links to the Council's Corporate Plan and the Sustainable Community Strategy. • The 3-year Medium Term Financial Strategy (MTFS) is linked to the Corporate Plan and provides the context and assumptions for preparing the annual budget and the annual budget is then set within this context. The MTFS 2013/14 to 2015/16 was reported to the Council's Executive Board in November 2012 and was updated in November 2013 and February 2014 to inform the 2014/15 budget. It identified shortfalls in funding of £15m, £17m, and £14m over the next three years and as a result a total of £46m will need to be removed from the Council's budget. • The MTFS and the annual budgets demonstrate that the leadership team do not focus primarily on the short term. Review of the savings plans put together for both 2013/14 and 2014/15 show the inclusion of some short term fixes but the focus of savings identification is on recurrent savings. In the past, we identified no weaknesses in the Council's medium term financial planning processes that would cause us to qualify the vfm conclusion or comment negatively on arrangements. The planning assumptions behind the 2014/15 – 16/17 MTFS appear realistic and achievable.	Green

Executive Summary

Overview of arrangements

Risk area	Summary observations	High level risk assessment
Financial Governance	Members and officers have a good understanding of the financial environment and the risks facing the Council. There is good executive and member engagement and adequate internal and external consultation on the budget-setting process. Budget reporting is at an appropriate level of detail to allow good monitoring and decision-making. • The leadership team is made aware of financial matters through a variety of mechanisms including departmental meetings, performance reports to the Executive Board and scrutiny committees, budget seminars and regular meetings between portfolio holders and directorate leads. • Risk management arrangements are in place and in addition to departmental risk registers and the corporate risk register, the Council has a budget risk register that highlights the significant financial risks facing the Council during budget preparations; it is also monitored and updated during the year to provide assurance that the risks to the budget identified are being managed. The main financial risks facing the Council are included in the MTFS. From review of the MTFS 13/14 to 15/16 and the two most recent budgets, 12/13 and 13/14, the Council does not have a high dependence on one source of income. • The Business Efficiency Board is 'the body charged with governance' and its terms of reference includes the core functions of an Audit Committee in line with CIPFA guidance. The main focus of the Business Efficiency Board is on governance and control related issues along with receiving an approving the Council's financial statements each year; it also monitors the efficiency programme. • During the year members of the Development Control Committee were required to make a decision about a planning variation in respect of the INEOS/Viridor waste site; the original planning permission had been approved by the Secretary of State but any variation needed to be decided by the local planning authority. Officers recommended approving the planning variation as there were no grounds to refuse the application. However, members did not accept officers' recommendation and this resulted in an appeal to the Secretary of State and a Public Enquiry was held. The Planning Inspector overruled the Development Control Committee's decision and awarded full costs to INEOS/Viridor. The Planning Inspector was critical of members' decision and stated in his report: “Refusal of the application led to the appeal. This would not have been necessary had the application been approved by the Council in the first place, as recommended by the planning officer. Whatever the reason for Council’s position at the Inquiry, the absence of any evidence to substantiate the single reason for refusal means that its behaviour was unreasonable.....”. Although there has been no claim made yet, the decision by members has put the Council at risk of a claim that could have a significant financial impact.	Amber

Executive Summary

Overview of arrangements

Risk area	Summary observations	High level risk assessment
Financial Control	The process in place for budget setting and monitoring has a history of ensuring reliable and achievable budgets and savings plans. Internal Audit reviewed critical financial systems during the year and all achieved 'substantial assurance'; Internal Audit itself was assessed as effective and fit for purpose. There is a positive history of external audit unqualified opinions and value for money conclusions and the external auditor assessed the Council's arrangements for financial resilience as 'green' across all areas in 2012/13. The assurance framework and risk management processes are sound. • The process in place for budget setting and monitoring has a history of ensuring reliable and achievable budgets. Alternatives are considered and re-forecast before the final budget is agreed and approved. Budgets are actively managed on a frequent basis and reported appropriately. Assets and cash are managed effectively. • Performance against savings plans is good as evidenced by the overall small surpluses in annual outturns over the last few years. • Internal Audit reviewed critical financial systems over the last year and all achieved 'substantial assurance'. Internal Audit's opinion for the year was that the Council operates 'a well-established control environment and there are no significant control issues'. The Operational Director, Finance reviewed Internal Audit arrangements during the year and considers them to be effective and fit for purpose. • There is a positive history of External Audit unqualified opinions and value for money conclusions. In 2012/13 the Council's arrangements for financial resilience were all assessed as 'green' – 'Adequate arrangements appear to be in place'. • The assurance framework/risk management processes are sound and form a part of the development of annual business plans, the budget, MTFS and the corporate and other plans.	Green

Executive Summary

Overview of arrangements

Risk area	Summary observations	High level risk assessment
Prioritising Resources	The Council has a good strategic approach to reducing costs and improving VfM through its strategic financial planning and budget-setting processes and its efficiency programme. Decision-making is based on appropriate and adequate information and although savings plans include some short -term fixes, they are mainly based on recurrent and long-term measures. The Council has developed joint plans to ensure transformation in integrated health and social care through a single pooled budget of over £30m as part of the 'Better Care Fund'. • The Council has strong, focussed and stable leadership as evidenced within the unqualified value for money conclusions given in previous years by the Audit Commission and in our first year (2013/14) as Grant Thornton. There is clear leadership and commitment from the top in terms of setting strategic direction and that includes prioritising resources and spending reductions. The Council has a good strategic approach to reducing costs and improving value for money through its budget setting process and its efficiency programme. Strategic directors and members, through the Budget Working Group, play a key role in identifying and prioritising spending reductions. It is clear that the leadership team understands the Council's current financial position and is aware of the financial challenges facing the Council over the medium term – this is also acknowledged in the 2013/14 pre-audit accounts explanatory foreword. • As part of our VfM work we considered the work carried out by the Council in partnership with Halton CCG and others to agree and develop the Halton Better Care Fund (BCF) Plan, established to ensure a transformation in integrated health and social care through a single pooled budget to support health and social care services to work more closely together in local areas. The plan was jointly agreed at Halton Council's Health and Wellbeing Board and the Council, CCG and partners achieved the timescale and assurance requirements set by NHS England. The plan includes protection for social care services and 7 day services in health and social care to support patients being discharged and to prevent unnecessary admissions at weekends. It also supports better data sharing between health and social care and a joint approach to assessments and care planning to ensure that where funding is used for integrated packages of care, there is an accountable professional. • The Council is involved in a number of key strategic partnerships, has regular dialogue with its partners and through this, and the service planning cycle, it develops its understanding of the resources at the disposal of relevant partnerships. Relationships with the local CCG are good and the Council and CCG are sharing premises and looking to develop more joint services/working arrangements. The community and voluntary sector are represented on the Halton Strategic Partnership Board and on all its Specialist Strategic Partnerships. The Halton Strategic Partnership Board brings together key partners to develop and deliver Halton's Sustainable Community Strategy. • The Council consults residents and service users using a range of ways to gather their views. The Corporate Plan is linked to a range of other plans and strategies which are also subject to consultation with staff and local residents where appropriate. Service users are involved in setting priorities through user groups and also through the Area Forums.	Green

Executive Summary

Overview of arrangements

Risk area	Summary observations	High level risk assessment
Improving Efficiency & Productivity	Benchmarking information has been used well to review services and the Council has a good understanding of its costs. Our review of VfM profiles has not identified any areas of high costs or poor performance that is not known to or adequately explained by the Council. There is evidence that the Council is addressing areas of high spend through the efficiency review programme and improving productivity through, for example, providing management capacity to other councils for children's, adults and legal services; and joint procurement of highways works. • The Council has used benchmarking information to review services and members take account of the longer term impact of funding decisions. Departments generally have a good understanding of their costs and link this to an analysis of performance to assess VfM. They use a range of benchmarking information to inform their knowledge including national benchmarking information and more local data. • Our review of VfM profiles has not highlighted any areas of very high costs or poor performance compared to other councils. Halton, in comparison to its statistical neighbours in the VfM profiles has one of the highest net expenditures per head but this is something that the Council is aware of and is largely due to the low population base, the needs of the Borough given the high areas of deprivation, the nature of industry in Halton, the maintenance of the Silver Jubilee Bridge and development of Mersey Gateway. • The Local Government Association in 2013 reviewed governance arrangements and the Council's readiness for partnership and integrated working with the community and voluntary sector. The peer review noted that: 'the council has led significant development and regeneration in the borough as well as adding considerable social value through high performing services, particularly in relation to children's and adults' services … The council's approach to regeneration has been transformational … The opening of the Widnes Shopping Park bucked the recession and … created circa 700 new jobs … The work led by the council with housing provider partners and the Homes and Communities Agency (HCA) has transformed the Castlefields estate from the concrete deck access flats through an investment of £100m over a 10 year period ... Regeneration over the last ten years has seen the remodelling of the borough leading to huge improvements in the physical appearance … Efficiencies have been delivered … of more than £12m since 2010 …' • The Council's efficiency programme investigates the way services are delivered and looks for new ways to deliver services and reduce costs. In addition the Council has a number of partnership and shared service arrangements in place incuding shared arrangements with Cheshire West & Chester Council (CWAC) for the Children's Director, safeguarding team and childrens' assessment and training provision; more recently, management capacity has been offered to Sefton Council for adult social care and to CWAC for legal services and the Monitoring Officer role. The Council is also a member of a public/private joint venture partnership at Daresbury Science and Innovation Campus established to develop the campus at Daresbury to provide accommodation and facilities to attract high quality science and innovation companies. Enterprise Zone status has been obtained for part of the campus which will bring significant funding. In addition £10m of Regional Growth Funding has been obtained which with match funding will bring around £20m of investment into the campus over the next few years and will provide a significant number of new high quality jobs for the Borough.	**Green**

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.

Key Indicators of Financial Performance

Working Capital - Benchmarked

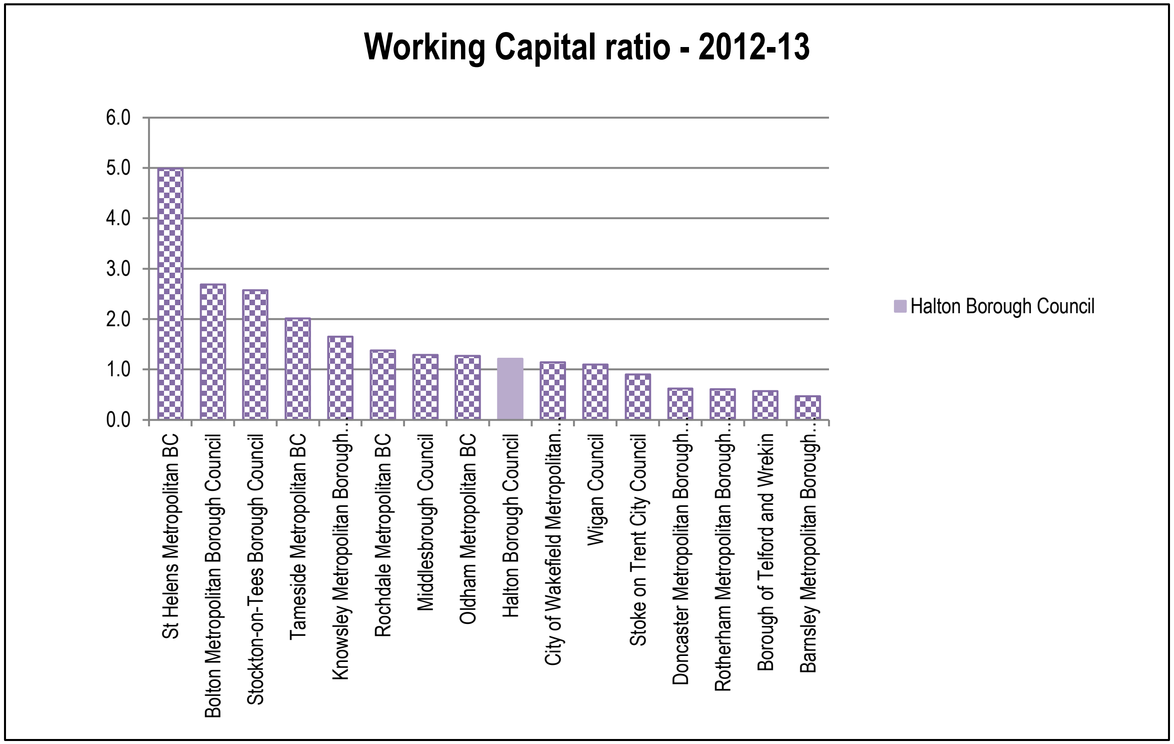
Definition

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

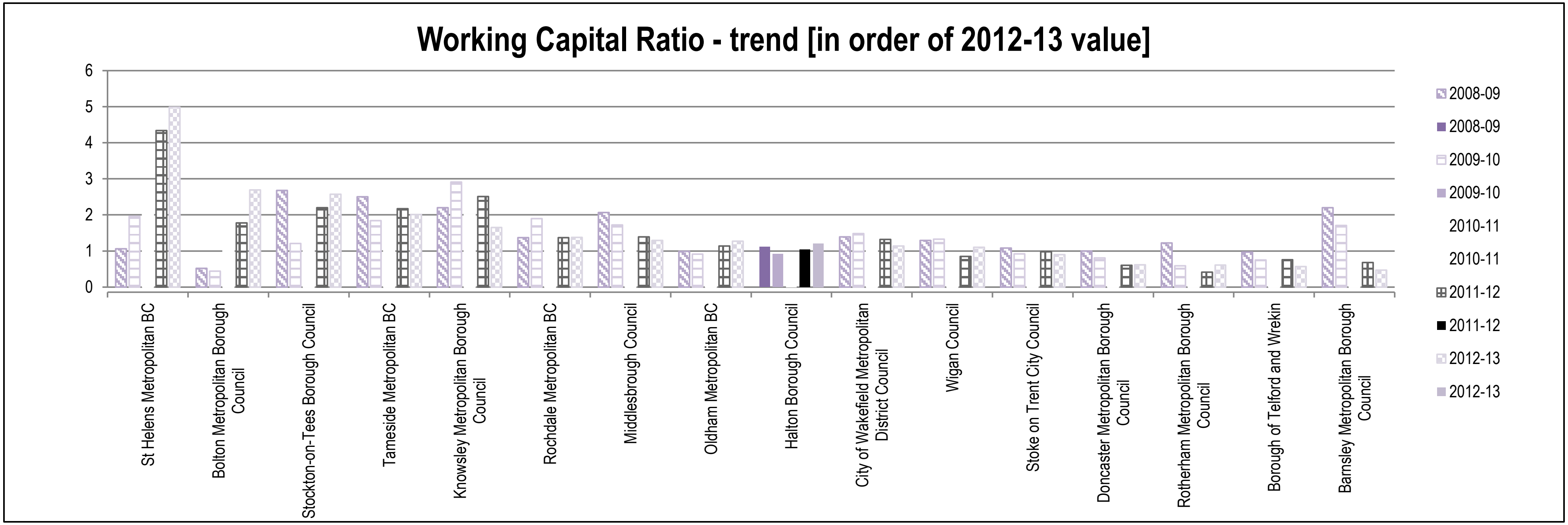
The council ranks 9th out of the 16 nearest neighbour group for working capital. Halton's working capital ratio for 2012/13 at 1.21 is better than it's 2011/12 ratio of 1.05. For 2013/14 the ratio is 2.

The Council's liquidity has hovered around 1 in previous years with the exception of 2010/11 when it fell to 0.48. Many of the Council's neighbours show a variable performance n working capital ratio over the period 2008/09 to 2012/13, with seven neighbours showing an upward movement between 2011/12 and 2012/13.



Key Indicators of Financial Performance

Working Capital – Trend 2008/09 to 2012/13



Key Indicators of Financial Performance

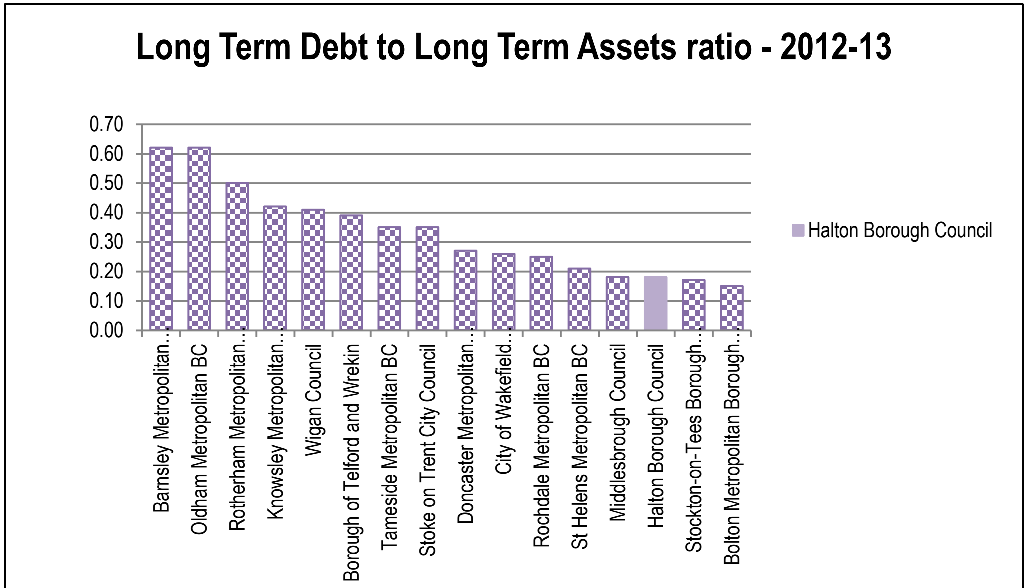
Long-term Borrowing to Long-term Assets – Benchmarked and Trend

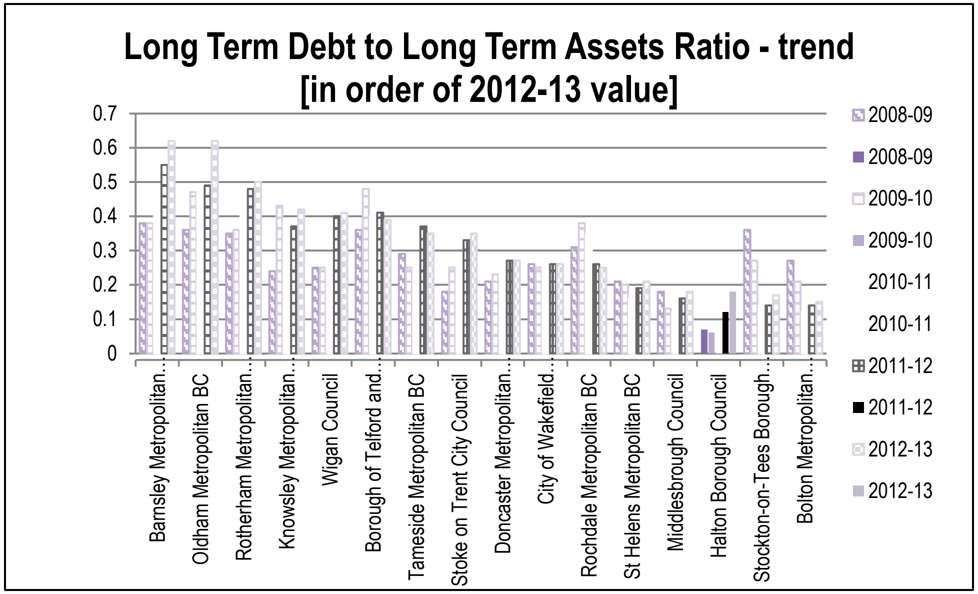
Definition

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

Halton's ratio of long term borrowing to long term assets is the third lowest within its comparator group for 2012/13. It has been consistently lower than the other authorities within its nearest neighbour group since 2008/09. Although low, the councils ratio has increased in 2012/13 and at 0.18 shows that the Council's long term borrowing represents just under 20% of its long term assets, i.e. long term borrowing does not exceed its long term assets. The increase from 2011/12 to 2012/13 is due to the Council taking on new loans to finance the Mersey Gateway development. The pre-audited accounts for 2013/14 show a ratio of 0.19.





Key Indicators of Financial Performance

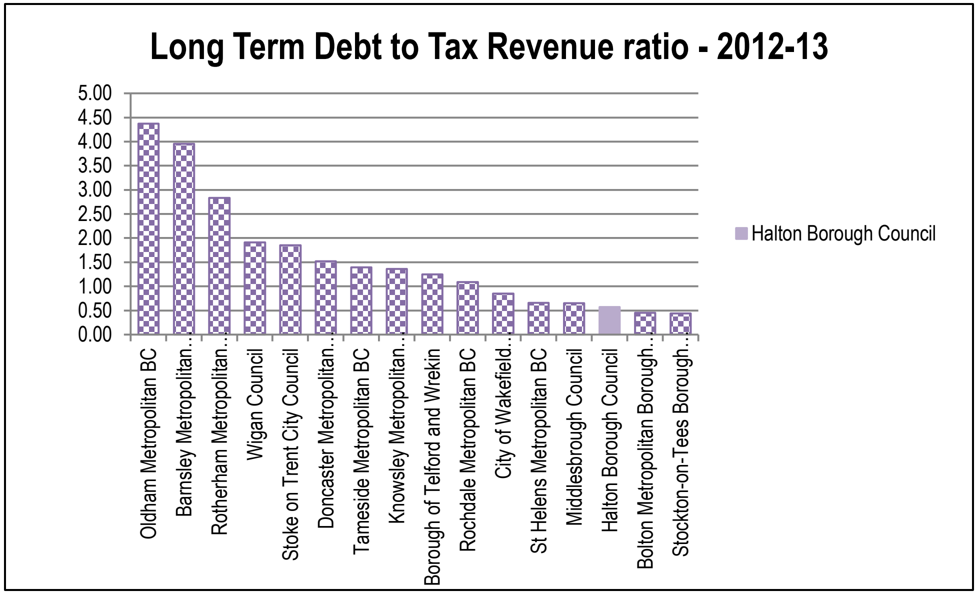
Long Term Borrowing to Tax Revenue – Benchmarked and Trend

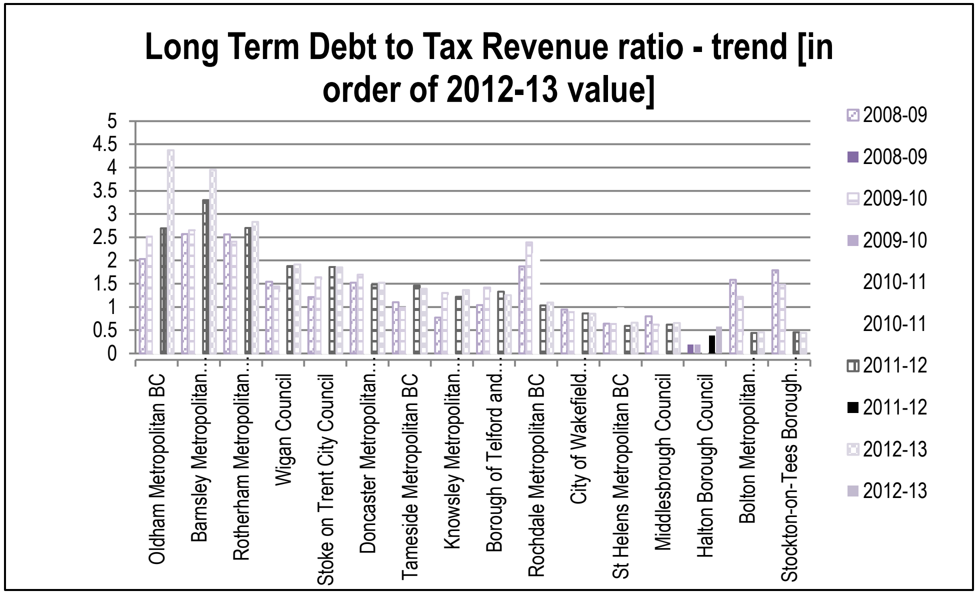
Definition

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

Halton's 2012/13 ratio of 0.57 is the third lowest in the comparator group and significantly less than the majority of its neighbours. It has been consistently lower than the other authorities within its nearest neighbour group since 2008/09, evidence of the prudent approach to financial management adopted by the Council. The Council's ratio has risen in 2012/13 as the Council has taken on new loans to finance its capital programme and in 2013/14 stood at 0.63.





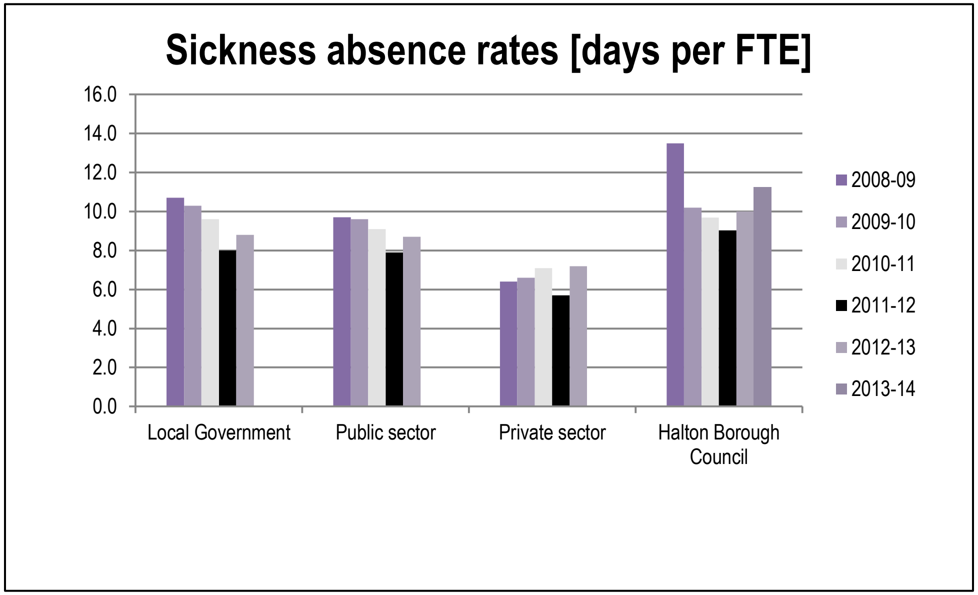
Key Indicators of Financial Performance

Sickness Absence Levels

Background

The 2012/13 average sickness absence level for the public sector is 8.7 days per FTE, whilst the private sector average is 7.2.

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. Absence management will be a particularly important for the Council over the next few years to meet its efficiency programme and financial challenges.



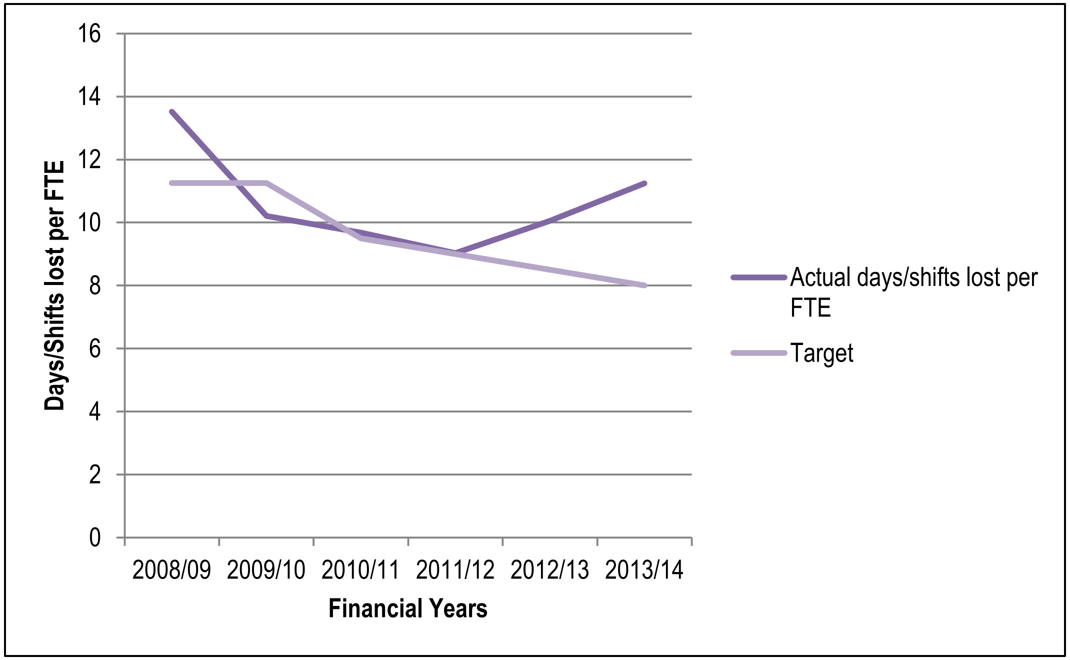
Findings

Halton's sickness levels have risen from 9.02 days per FTE in 2011/12 to 10.06 in 2012/13 and 11.24 in 2013/14. – failing to meet targets in all years.

The 2012/13 rate of 10.06 was around 16% higher than the averages of 8.8 days for Local Government and 8.7 days for the Public Sector.

Key Indicators of Financial Performance

Sickness Absence Levels – Halton BC



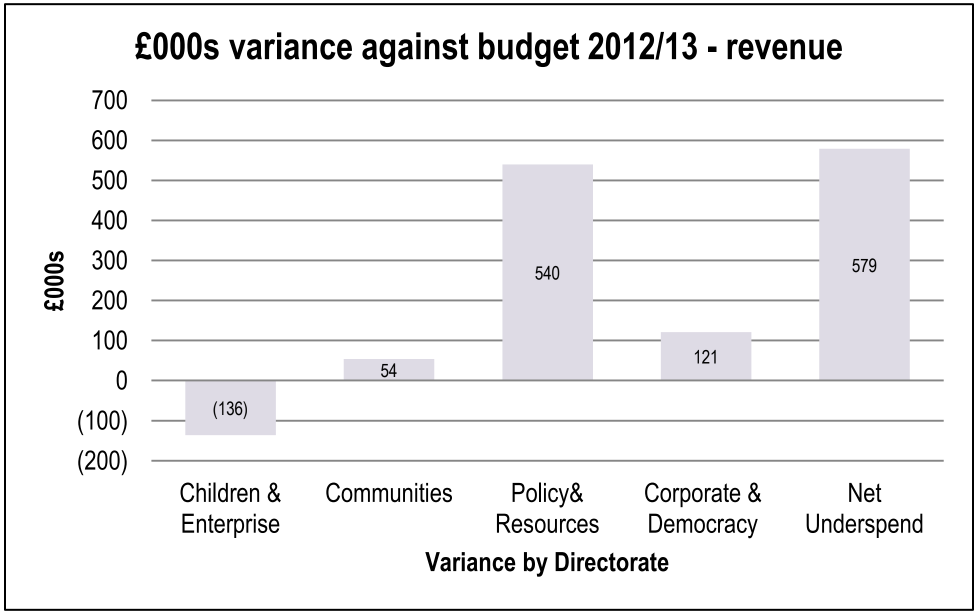
Findings

The Council's reported sickness absence level for 2013/14 is 11.24 days per FTE against a target of 8 days.

Sickness absence levels have an appropriate profile with senior management and actions are agreed and minuted by the Management Team. Given the significant organisational change that continues to take place, it will be important for the Council to maintain a robust approach to managing and monitoring sickness absence.

Key Indicators of Financial Performance

Performance Against Budget: Revenue



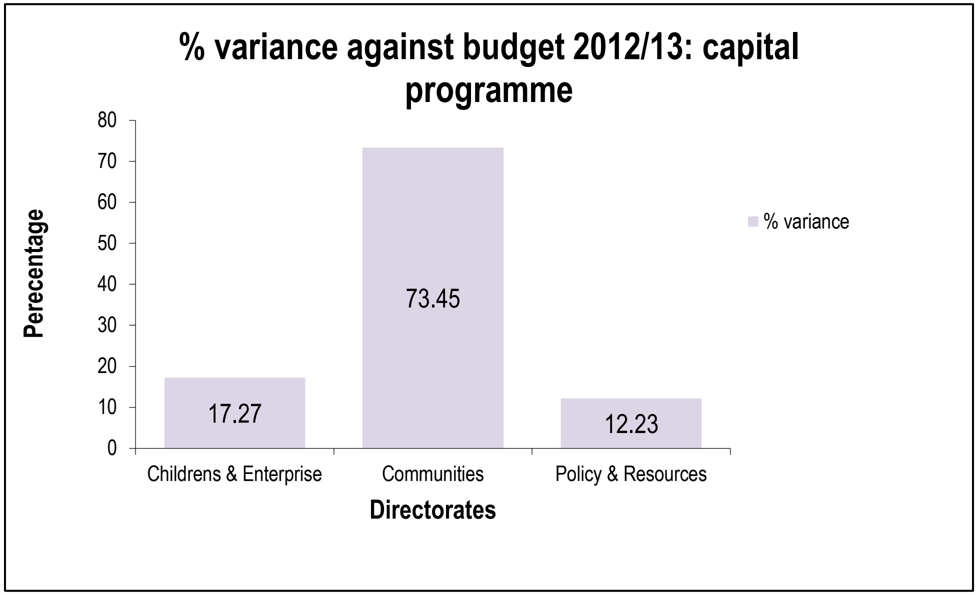
Findings

The revenue outturn position for 2013/14 was an underspend of £0.579m. This follows on from budget underspends in each of the previous three years: £0.502m in 2012/13, £0.198m in 2011/12 and £0.192m in 2010/11.

In cash terms the directorate with the largest underspend in 2013/14 is Policy and Resources with an underspend of £0.540m (2.2%). The Children and Enterprise directorate overspent by £0.136m (3.4%). This overspend related to Children and Families, with this being the only section which overspent relating to the Children and Enterprise Directorate. Communities has the largest budget.

Key Indicators of Financial Performance

Performance Against Budget: Capital



Findings

The Council once again had a significant capital programme in 2013/14, totalling £48.392m. Actual capital spend totalled £38.470m, an underspend of 20.5%. The most significant underspends were as follows:

- Widnes Recreation Site
- Halton Lodge Bungalows
- Ashley School
- Disabled Access

The Council includes planned slippage of 20% in its capital programme. For 2013/14 this meant the capital programme included slippage from 2012/13 of £10.061m and slippage into 2013/14 of £7.694m.

Key Indicators of Financial Performance

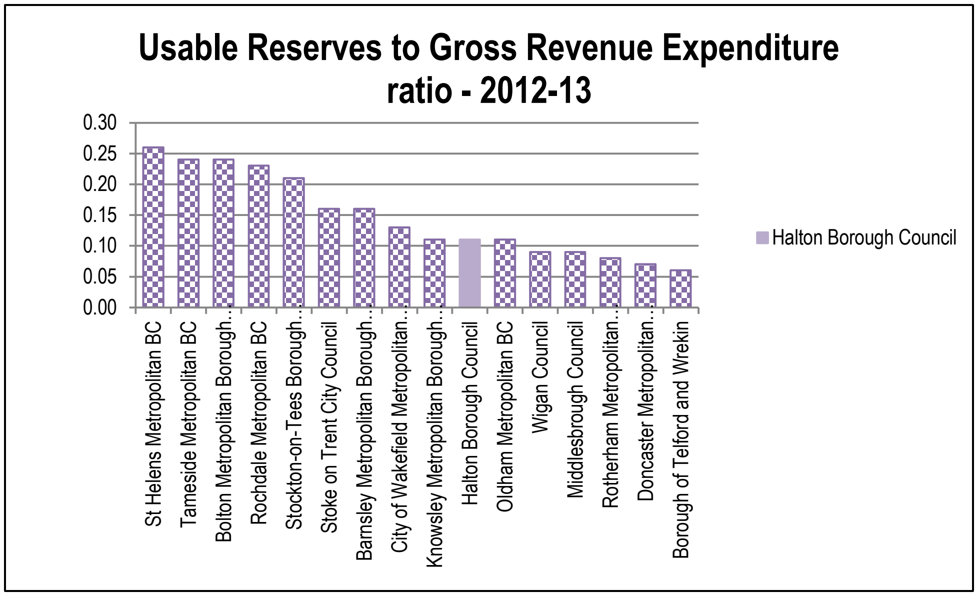
Usable Reserves – Benchmarked and Trend

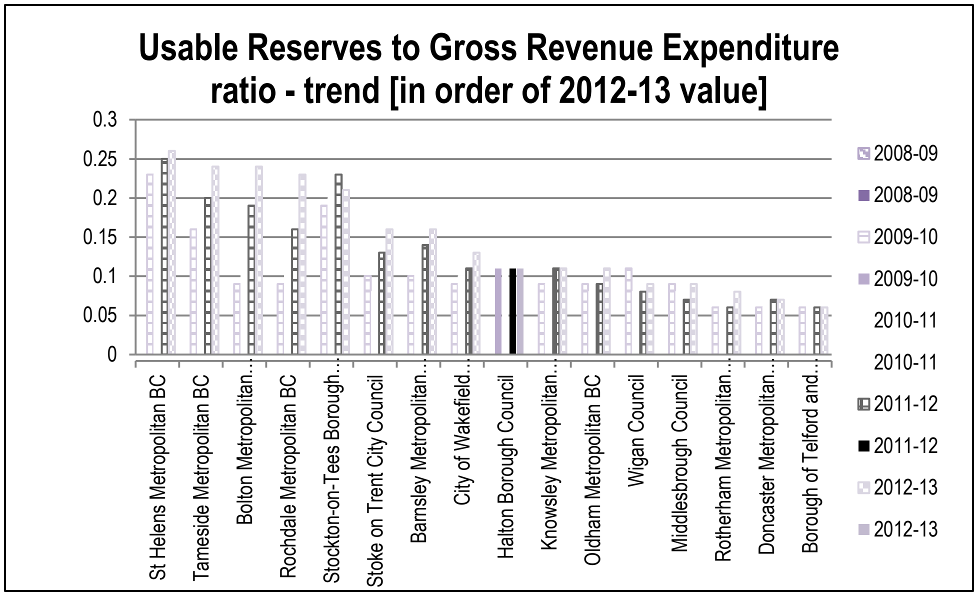
Definition

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

Findings

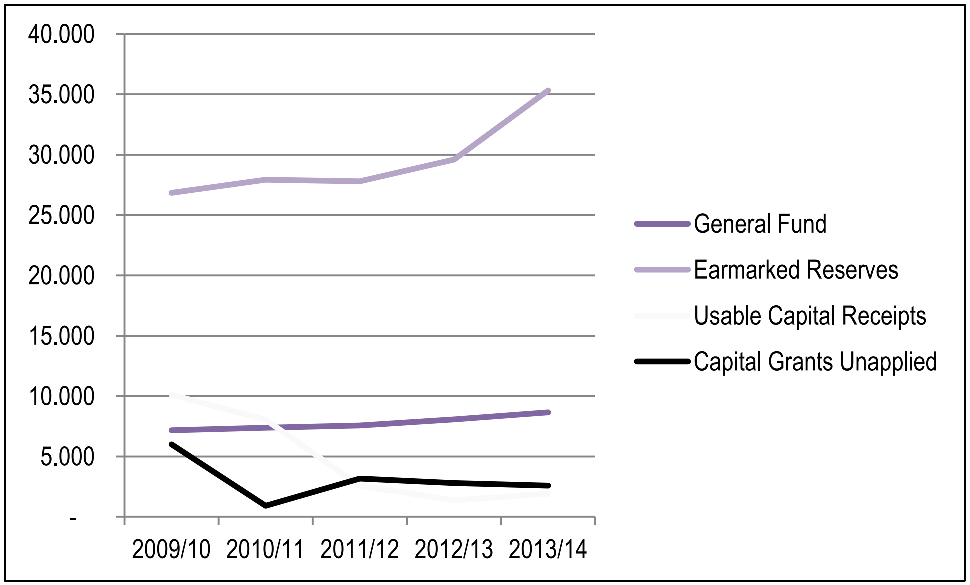
The Council's value of usable reserves (as a percentage of expenditure) for 2012/13 was 0.11, consistent with the previous two years and showing little movement during the period 2008/09 to 2012/13. Eleven of the Council's neighbours increased their usable reserves (as a percentage of expenditure) in 2012/13, with seven of them showing a year on year increase during the period 2008/09 to 2012/13. Further analysis of Halton's position is set out on the following slides.





Key Indicators of Financial Performance

Halton BC's Usable Reserves – Trend by Type (excluding school balances)



Findings

Halton's usable reserves total £55.050m at 31 March 2014, some 16.5% of the Council's gross revenue expenditure for the year. Earmarked reserves of £35.322m and General Fund of £8.646m make up the major elements of this balance.

CIPFA's guidance on reserves is that the level should follow the S151 Officer's advice to the Council, which should be based on local circumstances.

Earmarked reserves have increased from £26.834m in 2009/2010 to £35.322m in 2013/14. They total 53 in number (excluding school balances). Unlike the General Fund balance, earmarked reserves are funds put aside by the Council for specific purposes. The major earmarked funds at 31/3/2014 relate to equal pay (£3.442m), the insurance fund (£3.802m) and the capital reserve (£2.896m). The much smaller funds include the Open Spaces Rolling Programme of £218k to finance the open spaces strategy and Superfast Broadband of £356k to finance project related costs in 2014/15.

The General Fund balance has remained fairly constant between 2009/10 ad 2013/14, rising by just under £1.5mover the 5 year period. At 31 March 2014 the General Fund balance of £8.646m amounts to just over 7% of the Council's net cost of services for the year (£121.930m) and just under 8% of the net budget requirement (£108.243m).

Key Indicators of Financial Performance

School Balances to Dedicated Schools Grant (DSG) - Trend

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 has a schools balances to DSG ratio in 2012/13 of 7%. The ratio has varied over the past five years from 7% in 2011/12 and 2012/13 to 4% in 2009/10 and 2010/11. Halton's 2012/13 ratio of 7% is at the average (6.7%) for the nearest neighbours group with eight neighbouring authorities having a lower ratio. The lowest ratio for the group is Bolton MBC, Rotherham MBC and Barnsley MBC with 4%. In 2013/14 the ratio was 6.5%.