

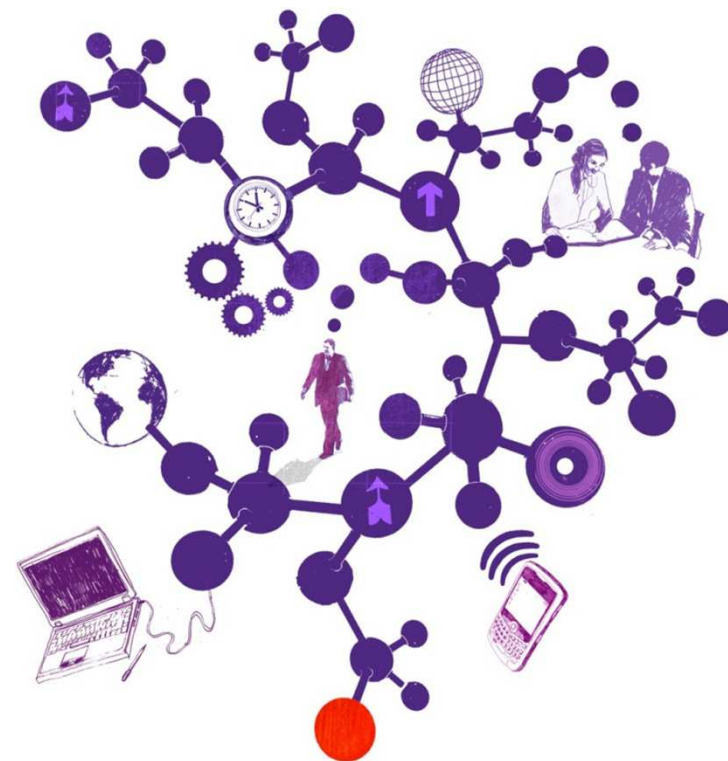
# Review of the Council's Arrangements for Securing Financial Resilience for Redditch Borough Council

**Year ended 31 March 2013**

25 October 2013

**Phil Jones**  
Engagement Lead  
T 0121 232 5232  
E [phil.w.jones@uk.gt.com](mailto:phil.w.jones@uk.gt.com)

**Zoe Thomas**  
Manager  
T 0121 232 5277  
E [zoe.thomas@uk.gt.com](mailto:zoe.thomas@uk.gt.com)



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Executive Summary

## Our approach

### Value for Money Conclusion

Our work supporting our Value for Money (VfM) conclusion, as part of the statutory external audit, includes a review to determine if the Council has proper arrangements in place for securing financial resilience.

In so doing we have considered whether the Council has robust financial systems and processes in place to manage its financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. We have carried out our work in discussion and agreement with officers and completed it in such a way as to minimise disruption to them.

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

We have reviewed the financial resilience of the Council by looking at:

- Key indicators of financial performance;
- Its approach to strategic financial planning;
- Its approach to financial governance; and
- Its approach to financial control.

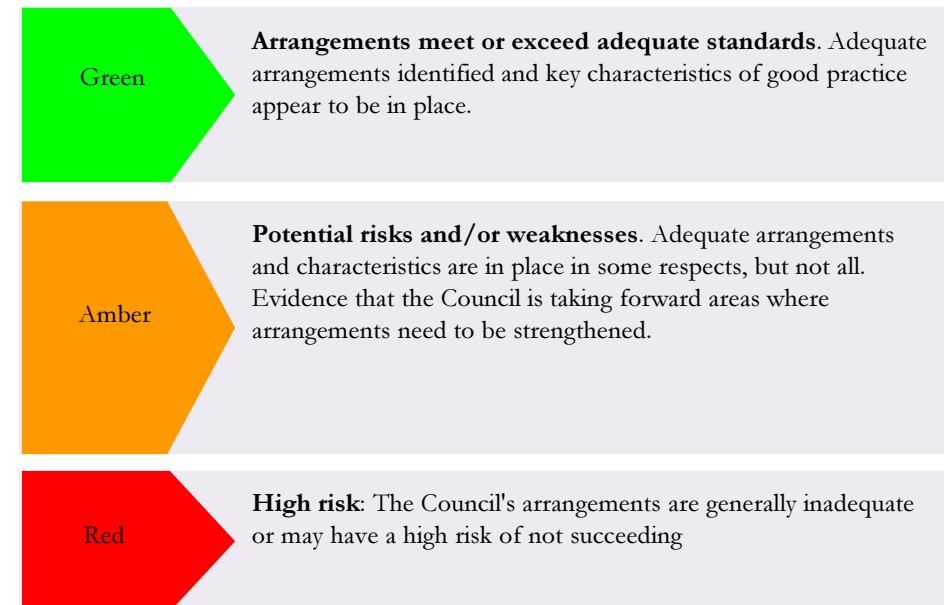
Further detail on each of these areas is provided in the sections of the report that follow.

Through the Council's shared services agenda, the Council has removed a number of posts from the management structure with the aim to both improve efficiency and to reduce recurring costs. Through the Transformation agenda, the Council has sought to refocus its priorities and improve the way the council provides services.

In addition to these reviews, the Council has set out-turn savings targets and used vacancy management, one-off receipts and other methods to balance the budgets and manage the out-turn, with some use of earmarked and general fund balances.

However the level of balances is comparatively low at £1m particularly in view of the current savings 'gaps' reflected in the medium-term financial plan. The minimum advised level of £750k would be very low. Based on the Audit Commission assessment criteria, the Council is financially resilient in the near future, however the scale of the financial challenge faced by the council over the next two years is considerable.

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



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# 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 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

In Redditch between 2009 and 2015 the impact of the reduction in government grant reflects a 41% cut in funding cumulatively. Localising of business rates also transfers risk from central government to local government, leaving the council exposed to further risk should local businesses fold or rates re-valued. Pooling with the Greater Birmingham and Solihull pool seeks to mitigate this risk.

In addition cuts in central government grants, there has been a fall in income from fees and charges and other costs such as utility bills have increased. The Council has also had a freeze in council tax over the last two years.

This pressure on income clearly means that the Council has needed to make some fundamental changes to the way that it operates to reduce costs. The medium term financial plan highlights a need to make a further £1.8m of savings by 2014/15, which is equivalent to 20% of the base costs of services. The Council will have to make some further difficult decisions if underlying costs are to be reduced sufficiently and the financial position and delivery of these savings managed.

# Executive Summary

## Overview of Arrangements

| Risk area                            | Summary observations                                                                                                                                                                                                                                                                                                                                                                                        | High level risk assessment                                                                     |
|--------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|
| <b>Key Indicators of Performance</b> | Redditch's financial indicators show a position relatively weaker than other authorities in the nearest neighbour group. Not all of the Council's in the group have housing and the associated debt and therefore this has had some impact on the position of Redditch compared with its neighbours.                                                                                                        | <br>Green   |
| <b>Strategic Financial Planning</b>  | The Council has recently reviewed its Strategic Priorities and we would expect that there will be clearer links between that plan and the budgets to be set for 2014/15. The MTFP indicates a considerable gap for the 2014/15 financial year. Work on identifying achievable tangible savings should start as a matter of priority. General fund balances are insufficient should savings not be achieved. | <br>Amber   |
| <b>Financial Governance</b>          | Formal reporting to members should be more transparent and timely in view of the financial challenges ahead. In year financial reports do provide explanations of variance to expected, but provides limited description of action planning.                                                                                                                                                                | <br>Amber   |
| <b>Financial Control</b>             | Improvements can be made to both savings planning and budget and in-year reporting as outlined above. Financial controls within the council are relatively strong and there is a good finance department and effective internal audit arrangements.                                                                                                                                                         | <br>Green |

# Executive Summary

## Next Steps

| Area of review                       | Key points for consideration                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Responsibility | Timescale | Management response |
|--------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|-----------|---------------------|
| <b>Key Indicators of Performance</b> | <ul style="list-style-type: none"><li>• Members should consider whether the current minimum level of general fund balances is adequate and whether this balance and earmarked reserves should be reviewed</li><li>• Rent arrears have been managed effectively in the last 2 years but are likely to be more difficult to manage with the impact of welfare reforms</li><li>• The Council should have a clear plan for the appropriate level of HRA earmarked balances</li></ul>            |                |           |                     |
| <b>Strategic Financial Planning</b>  | <ul style="list-style-type: none"><li>• The Council should ensure that there is clear mapping between the new corporate priorities and the 2014/15 budget</li><li>• The level of savings to be made are considerable and work on identifying these should start imminently</li><li>• The HRA business plan should be reviewed and early work undertaken on componentisation as this may have a large impact when depreciation rather than MRA is reflected in the revenue account</li></ul> |                |           |                     |
| <b>Financial Governance</b>          | <ul style="list-style-type: none"><li>• There should be better transparency in financial reports to provide the trail from budget to outturn analysis.</li><li>• The Council should consider the appointment of a lay member to the Audit Committee to help broaden the experience of the Committee</li><li>• Ensure that the IA plan is flexible to consider any new risks and the plan is completed to support production of the AGS</li></ul>                                            |                |           |                     |
| <b>Financial Control</b>             | <ul style="list-style-type: none"><li>• The Council should clarify which savings schemes are incorporated into Budget cost reduction plans, develop detailed action plans for each scheme and strengthen the monitoring of savings delivery in-year.</li></ul>                                                                                                                                                                                                                              |                |           |                     |



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**Appendix - Key indicators of financial performance**

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# Key Indicators

## Introduction

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

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

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

Rossendale Borough Council  
Tamworth Borough Council  
Carlisle City Council  
Worcester City Council  
Cannock Chase District Council  
Gravesham Borough Council  
Chesterfield Borough Council  
Burnley Borough Council  
Stevenage Borough Council  
Bassetlaw District Council  
Gloucester City Council  
Kettering Borough Council  
Redditch Borough Council

# Key Indicators

## Overview of performance

| Area of focus    | Summary observations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Assessment                                                                                     |
|------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|
| <b>Liquidity</b> | <p>The working capital ratio provides an indication of whether the Council has enough current assets to cover its immediate liabilities. For the nearest neighbours group this ranged from 0.59 to 12.8. Redditch has the lowest working capital ratio in the family group.</p> <p>The position on housing rent arrears is relatively positive. During the year 2012/13 gross rent arrears as a proportion of gross rent income has decreased from 5.0% to 4.4%, with gross arrears remaining fairly consistent over the 2 years. There will be increasing pressure on the council to manage its rent arrears as welfare reforms are likely to add increasing pressure on rent. As at the balance sheet date, the overall level of debts has fallen year on year.</p> <p>Around 60% of the Council's non housing related income comes from central government grants, of which over 80% is from housing benefits grants. The proportion of income raised from council tax and local fees and charges has risen slightly year on year.</p> | <br>Amber   |
| <b>Borrowing</b> | <p>There are 2 borrowing indicators:</p> <ul style="list-style-type: none"><li>• Long term debt to revenue ratio</li><li>• Long term debt to assets ratio</li></ul> <p>Redditch is relatively high for both these indicators which in part reflects the fact that not all the councils in the family group have a housing stock and the related borrowing. The trend graph shows that Redditch's indebtedness was not out of line with the others prior to the self-financing borrowing requirement.</p> <p>The Council considers its prudential borrowing and indicators annually in line with the code.</p>                                                                                                                                                                                                                                                                                                                                                                                                                             | <br>Green |
| <b>Workforce</b> | <p>Council sickness levels are not out of line with the industry norm and have fluctuated over the last 3 years. Performance varies by department. This is an indicator monitored by the Council.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | <br>Green |

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## Overview of performance

| Area of focus                                             | Summary observations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Assessment                                                                                    |
|-----------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|
| <b>Performance Against Budgets: revenue &amp; capital</b> | <p>Revenue: The Council had a small overspend from budget overall, reducing general fund balances by £73k. The Council received income of over £400k from the curtailment of the lease arrangement with Barclays bank which supported that outturn. There was also an overspend in 2011/12.</p> <p>The HRA underspent by £1m this year because interest rates were lower than expected on the housing debt. There was some considerable slippage in the capital programme reflecting caution around the impact of the move to self financing</p> | <br>Amber  |
| <b>Reserve Balances</b>                                   | <p>The Council has lower than the norm usable reserves to GRE ratio.</p> <p>There are no indicators on HRA balances but these are relatively healthy at £9m, £3m being added this financial year. The level of earmarked HRA balances should be considered in the light of the capital programme and any review of the HRA business case model.</p>                                                                                                                                                                                              | <br>Amber |

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# Strategic Financial Planning

## Key characteristics of good strategic financial planning

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

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

# Strategic Financial Planning

## Medium Term Financial Strategy

| Area of focus                           | Summary observations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Assessment                                                                                   |
|-----------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|
| <b>Focus of the MTFP</b>                | <p>The approach to the Medium Term Financial Plan (MTFP) is similar at Bromsgrove and Redditch. Within the MTFP the Council has made assumptions about funding levels, both in relation to the main central government grants but also to other grants such as the council tax freeze grant. Assumptions are made as expected around inflation costs, utility bills and staff pay. Detail behind the budget includes assessment of unavoidable costs (including estimates for reduction in income) and areas where there are planned reductions in costs.</p> <p>The budget is 'balanced' as it is assumed that the target level of savings will be delivered in-year, although detailed savings plans for all areas were not identified at the start of the year. General fund balances are also relied upon to a limited extent to manage the out-turn.</p> <p>The high level assumptions are outlined in the budget setting report and the detailed assumptions are contained in the supporting MTFP spread sheet. The assumptions made in the 2013/14 plan, that impact on the 2014/15 and beyond are rolled forward to identify the funding gaps in future years. The MTFP is reviewed and updated annually as part of the budget setting process.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | <br>amber |
| <b>Adequacy of planning assumptions</b> | <p>The planning assumptions are reasonable overall. National indicators supplemented by local knowledge and historic inform the major forecasting assumptions. benchmarking is not widely used as this has not been found to be helpful in the past. The Council has not recently published corporate strategic documents such as asset management, or workforce plans, although assumptions about its property and staff turnover are built into the annual budget. The Council has intended to review its strategic purposes for some time. A new corporate plan was issued in July 2013 but this is clearly not yet keyed into the budget setting process so there is a disconnection between budget and published Council plan.</p> <p>In 2012 the HRA became self-financing, which meant the Council took on £98m of new debt. There is an HRA business plan produced by consultants that profiles the HRA for the next 30 years. This will need to be kept under review as already factors such as the change in interest rates has impacted. Componentisation of the housing stock and the related changes to depreciation (rather than use of the MRA as a proxy) could have a significant impact and need to be planned for.</p> <p>As referred to earlier, the Council has yet to fully identify all the savings required in the MTFP, that is £1.8m to be found by 2014/15 and further savings in the years beyond. The Council has around £3m of earmarked reserves and £1m of general fund, with a minimum set at £750k. The Council will need to take some difficult decisions in order to cut costs and increase revenue in order to achieve savings of this level. Earmarked balances should be robustly reviewed and further consideration given to the minimum level of balances, in view of the financial risk the Council is facing.</p> | <br>red |

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## Medium Term Financial Strategy

### Scope of the MTFP and links to annual planning

Reference to this is also made above. The Council has new strategic purposes which have been informed by the experience gained from the transformation reviews. Existing current strategic purposes are of limited value in terms of clearly defining budget priorities. From a review of budget setting papers however it is clear that a process has been adopted to allocate additional resources and determine cuts in relation to the outcome of service reviews. Work on the performance framework to support the new purposes is also on-going. It is reasonable to expect that the 2014/15 budget round should have a clearer mapping between priorities and budget decisions.



Amber

### Review processes

The medium term financial plan is reviewed annually as part of the budget setting process. It is reported to Members routinely throughout the year highlighting changes in budget assumptions and the forward impact of these.



Amber

### Responsiveness of the Plan

The Council managed its outturn in 2012-13 with a small overspend. The original budget contains savings, some of which are allocated at the beginning of the year while other are included in corporate pot, some of which are allocated to services as savings are identified during the year, thus impacting on the 'revised budget' along with other revisions.

The plan is therefore responsive to new information as described. However the reporting of the performance is quite delayed – e.g. September reporting for Q1 and thus the information is relatively out of date when considered by members and is difficult to track due to the updating as described and the supporting narrative.



Amber



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# Financial Governance

## Key characteristics of effective financial governance

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

### Understanding

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

### Engagement

- There is engagement with stakeholders including budget consultations.

### Monitoring and review

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

# Financial Governance

## Understanding and engagement

| Area of focus                                  | Summary observations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Assessment                                                                                          |
|------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|
| <b>Understanding the Financial Environment</b> | <p>Executive members are likely to be aware of the relevant financial matters both through budget reporting but also from their portfolio responsibilities. The Council is relatively small and key Members are engaged. Thus Executive members are likely to be aware of the key matters in the current and future years that will impact on council finances.</p> <p>As referred to earlier in this report, reporting to Members is undertaken quarterly and is relatively delayed, although we understand informal reporting takes place to support this formal process. There is a risk that the wider Membership may not be fully aware of the financial risks if formal reporting to Members is not timely, accurate and clear about financial risks and action planning to mitigate those risks. The 2012/13 budget setting report refers to the need to make savings, however the budget report only details some of the savings to be identified. The 2013/14 budget setting report is clearer with more detail on the value of savings needed.</p> <p>Formal financial reports should be timely and provide sufficient detail to enable Members to have a full understanding of the financial risks for there to be proper governance arrangements. There should be a clear trail in reports from budget setting, in year reporting through to outturn.</p> <p>Some reporting is through the shared services board (joint with Redditch) but the matters from these meetings are reported back and the papers are available to all members and so this is relatively transparent. However there should be clarity around the governance arrangements where this is undertaken under delegated arrangements by another organisation. It important that members of the Audit Committee understand where they are obtaining their assurance from when operational arrangements are more complicated.</p> <p>The Chair and Vice Chair of the Audit Committee are keen for the committee to be effective. There has been some consideration of the appointment of a lay member and we have seen in other Councils that this can bring some considerable benefits in terms of expertise and experience and helps to improve the effectiveness of the committee. This possibility is currently being explored at Redditch.</p> <p>Internal audit has experienced some slippage in the programme. Ideally the internal audit programme should be complete by the time the CIA issues his annual opinion, in order to inform the Annual Governance statement.</p> <p>There are not currently any major legal challenges to the Council. It has yet to implement job evaluation. Experience in other councils is that this could result in single status claims (Birmingham City Council's costs are well publicised). It is not possible to predict yet what the impact will be on the Council. The Council has some earmarked reserves to provide resilience around this.</p> | <br><b>Amber</b> |

## Understanding and engagement

| Area of Focus                                         | Summary observations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Assessment                                                                                            |
|-------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|
| <b>Executive and Member Engagement</b>                | <p>Directors, including the S151, along with members of the Executive appear to all be important players in the Council's decision making arrangements. Officers appear to be relatively well informed both through non financial reporting and through up to date on-line financial information. Key members are appropriately supported by officers.</p> <p>Both key members and the Chief Executive have appropriate status to provide effective challenge and to provide leadership. All are involved in discussions around the budget setting and around corporate priorities – and the wider membership clearly has a role in approving the overall budget. Minutes demonstrate that there is challenge by members in the budget setting process</p> <p>Budget holders are involved in the budget setting process and are responsible for delivering these along with delivering outturn savings.</p> <p>The Audit Committee is an independent governance functions. There is limited information to enable us to for a view how much influence the Committee has with the Executive over governance matters and this is could be made more difficult due to the political split.</p>                                                                                                                                                                                                                                                                                                                                                                       | <br><b>Green</b>   |
| <b>Overview for controls over key cost categories</b> | <p>The Council reports progress against budget quarterly. This is currently reported in service area and the costs of support services are omitted in order to assist interpretation. An overview is provided and then individual service areas are reported. Narrative is included highlighting where there are variances.</p> <p>As much of the budget it delegated, accountants who prepare these reports provide forecast outturn estimates based on discussions with budget holders. Effective control over key cost categories should include the following:</p> <ul style="list-style-type: none"><li>• Budgets– review of base budgets to ensure outturn position is reflected in current year budget</li><li>• Effective savings monitoring and review– some savings are built into base budgets, some are incorporated as the year progresses (as they are identified) some are managed corporately and some arise by the expectation that budget holders will produce outturn savings. A lack of formal review of what savings were achieved against those planned can lead to poor assumptions as to which are recurring savings (assumptions have been built into the next year budget around these) or one-offs</li><li>• Good communication and challenge between budget holders.</li><li>• Reliable reported information or assessment of risks to enable effective challenge by members</li><li>• Effective management of budget holders expectations that any underspends will automatically be taken from the following year budget.</li></ul> | <br><b>amber</b> |

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## Understanding and engagement

| Area of Focus                                        | Summary observations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Assessment                                                                                            |
|------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|
| <b>Budget reporting: revenue and capital</b>         | <p>The actual reports process is described above and is an adequate process - although could be more timely, sophisticated and transparent. For example Q1 reporting is undertaken in September, half way through the year, and does not provide a profiled forecast outturn position. September reporting includes some narrative on savings however it does not include an overall risk assessment of individual schemes, action planning or details of any substitution schemes. This type of reporting is good practice.</p> <p>With the change in corporate priorities in 2013/14, it is likely that the Council will want to review how it manages its finances, both in terms of allocating resources in priority areas but also monitoring and managing its spending. Changes arising from Transformation mean that services are increasingly operating and being managed horizontally rather than in the traditional manner. This too further complicates budgeting and monitoring and financial responsibility.</p> | <br><b>Amber</b>   |
| <b>Adequacy of other Committee/Cabinet Reporting</b> | <p>See Comments above – there is scope to improve the adequacy of reporting – both in terms of the accuracy but also the timeliness, detail and sophistication around forecasting and analysis of risks. Action plans do not routinely accompany budget reports</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | <br><b>Amber</b> |

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# Financial Control

## **Key characteristics of effective financial control**

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

### **Budget setting and budget monitoring**

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

### **Savings Plans**

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

### **Financial Systems**

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

### **Finance Department**

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

### **Internal Control**

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

# Financial Control

## Internal arrangements

| Area of focus                                              | Summary observations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Assessment                                                                                     |
|------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|
| <b>Budget setting and monitoring - revenue and capital</b> | <p>At Q1 the budget was stated as £20m, at Q2 it was £22.5m with a forecast outturn of £22.6 and at Q3 the budget was £22.2m and a forecast outturn of £21.6. There has been no reporting of the outturn on the same basis and thus it is difficult to assess outturn relative to what has been reported in the year, although the council planned to use £658 of balances and used £498 of balances.</p> <p>There was considerable slippage in the capital programme, in particular around the HRA but elsewhere also, this may have had revenue consequences.</p> <p>The Council has not been able to provide a robust analysis of savings achieved in the year or detail of savings achieved from shared services, transformation or other savings and much of the reporting in the public arena is around estimated savings or is incomplete; that is, it does not reflect redundancy costs or use of reserves. Part of the reason for the favourable outturn this year was because of a on-off receipt for the Barclays lease on Threadneedle house.</p> <p>It is important that there is a clear understanding of the outturn to both inform the next year budget setting process and to get a clear understanding of the effectiveness of policy decisions.</p> <p>Financial reports to Members are in our view reporting documents rather than documents that are used to manage the financial position. This is effectively done at a budget holder level and with the Executive through more informal reports.</p> <p>However while formal reporting to TCWG is not transparent, the Council has managed its out-turn this year with a relatively low underspend.</p> | <br>Amber   |
| <b>Performance against Savings Plans</b>                   | <p>As described earlier the Council goes through a process to identify savings and there is some evidence that priorities and outcome of service reviews are reflected in these decisions. There is some reliance on vacancy management, general efficiency savings and one off sources of income.</p> <p>As outlined above there is no analysis of performance against savings plans although there is some narrative included in the 2013/14 Q1 reporting and an acknowledgement of a need to do this is stated in the 2012/13 AGR.</p> <p>This is not really regarded as important information for members as savings are embedded into budgets as they are identified and are thus managed through the bottom line of departments budgets.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | <br>Amber |
| <b>Key Financial Accounting Systems</b>                    | <p>Internal Audit programme covers all the key financial systems. The Chief Internal Auditor opinion reflects that all financial systems are operating as expected with no significant weakness in control. The Internal audit plan reflects 'critical friend' reviews of areas subject to Transformation.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | <br>Green |



# Financial Control

## Internal and external assurances

| Area of focus                        | Summary observations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Assessment                                                                                     |
|--------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|
| <b>Finance Department Resourcing</b> | <p>The Council is moving towards a shared finance department. This is in part constrained by the operation of two financial ledgers and because staff are located in two different locations – there are plans to address these two issues over the next 2 years. It is evident that staff are increasingly sharing roles which has the benefits of building in resilience and pooling expertise.</p> <p>The staff structure has been reviewed periodically over the last 2 years and a senior manager review is on-going. Clearly a further review would be appropriate when staff are on site together, with the objective of reducing unit costs over time. A combined team provides scope to provide some specialism but there should also be good succession planning – to ensure that current expertise in critical areas is not lost as there is turnover of staff. There is currently reliance on 1 or 2 key individuals, and there is further scope for some increased delegation and reallocation of responsibilities.</p> <p>Clearly the current financial pressures means that finance is a critical support function for the council, and the amount of work involved in changes such as implementing a ledger successfully and changing budgetary monitoring arrangements (e.g. to reflect new corporate priorities) should not be underestimated.</p> | <br>Green   |
| <b>Internal audit arrangements</b>   | <p>Internal audit is provided by a shared service based at Worcester City Council. The approach is risk based and officers operate within the remit of the CIPFA code of practice.</p> <p>The team appears to have appropriate skills and experience and the quality and scope of reviews is appropriate.</p> <p>The team has had insufficient staffing resources which has resulted in slippage in their annual plan, although these problems were not as marked in 2011/12. The team did not complete all of its work by the time the CIA opinion was issued although most of the substantive work was complete. As with all services, there is budgetary pressure associated with the service and thus the scope to increase internal audit coverage is limited. The plan has included some 'critical friend' review of transformation which is appropriate. The Audit committee needs to be assured that the plan is flexed appropriately to reflect increased risk associated with staff turnover at the Council and changes in controls.</p>                                                                                                                                                                                                                                                                                                                   | <br>Green |

# Financial control (cont)

| Area of focus                              | Summary observations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Assessment                                                                                            |
|--------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|
| <b>External audit arrangements</b>         | <p>In 2011/12 the opinion on the accounts was unqualified and the accounts, although material amendment was made to the accounts post audit. The 2012/13 accounts were also unqualified.</p> <p>The scope of external audit work also includes providing a VFM conclusion. This was again unqualified.</p> <p>The ISA 260 report made a number of observations and recommendations around the Council's budget setting arrangements and management of savings plans.</p> <p>The AGS does refer to the recommendations made by external audit and refers to progress being made in addressing these matters.</p>                                                                                     | <br><b>Green</b>   |
| <b>Assurance framework/risk management</b> | <p>The Council manages the risks that the Council is facing through the work of the senior management team and the Executive and the reports provided to them.</p> <p>The Council does not yet have an embedded formal risk management culture, although there are some services where it is clearly taken very seriously – e.g. customer services. At a corporate level, a corporate risk register is not used as management tool but appears to be regarded more as a means of demonstrating governance to external agencies.</p> <p>The risk register, updated to reflect the review of consultants and to reflect the new corporate priorities is to be considered by members in September.</p> | <br><b>Amber</b> |

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**1 Executive Summary**

**2 Key Indicators**

**3 Strategic Financial Planning**

**4 Financial Governance**

**5 Financial Control**

**Appendix - Key indicators of financial performance**

# Key Indicators of Financial Performance

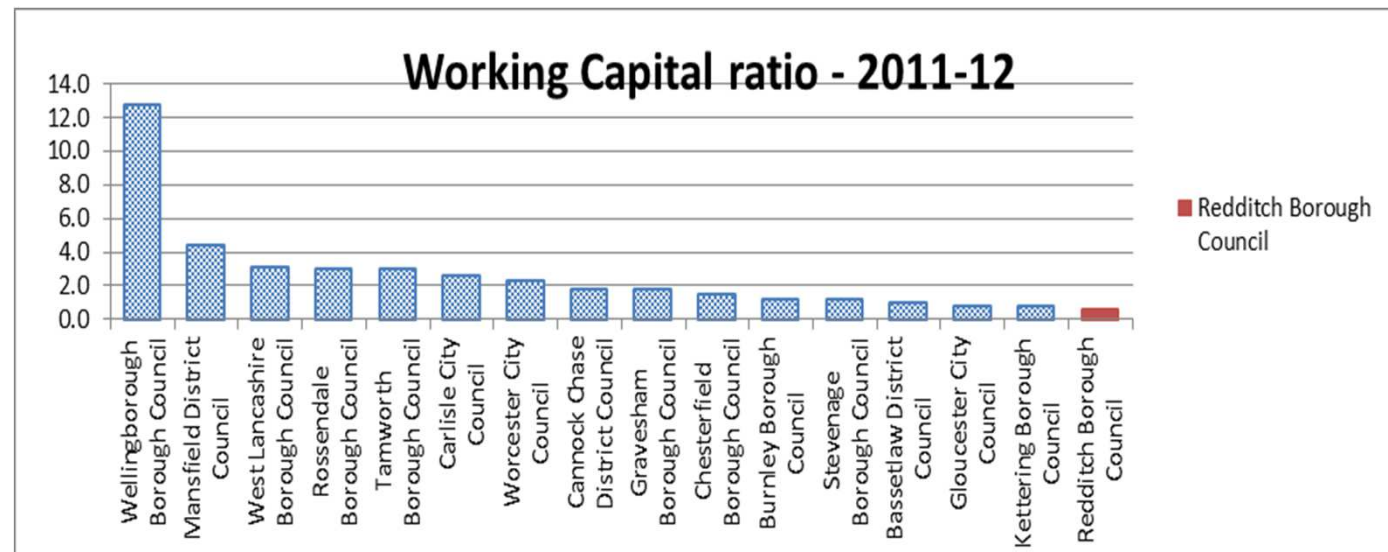
## Working Capital - Benchmarked

### 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

Redditch's working capital ratio has reduced from 1.15 in 2007 to 0.59 in 2012. This indicates that the council's liquidity is decreasing to well below the preferred range.



# Key Indicators of Financial Performance

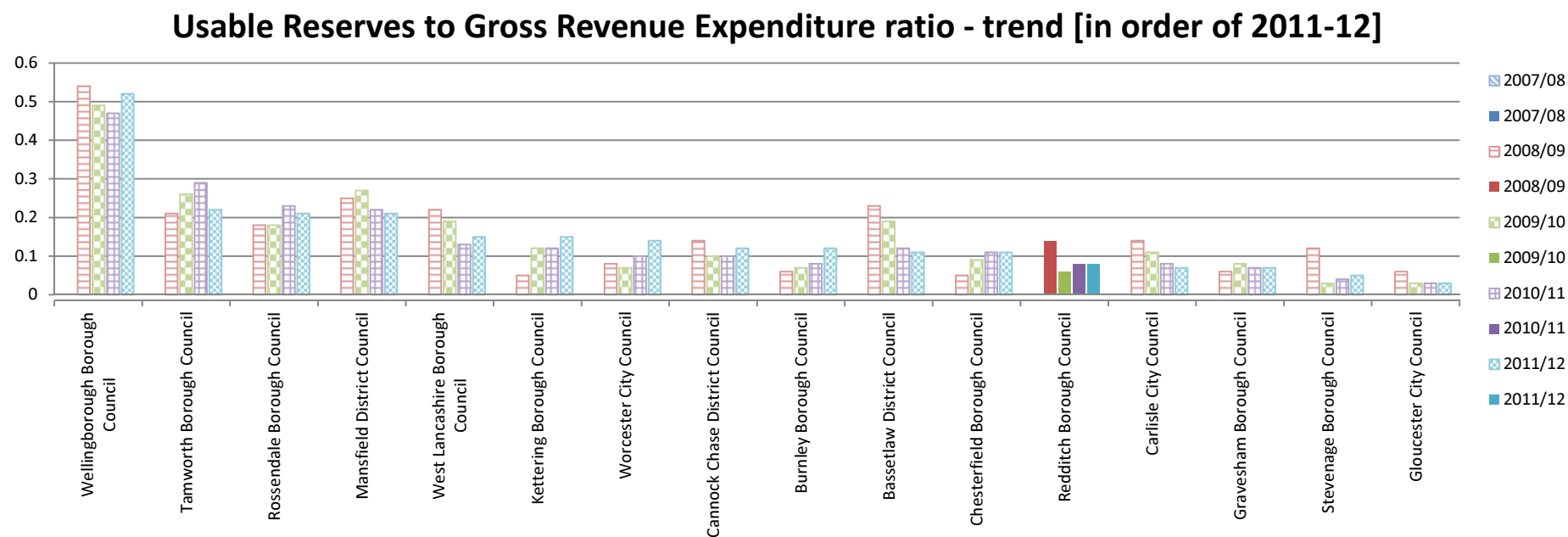
## Useable Reserves - Benchmarked

### 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

Between 2007 and 2012 RBC has reduced the value of its useable reserves, from 0.14 to 0.08. The majority of other councils have reduced their useable reserves over the period. Further analysis is set out on the following slides.



Source: Audit Commission's Technical Directory

# Key Indicators of Financial Performance

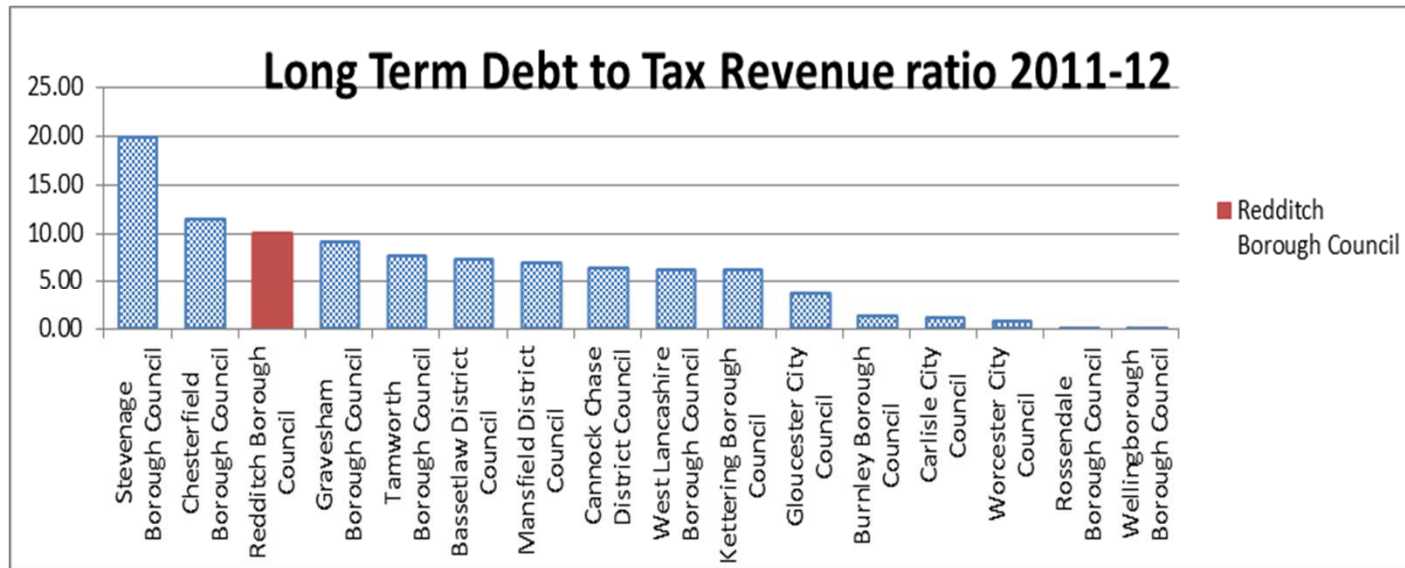
## Long Term Borrowing to Tax Revenue - Benchmarked

### Definition

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

### Findings

Redditch's ratio of 9.92 indicates that it has long term borrowing which exceeds tax revenue by almost ten times. Redditch is third in comparison to the benchmark group. Prior to 2011 the council had a ratio of 0.43 and the increase is due to the £98m of debt related to self financing of the housing stock. The majority of the borrowing is long term for this reason. Repayment of the debt is reflected in the HRA business case model.



# Key Indicators of Financial Performance

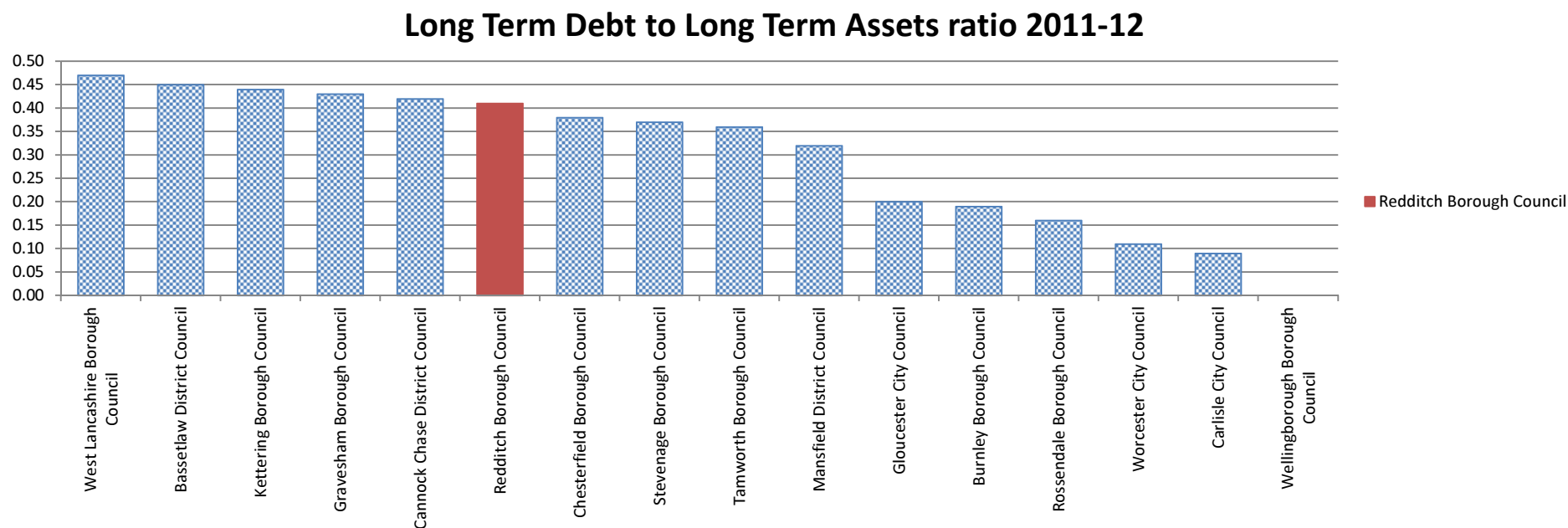
## Long-term borrowing to Long-term assets - Benchmarked

### Definition

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

### Findings

Redditch's most recent ratio of 0.41 shows that the Council's long term borrowing represents between one third and a half of its long term assets - i.e. long term borrowing does not exceed its long term assets. In comparison to other authorities in this benchmarked group, Redditch is broadly in line with the other council's with a housing stock.



Source: Audit Commission's Technical Directory

# Key Indicators of Financial Performance

## Sickness Absence Levels

### Background

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

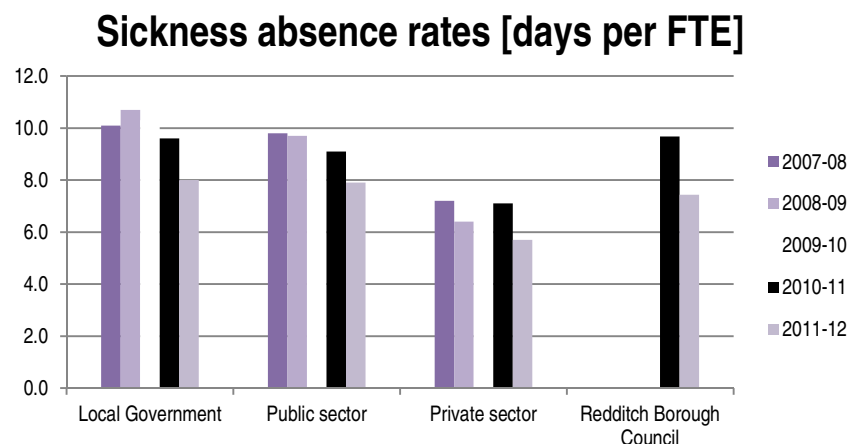
- London Borough of Croydon reduced absence from 12.5 days to 6.4 days over two years due to a new tougher sickness absence management.
- Cambridgeshire County Council reduced sickness absence levels to 5 days per employee using an approach built on a relationship of trust with staff and empowering managers to take control of absence management.

Costs that accrue from sickness absence relate to the hiring of agency staff to cover staff gaps, or from holding a larger workforce complement than is desirable. Absence also damages service levels either through staff shortage or lack of continuity. Reducing absenteeism saves money, improves productivity and can have a positive customer benefit. Absence management will be a particular challenge for all authorities during SR10, given the context of significant pressures on staff to deliver "more for less".

### Findings

Sickness data is routinely collated by the Council and in monitored.

Redditch's sickness absence levels have increased to 8.4 in 2012/13 which is against the trend of generally decreasing levels of sickness seen in the public sector over the past 5 years, although performance is better than the local target of 8.75.

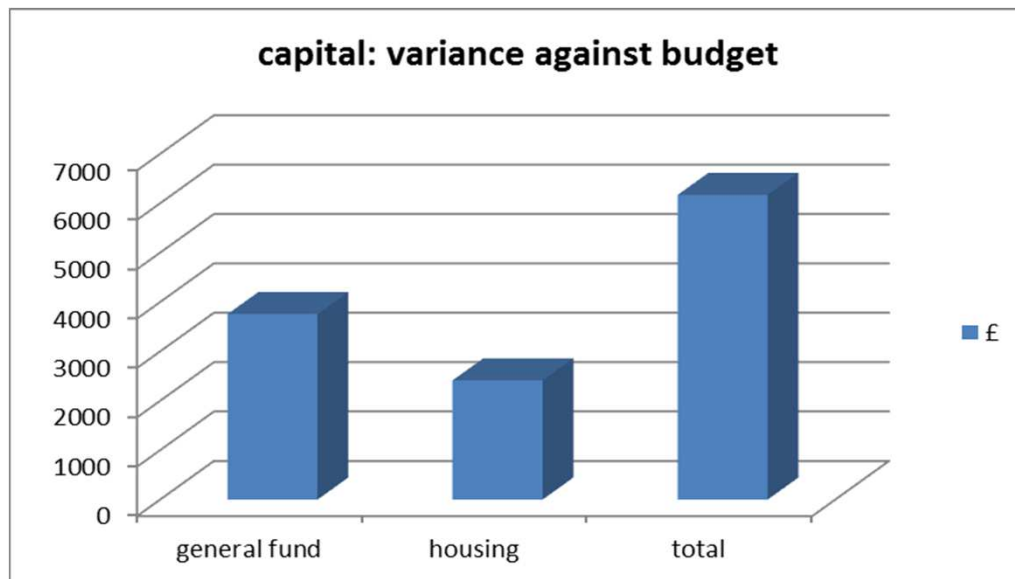
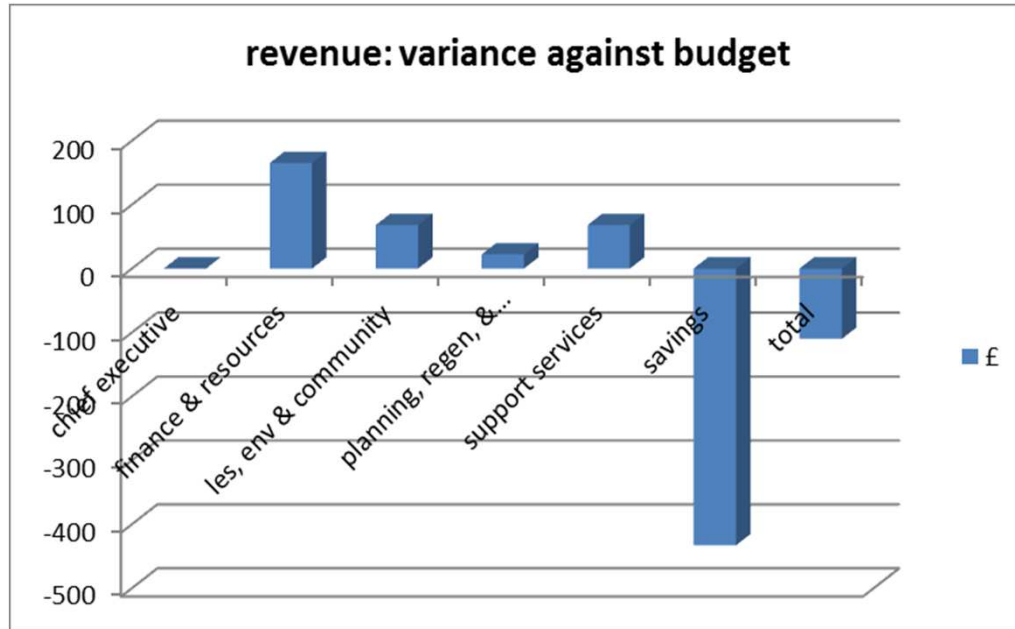


Source: Audit Commission and RBC data



# Key Indicators of Financial Performance

## Performance Against Budget: Major Variances from Working Budget



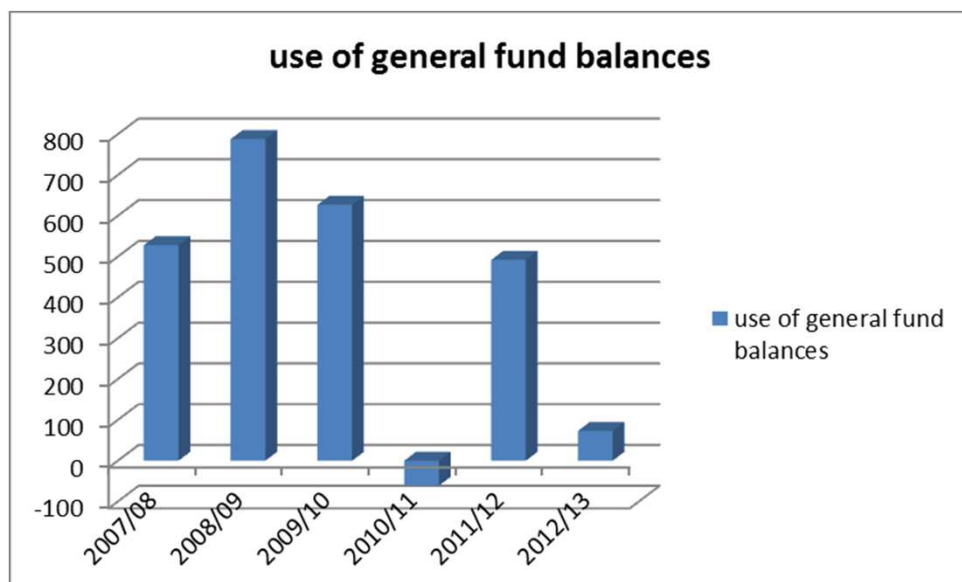
Source: RBC  
foreword to the  
accounts

Revenue budget: At the time of setting the budget the council had over £400k of unidentified savings. Other savings are embedded within budgets. Part of the unidentified savings were achieved through a one-off receipt and thus the council had small outturn overspend of £74k against budget, that was funded by general fund balances. In the previous 2 years

capital programme: there was significant slippage in both the housing and general fund capital budgets. general fund was due to the deferral of the purchase of waste collection vehicles due to a service review and housing was due to general slippage, partly due to caution around the new operating environment arising from self financing

# Key Indicators of Financial Performance

## use of balances to support spending



Source: published accounts

Use of general fund balances: over the last 6 years the council has used general fund balances to support spending in all but 1 year, although the reliance has decreased from its peak in 2008/09. General fund balances are currently at the lowest level they have been at £1m, although the level of earmarked reserves has increased steadily over this period.



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