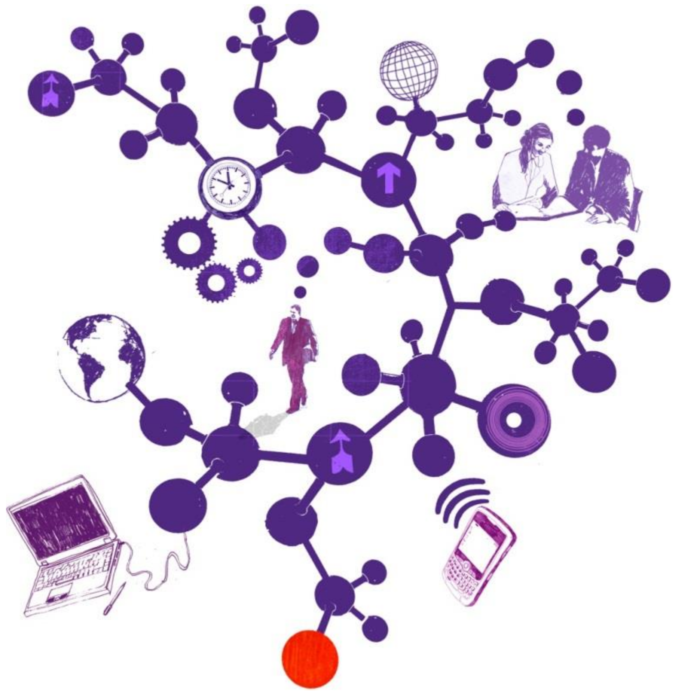
Grant Thornton

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Report on Value for Money for Warrington Borough Council

Year ended 31 March 2014

Report date 30 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:

1. 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".

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.

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

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

We have reviewed the Council's arrangements for securing economy efficiency and effectiveness by looking at:

- Prioritising resources;
- Improving efficiency and productivity; and
- Management of natural resources.

Our approach

Our audit approach involves:

- review of key documentation;
- review of 12-13 vfm profiles (latest data set available);
- meetings with key officers; and
- a risk assessment to identify any significant risks.

Our approach is designed to assess:

- whether there are arrangements in place related to the specified criteria;
- the Council's performance during 2013-14 and what that says about the effectiveness of those arrangements and
- the impact of any significant risks that we have identified.

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**

Introduction

What is the 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 Borough of Warrington covers an area of 70 square miles and is situated between Manchester and Liverpool. It is home to 202,500 people living in 85,000 households. Warrington has a strong local economy and a growing business community. The Centre for Cities annual health check of UK cities reported Warrington as being one of the few places that have continued to improve based on its performance in employment, wages, business growth and house prices. In terms of deprivation Warrington ranks 153rd out of 326 local authorities. The Grant Thornton report 'Where growth happens' reviews how policy makers are focused on providing the levers to facilitate economic growth in their areas. The report recognises and reports on the dynamic growth that is taking place within Warrington. Closing the gap remains a key priority for the Council as there are marked differences in the borough between levels of employment, educational attainment and health between the poorer and more well-off areas.

The impact on Warrington of the Governments Spending Review is a reduction in central funding of £22m since 2011. A further reduction of £20m is anticipated over the next three years. This reduction in income comes at a time when the demand for Council services have increased. The Council has made £37m of savings since 2011 and continues to provide quality services for the people of Warrington. In 2013/14 a further £14m of savings were required to set a balanced budget and for 2014/15 the Council have identified the need to make £16.2m savings. Each year making savings whilst maintaining services becomes increasingly challenging for the Council.

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

Executive Summary

Overall Risk Assessment

The following significant risks were identified during our VfM planning, which were addressed during the course of our work:

- borrowing to lend to registered social landlords RSLs

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 whilst the Council continues to face significant financial challenges its approach to managing its day to day activities is good.

Looking ahead, the Council has approved a £1.3bn capital programme. Whilst this clearly demonstrates the Council's drive and ambition for the area, it is important that the Council evidences how these activities support the delivery of the Council's key strategic priorities. Also, due to the size, scale and complexity of capital programme the Council must be satisfied that it has the appropriate skills and capacity in place to deliver these projects effectively.

Officers have recognised the need for a more robust approach to programme management and governance. The Council is keen to reflect on its recent experience of providing commercial loans to registered social landlords (RSLs) and to use that knowledge to strengthen its arrangements for financial planning, governance and control.

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.

The Council is committed to providing quality services and is open to doing this through alternative delivery models to improve its productivity and achieve efficiencies. Looking forward it is important that where the Council enters into very new models of delivery for example, the large social enterprise scheme or the joint venture with private developers to redevelop Southern gateway, it is able to satisfy itself it has the appropriate skills, capacity and expertise to meet all of its statutory and regulatory obligations.

Specific risk – loans to RSLs

We have worked closely with officers and members during the year to understand the steps taken to ensure that the Council's actions are reasonable and lawful. Officers have spent considerable time developing the proposals and sought specific advice on the legality of the arrangements from leading Counsel. We have carefully considered the Council's plans and the legal advice and also obtained our own legal advice. The aspect of local government law that is at issue here is relatively untested and ultimately it is a matter for the courts to determine legality. However based on the advice we have seen, and our current understanding of the position, we have no plans to challenge the Council's actions. We will continue to liaise with officers on this key area. We will be looking for evidence that the loans continue to support the delivery of the Council's key strategic priorities. We will also consider your arrangements for managing and mitigating the risks associated with these loans

Key Indicators of Financial Performance

<table>
<tr><th>Risk area</th><th>Summary observations</th><th>High level risk assessment</th></tr>
<tr><td>Key Indicators of Financial Performance</td><td>Our review of key performance indicators show that the Council is, in the short term, in a good financial position. Collection rates for both council tax (97.21%) and Business Rates (95.92%) remain high. Ratios for working capital, long term debt to revenue, long term debt to long term assets and useable reserves to gross revenue expenditure are all rated as green, as is the level of schools balances. However, these simple ratios will change over time as the Council continues to finance its capital programme with long term unsupported borrowing. It is important that the Council has in place its own set of robust financial indicators to demonstrate its longer term financial health. (R1).

This year 2013/14 the revenue budget has presented a volatile picture with the quarter 1 outturn forecasting a £5.5m overspend. The Council implemented a number of actions to mitigate the potential overspend which resulted in an underspend of £427k. The Council is introducing new budget planning and monitoring software that will help them identify and control the volatility within the budget.

The savings target for the year was £13.9m and the Council achieved this with 83% of savings being achieved via the original means which is a real improvement for the Council.

The Council planned to increase its levels of usable revenue reserves by £2.5m in 2013/14 . It managed to increase reserves by £2m. This increases the combined overall total of the strategic, medium term and general fund reserve to £15.2m. The Director of Finance & Information Services reviews and reports on the adequacy of the levels of reserves held by the Council. The Council's strategic reserve is held at £4.7m just under the 3% -5% of net budget requirement. It is important that the Council continues to review the adequacy of its general usable reserves and explains it to members to help with the transparency of the decision making process. (R2)

The capital programme 2013-16 is £841m and this increases to £1.3bn for the period 2014-2017. This reflects the Council's drive and ambition for the area, focusing primarily on regeneration, housing and investments, including a number of innovative invest to save schemes. The capital programme 2013-16 requires £782m of unsupported borrowing rising to £1.3bn by 2017. It is important the Council understands and considers the implications of this level of unsupported borrowing.

Sickness absence, although slightly improved from last year, remains amber. The Council continues to focus its efforts on reducing absenteeism due to sickness as it is a costly drain on its resources. The Council has improved its monitoring arrangements but at an average of 13 days per FTE the absence rates remain relatively high compared to both public sector bodies (8.7 days) and the private sector (7.2 days). (R3).</td><td>Green</td></tr>
</table>

Strategic Financial Planning

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
Strategic Financial Planning	The Council has an excellent track record of delivering its financial targets. It has published its Council Strategy, supported by the Corporate Plan which includes a detailed annual revenue budget and a three year capital programme covering 2013-16. The Medium Term Financial Plan (MTFP) processes are well established and include all key planning assumptions. The MTFP is regularly reviewed by officers and directorates and focuses on the need to make £14m savings in 2013-14 and a further £20m over the next 3 years. Some directorates review and report more regularly as they have been identified as areas with increased risks (e.g Economic Regeneration, Growth and environment and Families and Wellbeing.) As part of its budgeting process the Council reviews and challenges all of its existing service provision. As a result it is well placed to be able to meet the challenge of continuing to deliver effective services with reduced resources. The business planning and budget setting process is embedded throughout the Council. It has a high degree of Member involvement and good public consultation. While the MTFP is regularly reviewed and updated it remains an internal document and is not yet being used publicly to inform and drive longer term financial planning. The Council is introducing new outcome based budgeting which will help reduce the volatility in the revenue and capital outturn. The MTFP includes adequate assumptions about funding pressures, inflation, business rate receipts, localisation of council tax benefit and the impact of Academies. The MTFP assumptions are regularly revisited as new information becomes available about funding or pressures. We have reviewed of the Council's assumptions and estimations contained within a number of its key strategic projects including solar panels and street lighting and have found them to be reasonable. Senior officers recognise the need to ensure that all members and stakeholders have a better understanding of the financial landscape as part of the next update to the corporate plan and annual budget cycle.	**Green**

Financial Governance

Overview of arrangements

Risk area	Summary observations	High level risk assessment
Financial Governance	The Council has learnt a lot over the past year in administering its invest to save schemes. As a result it recognises the need to strengthen its governance arrangements with regard to the capital projects. In November 2013 the Council introduced a the Regeneration Board to establish greater scrutiny and performance monitoring of the regeneration projects. The remit of the Board and revised terms of reference are being revisited. There are examples of good project management in place but this is not yet the case for all projects, in particular the arrangements for project initiations and the consideration of any associated risks. With regard to the more traditional activities, the Council has a good understanding of its financial environment and financial performance at all levels of the organisation. Members are actively engaged in the process and executive away days are an important part of the challenge process. Clear and comprehensive performance reporting is undertaken at all levels and the Council has a good track record of delivering quality services in line with budgets. The Council has a large £1.3bn capital programme that reflects its drive and ambition for the borough. The programme includes a number traditional as well as innovative schemes. Major projects during 2013/14 have included the following schemes: • Continued planning of development of the Bridge Street area which is a key component of the Warrington Regeneration Programme. This is a long term project which is expected to last between 10 and 15 years. • Establishment of a Joint Venture Company for regeneration of the Southern Gateway, in accordance with the aspirations of the 'Warrington Means Business' framework for business growth and regeneration in the Borough. • Continued infrastructure developments on the Omega site which is a critical part of 'Warrington Means Business.' and •Continued development of innovative invest to save schemes including investment schemes with social landlords and other corporate loans.	Green

Financial Control

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

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Overview of arrangements

Risk area	Summary observations	High level risk assessment
Financial Control	The Council has a robust business planning and budget setting process, which takes into account the views of stakeholders and includes rigorous review by Members. The Council manages budgets well and this is evidenced by a good track record in achieving the overall budget and mitigating any overspends identified in year. Through the business planning process, the Council has a good understanding of its costs and performance, and considers different ways of achieving savings through service redesign, invest to save schemes and activity monitoring to identify areas where services can be provided more effectively and efficiently. The Council has sound financial systems in place to support its day-to-day business. It uses its financial systems effectively for reviewing its financial position including the production of quarterly revenue and capital monitoring reports for the senior management team and executive committee. The Council recognise that it needs to do more in controlling all aspects of the larger more dynamic regeneration and invest to save schemes. In particular the initiation phase of the project where each major project should be accompanied by a sound business case, a full cost benefit analysis, budget, and measures of success. As a result project management arrangements for 2013/14 are marked as amber. The Council has a good internal audit section which is respected throughout the Council. The internal audit work collaboratively with neighbouring internal audit sections to increase their skills and capacity. The Chief Internal Auditor shall has independent right of access to the Chair of the Audit and Corporate Governance Committee. In exceptional circumstances, where normal reporting channels may be seen to impinge on the objectivity of the audit, the Chief Internal Auditor may report directly to the Chair of the Audit and Corporate Governance.	Green

Prioritising Resources

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Red	Inadequate arrangements

Overview of arrangements

Risk area	Summary observations	High level risk assessment
Prioritising Resources	Warrington, as with most Councils continues to face significant budget pressures as a result of reduced government funding and falling income streams. This is at a time when there is an increased demand for Council services, particularly children and adult social care and care for older people. The Council has made £50m of savings over the past four years and expects to make a further £50m over the next four. The Council published "50 ways to save £50m" which helps its stakeholders understand how it has managed to achieve savings this whilst protecting frontline services. The Council has well-developed budget consultation and budget setting processes in place. Previously, the Council has made clear links between how it has prioritised spending in pursuit of its strategic aims. However, the reality is in the existing economic climate the Council struggle to afford basic statutory services for all of its citizens. It is partly due to these financially challenging times that Warrington has responded by pursing more innovative, alternative ways of providing services and generating savings. The Council has supported the growth of the local economy, as evidenced by the 'Where growth happens report'. The Council has attracted £3m additional income from the New Homes Bonus. The increased number of developments hoped to attract a surplus of business rates, however this will not be realised due to the exemptions announced in the autumn statement. Our review of the Audit Commission VFM profiles indicate that the Council is in a good position with a lower spend per head of population compared to its nearest neighbours. It also generates relatively greater levels of income per head. It has a high employment rate and lower levels of benefit claimants. In 2012/13 the cost of management and back office functions was 15.4% of total spend compared to an average of 8.3% for comparator Authorities. Since then the Council has reviewed its support services, back office function, procurement and contract management in order to work as economically as possible.	Green

Improving Efficiency & Productivity

Overview of arrangements

Risk area	Summary observations	High level risk assessment
Improving Efficiency & Productivity	The Council has a good understanding of its costs. It has a Performance and Partnership function that is tasked with supporting the Council by ensuring that data, information and intelligence is robust and may be used to set policy and monitor performance delivery. The Council has undergone significant service remodelling and a full corporate restructure in order to become as efficient as possible. The Council uses benchmarking information appropriately e.g the planning and development service was to be provided externally, until the data showed that the in house service was cheaper. The Council has embraced alternative service delivery models whilst maintaining a regulatory overview to ensure performance and quality standards are maintained. Some examples include a shared adoption service with neighbouring Councils, outsourced leisure and wellbeing services, commissioning Culture Warrington to deliver cultural services, trading of in house expertise to other Councils and joint ventures for town centre regeneration. The Council continues to respond effectively to the challenge of delivering efficiency savings whilst maintaining services. A number of improvements and efficiencies have been made across the directorates during this period including; Children and Young people's service; despite having made significant savings (£8.6m in the past 3 years) in July 2013 Ofsted inspection of the fostering service found that across five of the key judgements the service was 'good' and that outcomes for children and young people was 'outstanding'. Oftsed have found majority of regulated children's services (children's homes, primary schools and special schools) in Warrington to be 'good' or 'outstanding'. A full review of the cost of adult social care is still in progress. The Council continues to work closely with service providers to maintain deliver quality adult social care services. The services remain fully compliant with CQC standards following a number of inspections. The Council have borrowed money to invest in its "invest to save" schemes. The Council are satisfied that any outcomes are a success as they come at nil cost. The success measures of the project should be clearly articulated at the initiation of the scheme.	Green

Management of Natural Resources

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

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Amber	**Adequate arrangements, with areas for development**
Red	**Inadequate arrangements**

Overview of arrangements

Risk area	Summary observations	High level risk assessment
Management of Natural Resources	The Council has implemented a number of schemes that help it to manage its natural resources more effectively including; solar, green deal and energy efficient schools. The Council is considering introducing an energy company to grow this part of their provision. Presently the four main schemes are: • Street lighting: the street lighting replacement project £8.6m includes a review of energy efficiency as part of the procurement process to realise savings and reduce carbon emissions; Corporate energy networks: development of heat networks for schools, regeneration projects and corporate buildings. • Commercial and Residential Solar PV : installing solar panels on a large scale on commercial properties and on domestic properties. • WHEELs: Warrington Home Energy Efficiency, providing low cost loans to enable 2000 homes to access energy efficient work. • Carbon reduction programme.	**Green**

Next steps

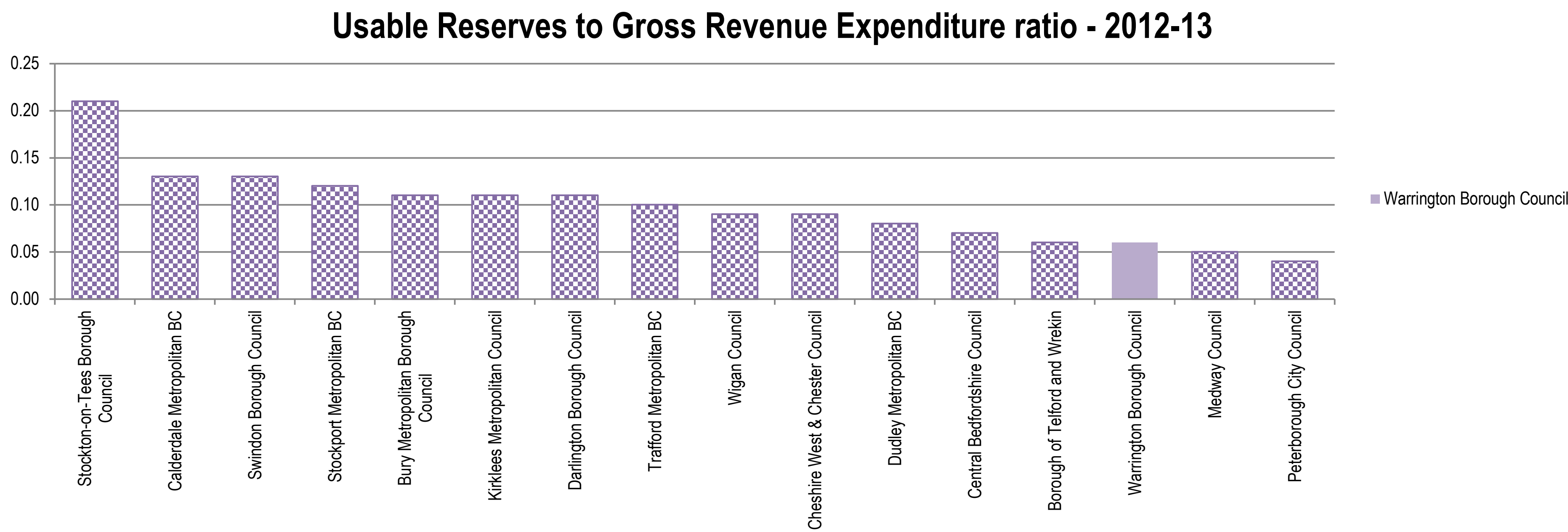
Next Steps

Area for consideration	Recommendations	Responsibility	Timescale	Management response
Key Indicators of Performance	R1. Review key performance indicators to ensure they remain fit for purpose. Consider setting defined 'harder' gearing indictors over and above affordability. R2. Demonstrate to members why 3% of the net budget requirement is adequate level of reserves for future financial resilience. R3. Continue to monitor and address high levels of sickness absenteeism.	Head of financial and information services	January 15	xxxx
Strategic Financial Planning	R4. The Council should consider including a longer term detailed revenue forecast in its MTFP. The Council should review and report progress against the MTFP and refresh any assumptions within in it. The Council should demonstrate that it fully understands and has considered the implications of the level of unsupported borrowing it is proposing to undertake.	Head of financial and information services	March 2015	xxx
Financial Governance	R5. The Council must ensure that its decision making processes for significant capital schemes in particular, at the initiation phase are clear. It is important that these projects are aligned to the Council's strategic priorities and pledges which is to improve the well being of the people of Warrington. R6. The Council should review its minimum standards for project management, in particular the sign off at the initiation stage and check that they are being embedded consistently across the organisation.	Head of financial and information services	Immediately	xxxx

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. The Council uses 3% to 5% of the net budget requirement as a good indictor as to the adequacy of the level of strategic reserves for financial resilience. Relative to their nearest neighbours the level of usable reserves to gross revenue expenditure at Warrington is lower.



Relative to their nearest neighbours the level of long term debt to tax revenue at Warrington is lower.