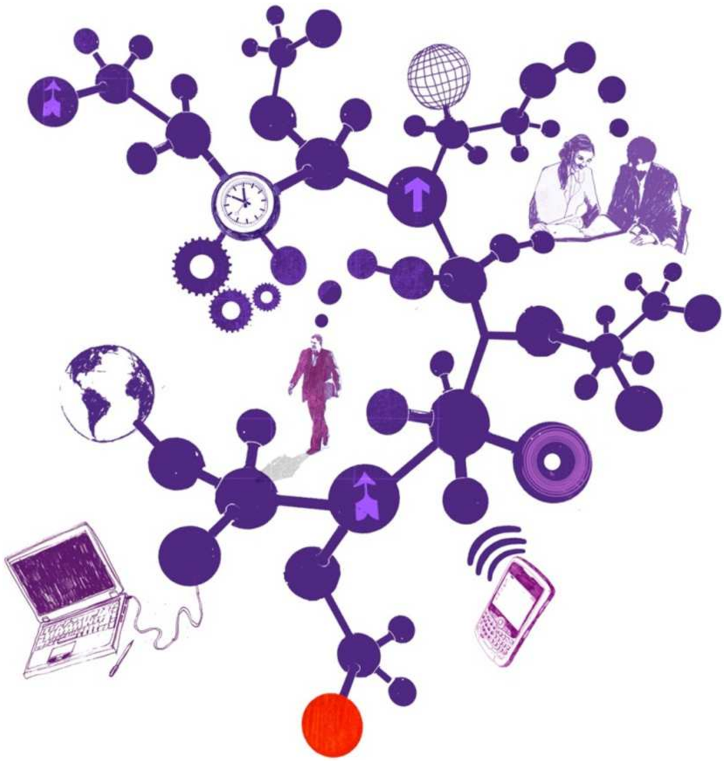
Review of the Council's Arrangements for Securing Financial Resilience for Copeland Borough Council

Year ended 31 March 2013

September 2013



Jackie Bellard
Director
T 0161 234 6394 or 07880 456195
E jackie.bellard@uk.gt.com

Richard McGahon
Manager
T 0141 223 0889 or 07880 456156
E richard.a.mcgahon@uk.gt.com

John Cangley
Executive
T 0141 223 0893
E john.d.cangley@uk.gt.com

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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.

Overall we have assessed the Council as GREEN

Further detail on each of these areas is provided in the sections of the report that follow. Our overall conclusion is that whilst the Council has faced, and continues to experience significant financial pressures and risks, its current arrangements for securing financial resilience are satisfactory.

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

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

Executive Summary

National and Local Context

National Context

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

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

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

These funding reductions come at a time when demographic and recession based factors are increasing demand for some services, and there is a decreasing demand for some services, such as car parking, where customers pay a fee or charge.

Financial austerity is expected to continue until at least 2017.

Local Context

The Council continues to face a challenging financial position in balancing its budget in the light of reductions in local government funding and embarking on a comprehensive transformation programme systematically reviewing its services, stopping some services and finding alternative provision where possible.

The Council has faced successive reductions in its funding with the resulting net revenue budget in 2012/13 of £12.5 million being over £3 million less than the resources available in 2010/11. To date savings have been made through efficiencies through a reduced management structure, and the introduction of sharing arrangements with other local authorities.

In 2012, the Council recognised the need to fundamentally review its role including what it would do and what it would look like going forward into 2015 and beyond. This resulted in the 'Our proposed budget savings 2013-2015 – the future role of the Council'. Given the nature and scale of the proposed changes, the Council conducted an extensive consultation process.

The budget strategy recognised the need to focus resources on effective delivery of the statutory services the Council has to provide. This meant the Council has focused changes on the discretionary elements of current provision, reducing both its role and funding in the future.

The Council's new policy framework will drive all future spending decisions and allocation of resources and help provides a clear and accountable set of criteria for future revenue and capital investment.

The new Council Plan was agreed in February 2013 refocusing the Council's efforts onto the delivery of statutory services. Key elements were:

- prioritising the future delivery of statutory services;
- reducing cost of running the Council by a further 22% (net) over 2 years;
- stopping or reducing discretionary services in order to reduce the Council's largest area of spend by 56% (net) over the next two years

The medium term financial plan for 2014- 16 has identified the need for further reductions in the order of 15% which with cost pressures will require further savings of around £1.8 million over the next 2 years.

Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Key Indicators of Performance	• The Council's working capital ratio at 31 March 2012 is 3.86 and remains above the preferred range of 2:1. Although the Council's liquidity is decreasing it is still maintaining a positive working capital ratio whereas 8 of the comparable councils are now below the 2:1 ratio. • Copeland's usable reserves were £9.079 million at 31 March 2012 giving a ratio is 0.26 meaning the Council is in a better position that most of its comparable councils. • Copeland's long term debt to tax revenue ratio of 1.17 indicates that it has long term borrowing which slightly exceeds tax revenue. The Council's long tem borrowing ratio has increased from 0.46 in 2007/08 to 1.17 in 2011/12 as a result of recognising the long term liability for the Private Finance Initiative (PFI) from 1 April 2009. It should be noted that the Council receives an £0.84 million PFI grant per annum to help fund the PFI scheme. • Copeland's long term borrowing represents approximately one fifth of its long term assets • The Council's sickness absence for 2012/13 was 9.43 full time equivalent (FTE) days. This was a slight deterioration on the 8.94 days per FTE in 2011/12 but considerably better than the 15.05 days high in 2009/10. • The overall revenue outturn, prior to any carry forwards, for 2012/13 was an underspend of £2.40 million against a revised budget of £12.45 million.	Green
Strategic Financial Planning	• The Council's Medium Term Financial Strategy (MTFS) for 2013/14 to 2016/17 was approved by the Executive in January 2013. When the revenue and capital budgets for 2013/14 were set in February 2013 the projections to 2016/17 were also updated. • Key planning assumptions cover the main areas which impact on the Council's operations and an annual review of fees and charges has been undertaken by each directorate. General inflation was only set at 1% for 2013/14 representing a real reduction given inflation at around 2.5%. • The MTFS 2013/14 to 2016/17 indicates savings of £3.38 million will be required between 2013/14 and 2016/17. • The Council is faced with the continuing challenge of finding further savings which will become increasingly difficult. It will be essential therefore to ensure that its savings plans are clearly communicated, link to specific policy decisions, and that the impact on service levels and quality is clearly identified and monitored.	Green

Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Financial Governance	• During 2012/13 the Corporate Leadership team (CLT) monitored the financial position on a monthly basis using a ledger extract at cost centre level. This was deemed satisfactory at a time of underspending in 2012/13 but the Head of Corporate Resources has introduced a more robust process for 2013/14 with more formal and detailed monthly reporting of the financial position to CLT. This will ensure prompt identification of any overspending so that remedial action can be taken. • The quarterly revenue monitoring reports are at directorate level with narrative commentary on variances. The quarterly capital monitoring reports are at a individual project level with narrative commentary on variances and potential re-phasing of spending. • The increase in revenue underspending between month 10 and outturn was £1.48 million. Although there were various reasons for this additional underspending this is not always clear in the outturn report. The in year revenue monitoring reports show the budget and a year-end forecast but the lack of a budget to date and actual to date makes it difficult to assess whether forecasting looks reasonable. • The Council consults with staff, the trade unions and the public on the annual budget . Recent consultation covered a two year period 2013 to 2015 so take account of the uncertainty over future government funding. • The Audit and Governance Committee provides adequate challenge on financial governance matters. If they deem it necessary they will ask for further reports from officers or for Internal Audit to undertaken further work on a particular issue.	Green
Financial Control	• The Council has well established budget setting processes that encourage involvement and ownership from budget holders. The Council has a track record in managing within budget. • There is a clear process in place to produce the annual savings programme and progress against the plan is monitored through the Change Programme Board. • Internal Audit has confirmed that the Council's financial system are capable of producing accurate and reliable information. • Although progress was made in 2012/13 the Council's REAL asset register package was not fully implemented. Management took the decision that as they were not yet satisfied with the robustness of the new system they would use the spreadsheet based system for the 2012/13 financial statements. • Risk management arrangements have been improved in 2012/13 and appropriate arrangements are now in place.	Green

Executive Summary

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Financial Governance	Include budget to date and actual to date in quarterly revenue monitoring reports to help members assess the reasonableness of the projected outturn position.	Financial Management and Treasury Accountant	Next reporting cycle.	Agreed - new monitoring report devised which satisfies this requirement.
	Where there are large movements between, the projected outturn at quarter three and the actual outturn position for the year, provide a clear commentary to explain the movement.	Financial Management and Treasury Accountant	Next reporting cycle	Agreed - new monitoring report devised which satisfies this requirement.
Financial Control	Complete the full implementation of the new software based asset register in 2013/14. As part of this ensure that the opening position at 1 April 2013 is consistent with the audited 2012/13 accounts.	Financial Reporting and Technical	October 2013	Agreed - once the audited position is established the final stage of the implementation of the software based REAL asset register will take place.

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:

Boston Borough Council
Fenland District Council
Mansfield District Council
Allerdale Borough Council
West Lancashire Borough Council
Carlisle City Council
North Warwickshire Borough Council
Cannock Chase District Council
Bolsover District Council
Chesterfield Borough Council
Newark and Sherwood District Council
Bassetlaw District Council
Ashfield District Council
North East Derbyshire District Council
Redditch Borough Council

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Liquidity	• Copeland's working capital ratio is 3.86 which means that its well above the preferred range of 2:1. Based on the 2012/13 unaudited accounts the working capital ratio increases to 4.30 mainly as a result of an increase in assets held for sale at 31 March 2013 which are expected to be sold in the next 12 months. This Council's working capital ration has reduced in recent years (as shown on the next page) as short term creditor s have increased whilst debtors, assets held for sale, cash and investment balances have reduced during the period. • The Council's working capital ratio has reduced from 7.70 in 2008/09 to 3.86 in 2011/12, with year on year decreases during this period. This reducing trend is consistent with 10 out of 15 of the comparable councils. • Council officers have indicated that the working capital ratio reductions to 2011/1 were as a consequence of increases in short term creditor balances whilst the level of debtors and assets held for sale reduced during the period. The level of cash and investments have also shown a gradual reduction over the period. • The Council's working capital ratio at 31 March 2012 is 3.86 and remains above the preferred range of 2:1. Although the Council's liquidity is decreasing it is still maintaining a positive working capital ratio whereas 8 of the comparable councils are now below the 2:1 ratio. • The Council's collection performance during 2012/13 of 98.20% for Council Tax and 99.03% for National Domestic Rates shows a slightly improving position when compared with performance in 2011/12 of 98.15% and 98.92% respectively.	Green
Reserve Balances	• Copeland's usable reserves were £9.079 million at 31 March 2012 giving a ratio is 0.26 meaning the Council is in a better position that most of its comparable councils. Based on the 2012/13 unaudited accounts the usable reserves ratio remains at this level at 31 March 2013. This Council's usable reserves have reduced in recent years with specific use being made of earmarked reserves and usable capital receipts. Reducing usable reserves is a similar picture to over half of the other comparable councils. • The Council's usable reserves ratio has reduced from 0.36 in 2008/09 to 0.26 in 2011/12, with year on year decreases during this period. There is no clear trend in the comparable councils with some councils increasing usable reserves (as a percentage of gross expenditure) and others decreasing reserve levels. Copeland's reducing trend is consistent with 8 out of 15 of the comparable councils. Even though the Council's usable reserves ratio has reduced it still remains the second highest in its comparable group. • This Council's usable reserves have reduced in recent years with specific use being made of earmarked reserves (reducing by £1.56 million) and usable capital receipts (reducing by £2.63 million). • The Council 's revenue reserves as a percentage of the next year's net revenue budget requirement are 94%. • The Council's Medium Term Financial Plan for 2013/14 to 2016/17 shows limited use of reserves is required over the next few years.	Green

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Borrowing	• Copeland's long term debt to tax revenue ratio of 1.17 indicates that it has long term borrowing which slightly exceeds tax revenue. Copeland is fifth lowest in the comparable group with 11 of the group having a ratio of 4.20 or over. Based on the 2012/13 unaudited accounts the long term borrowing ratio is 1.18 at 31 March 2013. The Council's long tem borrowing ration has increased from 0.46 in 2007/08 to 1.17 in 2011/12 as a result of recognising the long term liability for the Private Finance Initiative. from 1 April 2009. • The Council's long tem borrowing as a proportion of tax revenue has increased from 0.46 in 2007/08 to 1.17 in 2011/12,. The largest increase came in 2009/10 and reflected, for the first time, the recognition of the long term liability for the Private Finance Initiative. (PFI) It should be noted that the Council receives an £0.84 million PFI grant per annum to help fund the PFI scheme. • The Council's other long term debt relates to a £5 million loan taken out in 2002 for 40 years at 7.55%. The Council periodically reviews this arrangement but with interest rates currently 0.5% the early redemption premium that would need to be paid means that redeeming this loan is not currently viable. • The trend in the comparable group is a deteriorating position in terms of long term debt as a percentage of tax revenue with only three councils showing an improving position between 2007/08 and 2011/12. Even with the PFI scheme liability coming on balance sheet Copeland's is still fifth lowest of the comparable councils. • Copeland's ratio of 0.22 in 2011/12 shows that the Council's long term borrowing represents approximately one fifth of its long term assets - i.e. long term borrowing does not exceed its long term assets. Copeland is fifth lowest in the comparable group with only three of the group showing any reduction in the ratio. Based on the 2012/13 unaudited accounts the long term borrowing to long term assets ratio is 0.23 at 31 March 2013 • The Council's long tem borrowing as a share of long term assets has increased from 0.12 in 2007/08 to 0.22 in 2011/12,. The largest increase came in 2009/10 and reflected, for the first time, the recognition of the long term asset and liability for the Private Finance Initiative. (PFI). The reason for the disproportionate impact on the ratio is because the PFI asset value at 31 March 2012 was £4.08 million (7.6% of long term assets) whereas the PFI liability was £6.37 million (53.6% of long term debt). • The trend in the comparable group is a deteriorating position in terms of long term debt as a percentage of long term assets with only three councils showing an improving position between 2007/08 and 2011/12. • Even with the PFI scheme coming on balance sheet Copeland is still fifth lowest of the comparable councils. • During 2012/13 the Council complied with its legislative and regulatory requirements i.e. the Capital Prudential Indicators.	Green

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Workforce	• The Council's Choosing to change programme is continuing. The reduction in staffing reduced the Council's employee pay bill from £7.93 million in 2011/12, to £7.62 million in 2012/13, a reduction of £0.31 million. • Copeland's sickness absence levels have fluctuated over the past five years. It was 13.1 days per FTE in 2007/08 reduced in 2008/09 to 11.2 days but increased to a high of 15.05 days in 2009/10. The position improved in 2010/11 with a reduction to 10.86 days and improved again in 2011/12 to 8.94 days. The Council's absence level during 2011/12 of 8.94 days per FTE was above the Council's target of 8.0 and the national local government average of 8.0 days. • After the deterioration in sickness levels in 2009/10 the Council reviewed its sickness policy and practices. Although no significant weaknesses were identified with the sickness policy itself ensuring compliance with it by managers was highlighted as an issue. Sickness absence continues to have an appropriate profile with monthly reports to CLT. For 2012/13 sickness absence was 9.43 days per FTE against a target of 8 days. Senior management are aware of the need to maintain a robust approach to sickness absence.	Green
Performance Against Budgets: revenue & capital	• The overall revenue outturn, prior to any carry forwards, for 2012/13 was an underspend of £2.40 million against a revised budget of £12.45 million. In cash terms, the directorate with the best performance was Policy and Transformation with an underspend of £0.19 million (-14.10%). Whereas the largest underspend in cash terms was Regeneration and Communities of £0.69 million (-26.12%). • The main reasons for the overall underspending related to the Choosing to Change programme (£0.3 million) and vacancy management (£0.54 million). Various additional income and a large number of small savings across the Council's directorates make up the rest. • The overall capital outturn, prior to any carry forwards, for 2012/13 was an underspend of £0.72 million against a revised budget of £2.16 million. This represents an underspend of 33.59%. The main reason for this underspend were delays in the redesign of the Copeland Centre reception area due to uncertainty over HMRC continuing occupancy (£0.14 million), delays in Millom Cemetery extension (£0.12 million) and less demand for Disabled Facilities Grants (£0.15 million). The Council also had to undertake emergency work in 2012/13 to address the Gillfoot Shaft collapse.	Green

Strategic Financial Planning

Key characteristics of good strategic financial planning

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

- Focus on achievement of corporate priorities is evident through the financial planning process. The MTFS focuses resources on priorities.
- The MTFS 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 MTFS 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 MTFS 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 MTFS.

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Focus of the MTFP	• The Council's Medium Term Financial Strategy (MTFS) for 2013/14 to 2016/17 was approved by the Executive in January 2013. When the revenue and capital budgets for 2013/14 were set in February 2013 the projections to 2016/17 were also updated. There is clear evidence of further updates to the MTFS in July and August 2013. • The MTFS includes high level sensitivity analysis in terms of a 1% change in general or pay inflation and a 1% change in Council tax. • The MTFS also adequately considers reductions in Government funding and the effect of its own change programme.	Green
Adequacy of planning assumptions	• The key planning assumptions included with the MTFS cover both internal and external factors.. The internal factors included consideration of general inflation (only set at 1% for 2013/14 representing a real reduction given inflation at around 2.5%), pay inflation and income from Council tax and fees and charges. The external factors considered included government policy. • The Council continued its annual review of fees and charges on a service by service basis with a clear objectives of setting the charges to recovering the cost of service provision. • The MTFS 2013/14 to 2016/17 indicates savings of £3.38 million will be required between 2013/14 and 2016/17. • The Council reviews the assumptions within its medium term plans as new information becomes available to mitigate against uncertainties in the level of future funding to be received from Government and the impact on savings required. However, given the current inherent uncertainties in the level of future funding to be received from Government and impact on savings required, this has been assessed as amber.	Amber
Scope of the MTFP and links to annual planning	• The MTFS is linked to the Council's policy and budget frameworks. These then feed into Directorate Service Plans which provide a link between the resources used to deliver services and the delivery of agreed outputs. Service Plans are linked to each Directorate's budget. The Council's Strategic Asset Management Strategy 2010 – 2015 is currently being updated to reflect the revised Community Asset Transfer policy and recent proposals for what asset are likely to be needed to deliver services in the future. The updated plan will be considered by the Executive in October 2013.	Green
Review processes	• The MTFS for 2012/13 to 2015/16 was updated and considered by the Executive in early October 2012. The MTFS for 2013/14 to 2016/17 was approved by the Executive in January 2013. This shows the position for 2013/14 in terms of its original position and then revised position. Further updates to MTFS in July / August 2013. More frequent updates to the MTFS have been undertaken over the last couple of years to reflect the changing funding environment.	Green
Responsiveness of the Plan	• The Council has demonstrated that it has a process in place to update the MTFS and that it is willing to undertake more frequent updates as required. The arrangements for monitoring savings means that progress can be assessed as part of the updating of the MTFS. Scenario planning looking at changes of 1% change in general or pay inflation and 1% change in Council tax is useful in assessing impact.	Green

Financial Governance

Key characteristics of effective financial governance

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

Understanding

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

Engagement

- There is engagement with stakeholders including budget consultations.

Monitoring and review

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

Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
Understanding the Financial Environment	• During 2012/13 the Corporate Leadership team (CLT) monitored the financial position on a monthly basis using a ledger extract at cost centre level. This was deemed satisfactory at a time of underspending in 2012/13 but the Head of Corporate Resources has introduced a more robust process for 2013/14 with more formal and detailed monthly reporting of the financial position to CLT. This will ensure prompt identification of any overspending so that remedial action can be taken. • On a quarterly basis the Executive formally considers the revenue and capital monitoring reports. • Training is provided to improve both members and officers awareness and understanding of financial matters. For 2012/13 this has included training on risk management, understanding financial statements and treasury management.	Green
Executive and Member Engagement	• The level of senior management and member level engagement in the financial management process remains appropriate. • In terms of consultation on the annual budget the Council consults with staff, the trade unions and the public. Recent consultation covered a two year period 2013 to 2015 so take account of the uncertainty over future government funding. • The Audit and Governance Committee provides adequate challenge on financial governance matters. If they deem it necessary they will ask for further reports from officers or for Internal Audit to undertaken further work on a particular issue.	Green
Overview for controls over key cost categories	• The quarterly revenue monitoring reports are at directorate level with narrative commentary on variances as wide ranging as staff costs, insurance costs, IT costs and income. • The quarterly capital monitoring reports are at a individual project level with narrative commentary on variances and potential re-phasing of spending.	Green
Budget reporting: revenue and capital	• At Month 10 the projected revenue underspend was £0.92 million, a difference of £1.48 million to the outturn (reduced to a difference of £0.297 million after carry forwards and net contributions to reserves). Although there were various reasons for this additional underspending between Month 10 and outturn this is not always clear in the outturn report. The in year revenue monitoring reports show the budget and a year-end forecast but the lack of a budget to date and actual date makes it difficult to assess whether forecasting looks reasonable. • Quarterly capital monitoring reports include actual expenditure to date and a year end projection. At Month 10 the projected year end capital position was an estimated underspend against budget of £0.48 million (£0.24 million less than actual underspend at outturn). Part of the difference is due to withholding final payments from contractors.	Amber
Adequacy of other Committee/ Executive Reporting	• The Council has satisfactory reporting arrangements for reporting financial information to the Council, Executive and other committees. • Performance against the Council Plan was reported to CLT on a monthly basis. There was also quarterly reporting of performance against the Council Plan to the Executive and a year end performance report.	Green

Financial Control

Key characteristics of effective financial control

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

Budget setting and budget monitoring

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

Savings Plans

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

Financial Systems

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

Finance Department

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

Internal Control

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

Financial Control

Internal arrangements

Area of focus	Summary observations	Assessment
Budget setting and monitoring - revenue and capital	• The Council has well established budget setting processes that encourage involvement and ownership from budget holders. The Council has a track record in managing within budget. • Financial information is discussed at CLT on a monthly basis with formal reporting of the financial position in terms of revenue, capital and treasury management on a quarterly basis to the Executive. • Monitoring arrangements are timely and capable of identifying areas requiring corrective action. • The overall revenue outturn, prior to any carry forwards, for 2012/13 was an underspend of £2.40 million against a revised budget of £12.45 million, later reduced to a final underspend of £1.22 million. The overall capital outturn, prior to any carry forwards, for 2012/13 was an underspend of £0.72 million against a revised budget of £2.16 million. The need to improve revenue year end forecasting has already been identified.	Green
Performance against Savings Plans	• There is a clear process in place to produce the annual savings programme and progress against the plan is monitored through the Change Programme Board. • The 2012/13 budget required savings of £1.8 million with savings in excess of those required have been delivered in 2012/13. • A total of £1.935m saving identified for 2013/14 in MTFS.	Green
Key Financial Accounting Systems	• As part of Internal Audit's plan for 2012/13 it identified twelve systems and processes which were regarded as fundamental to the Council's financial management and production of the Council's financial statements. • Of the twelve fundamental systems 5 were assessed as 'Good / Substantial assurance', 6 assessed as 'Satisfactory' and 1, which was payroll assessed as 'Weak'. Action was taken to address weaknesses and payroll was re-assessed as 'Good' . • Although progress was made in 2012/13 the Council's REAL asset register package was not fully implemented. Management took the decision that as they were not yet satisfied with the robustness of the new system they would use the spreadsheet based system for the 2012/13 financial statements. The new software based asset register will be fully implemented in 2013/14. • Our work and that of Internal Audit has confirmed that the Council's financial system are capable of producing accurate and reliable information.	Amber

Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
Finance Department Resourcing	• In October 2011 the finance department was re-structured with both of the part time accountants becoming full time. This has helped with continuity and response times in dealing with issues and queries, whether internally or from external audit. • The Corporate Director - Resources and Transformation left in June 2012 and the Head of Corporate Resources took on the s.151 officer responsibilities. She has corporate responsibility for the finance function and is a key member of the Corporate Leadership Team (CLT). • The Accountancy Services Manager post remained vacant despite several attempts to appoint in previous years. To help maintain continuity and resilience within the finance department an experienced interim appointments was made and this has benefitted the Council. There is also some evidence of finance staff using local contacts and networks to discuss the more complex accounting issues and this has helped build capacity within the finance department. • The Finance function is responsible for financial planning, budget consultation and monitoring, producing the financial statements, treasury management, insurance, creditor payments and financial information systems. • In recent years Copeland has improved the quality of its accounts. It has also identified and used additional technical support where required e.g. accounting for Private Finance Initiative (PFI).	Green
Internal audit arrangements	• The Council has adequate arrangements in place. The Internal audit function is provided by a shared internal audit consortium hosted by Cumbria County Council and of which Copeland BC is a partner. • The internal audit consortium is compliant with the CIPFA Code of Practice, per its self assessment . The one area for improvement would include updating the local audit manual and revising it for the wider shared Internal Audit service. • The audit plan for 2012/13 was for 633 days but only 550 (87.2%) days provided. • A total of 30 audits were originally planned with 23 (77%) completed by 31 March 2013 and a further 5 in progress. The scope of the two outstanding IT reviews have been agreed and will be undertaken as part of the 2013/14 audit plan. • There were only two audit reviews where the arrangements were assessed as 'Weak' and these related to payroll and bereavement services. Action was taken on both areas and hey were re-assessed as 'Good' for payroll and 'Satisfactory' for bereavement services.	Green

Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
External audit arrangements	• There were 13 recommendations made in the 2011/12 Annual Governance Report (ISA260 report). • The key recommendations related to appropriate arrangements for the implementation of a new software based asset register., reviewing various issues on approach and application of componentisation and updating the risk management strategy to reflect changes in Council new structures and responsibilities. There was also a need to consider the strategic risk register more frequently and provide refresher risk management training for officers and members. • Management reported progress on implementing the recommendation in the 2011/12 Annual Governance report to the Audit and Governance Committee on 26 June 2013. This showed that action had been taken on all the recommendations. Our assessment of progress will be reported in our Audit Findings Report (ISA260 report).	Green
Assurance framework/risk management	• Consideration was given to roles and responsibilities for risk management in October 2012. The Risk Management Strategy was updated I January 2013 and then again in April 2013. • The Strategic risk register is considered quarterly by the Corporate Leadership Team (CLT) and then reported to the Audit and Governance Committee. A summary showing how risks have moved each quarter provides a useful history of how risks have been managed. • The Strategic risk register identifies the risk, person responsible for managing the risk, controls in place and action already taken, further action required, critical success factors and key performance indicators and a review frequency. • Departmental risk registers are held and managed on the Covalent system. • A Corporate Risk View workshop was conducted with the CLT in July 2012 and provided CLT with an opportunity to update the Strategic Risk Register to reflect current circumstances. Subsequently, training sessions were held with elected members and manager s in September 2012.	Green

Appendix - Key indicators of financial performance

Key Indicators of Financial Performance

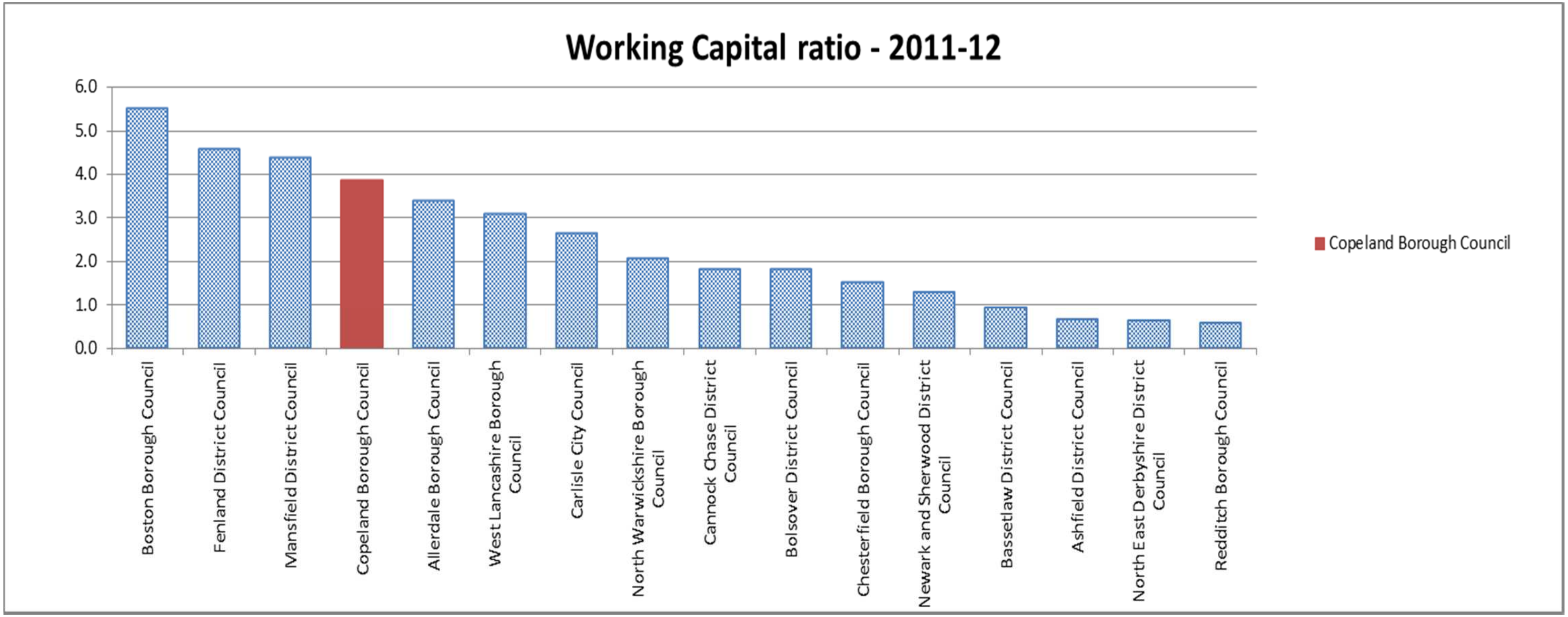
Working Capital - Benchmarked

Definition

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

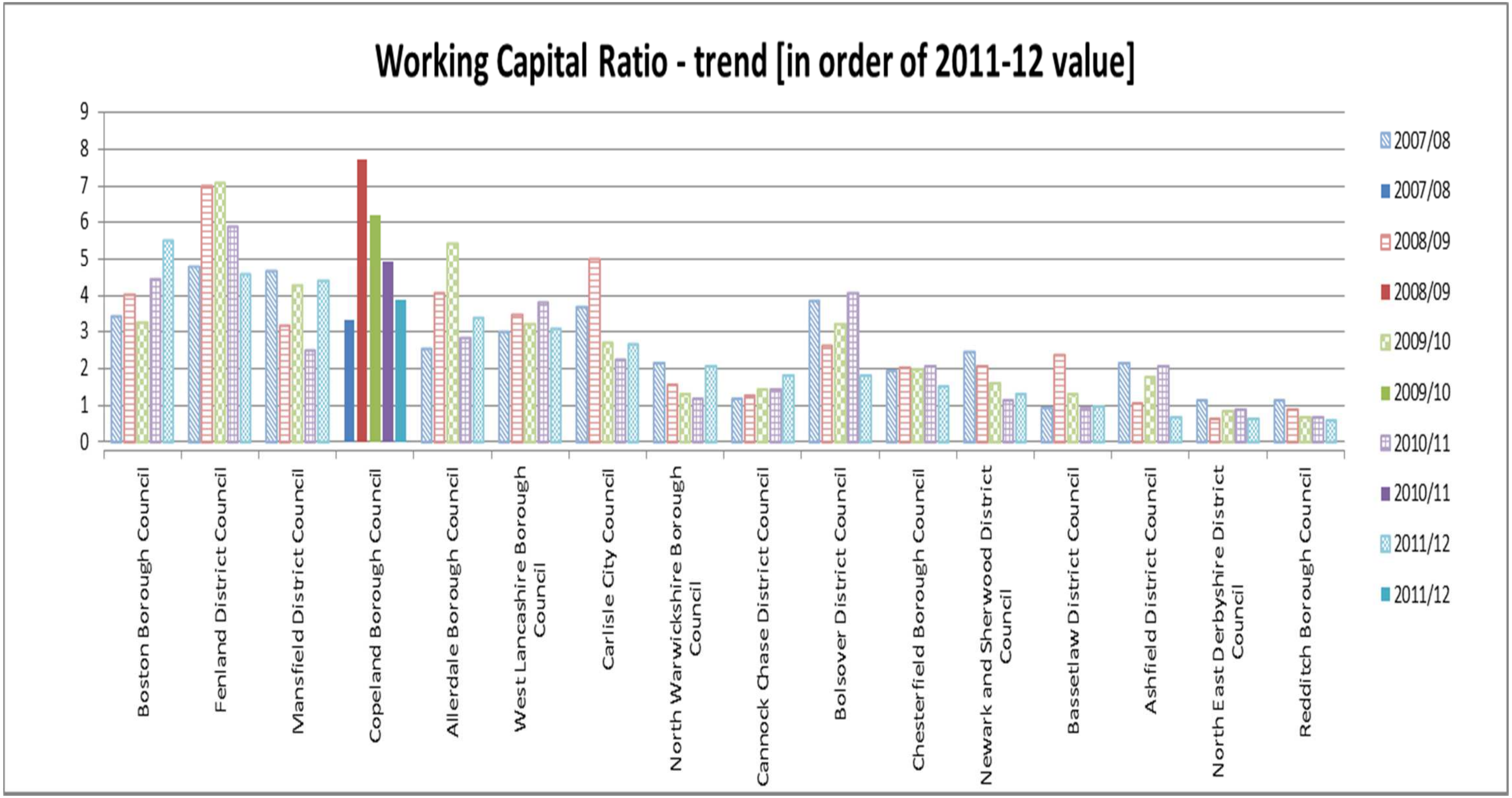
Findings

Copeland's working capital ratio is 3.86 which means that its well above the preferred range of 2:1.



Key Indicators of Financial Performance

Working Capital - Trend



Key Indicators of Financial Performance

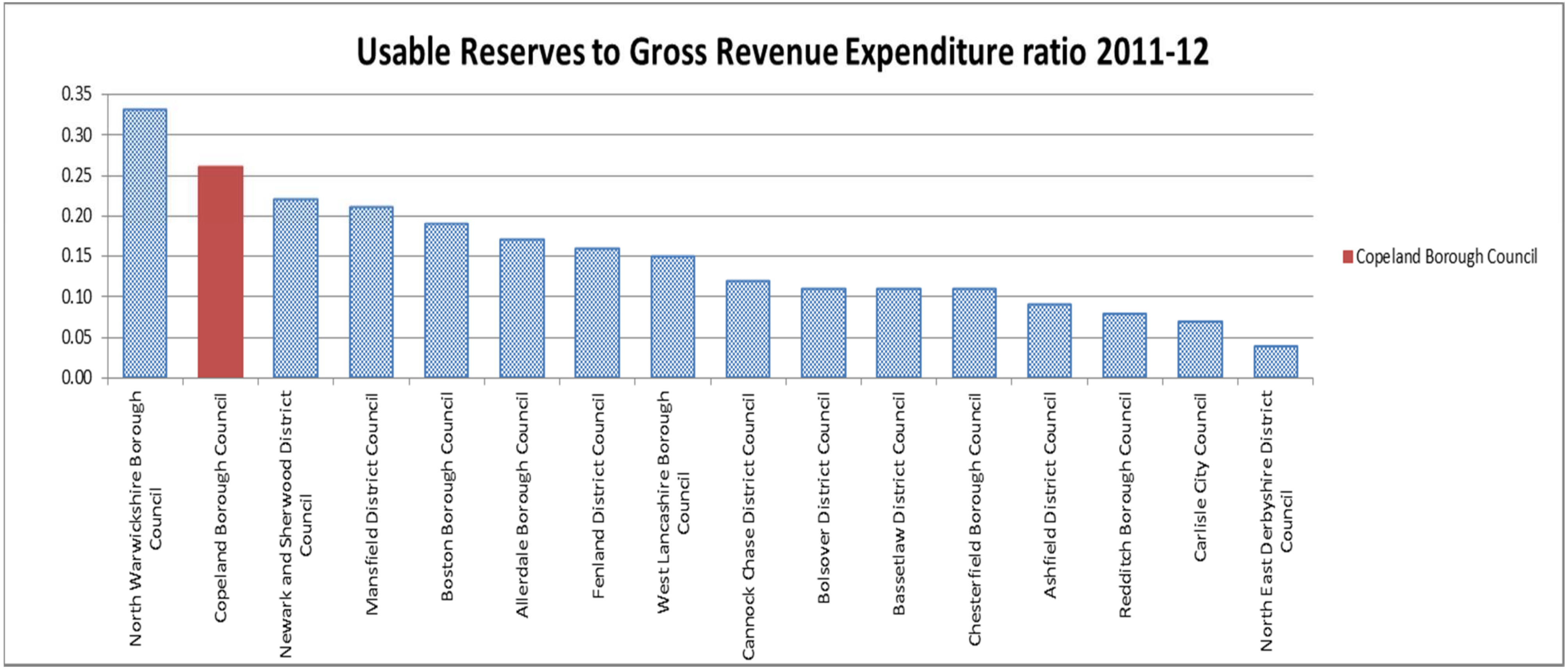
Useable Reserves - Benchmarked

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.

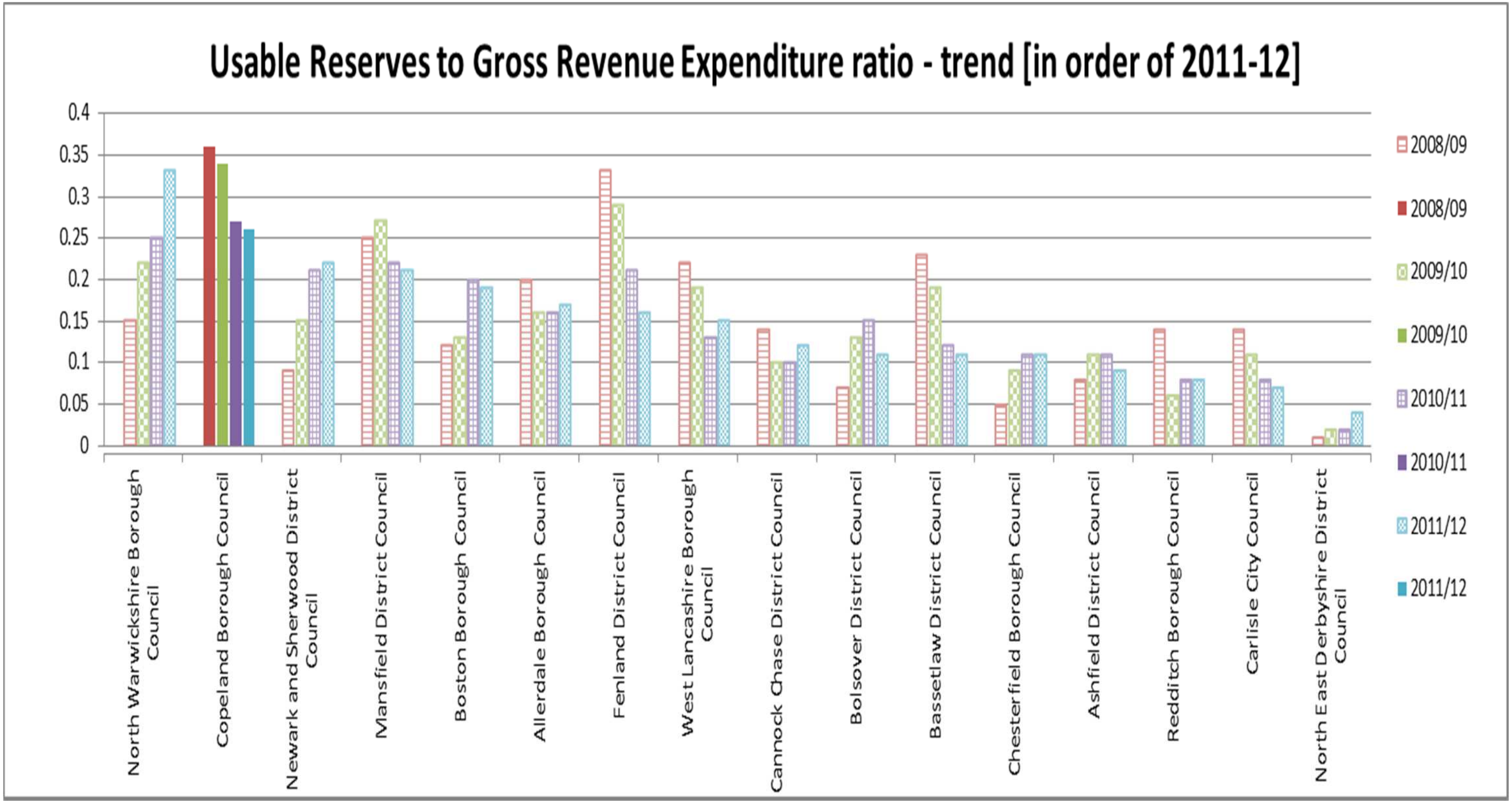
Findings

Copeland's usable reserves ratio is 0.26 and is in a better position that most of its comparable council. Based on the 2012/13 unaudited accounts the usable reserves ratio remains at this level at 31 March 2013.



Key Indicators of Financial Performance

Useable Reserves - Trend



Key Indicators of Financial Performance

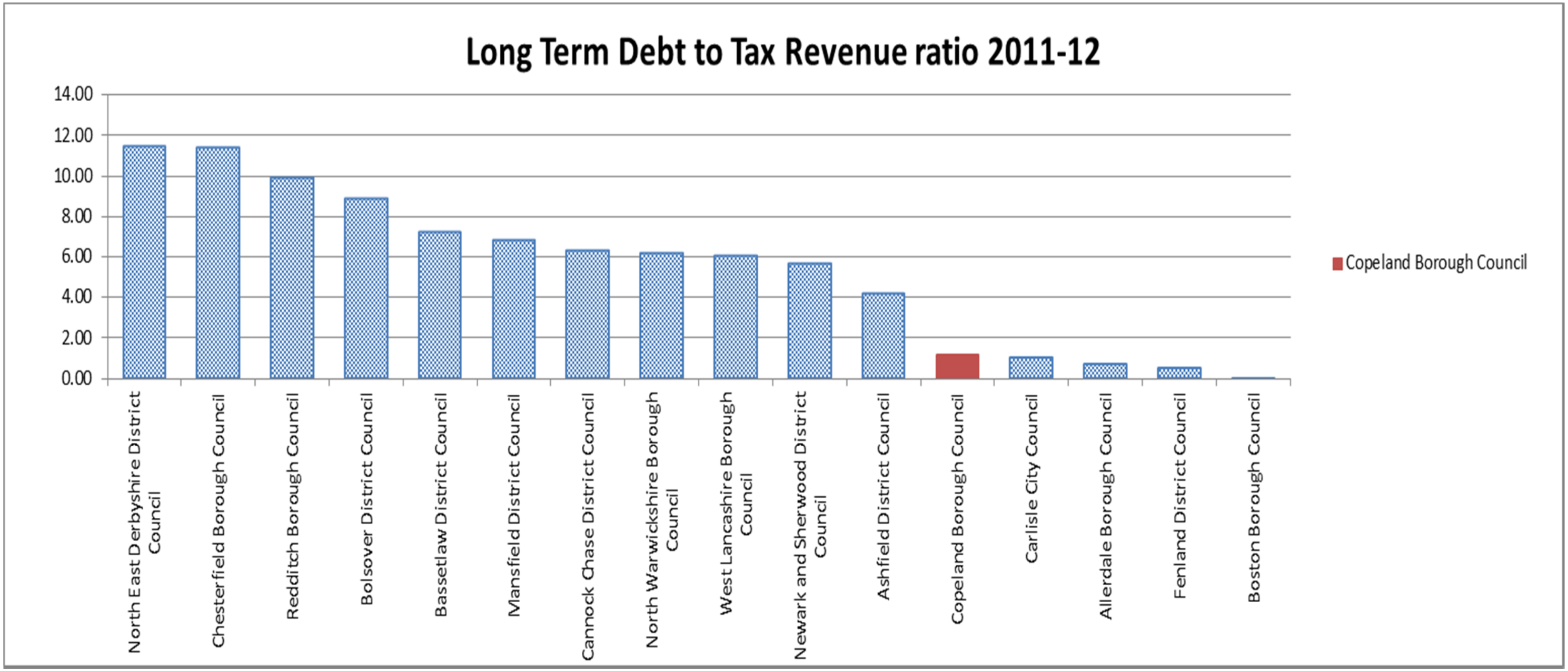
Long Term Borrowing to Tax Revenue - Benchmarked

Definition

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

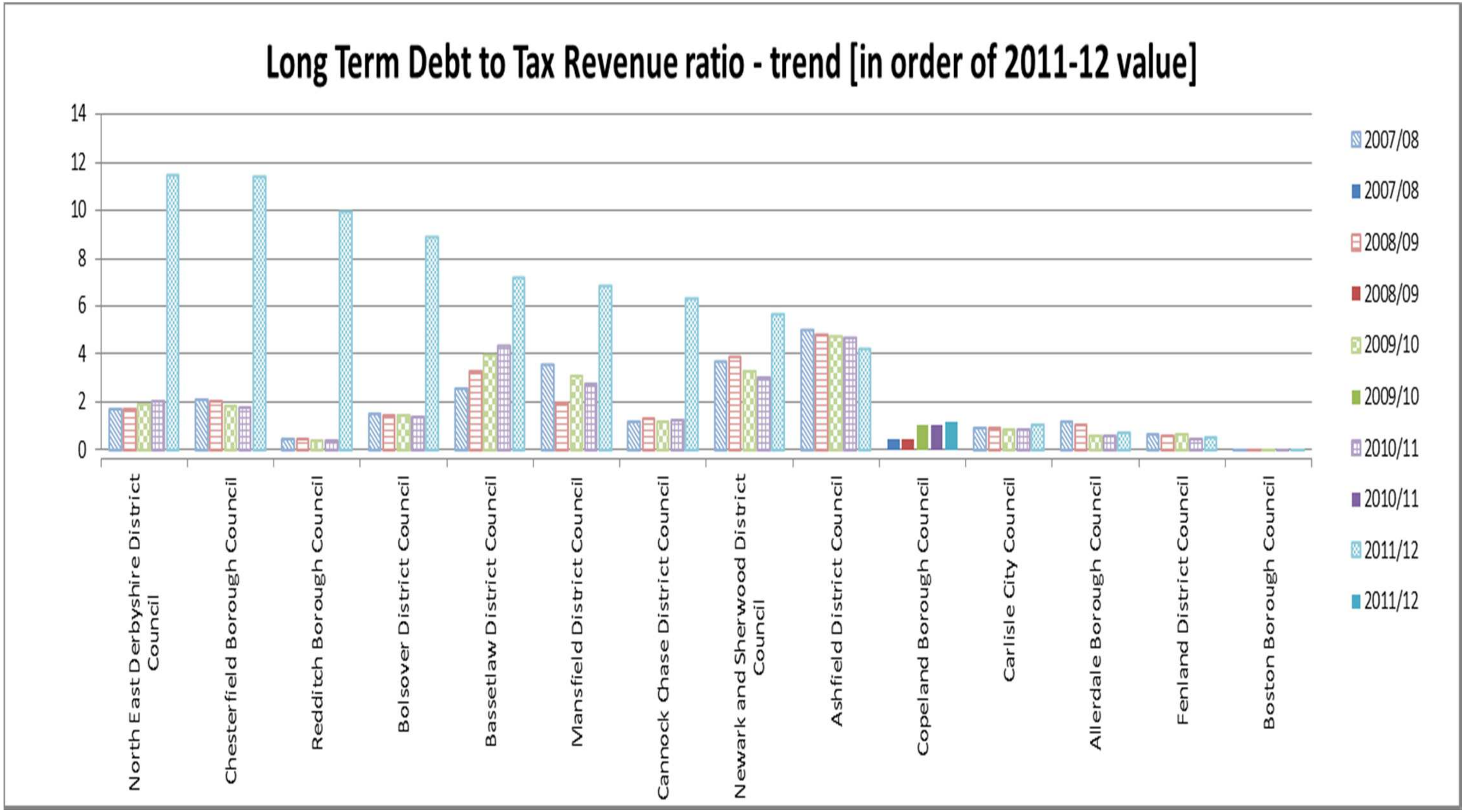
Findings

Copeland's ratio of 1.17 indicates that it has long term borrowing which slightly exceeds tax revenue. Copeland is fifth lowest in the comparable group with 11 of the group having a ratio of 4.20 or over.



Key Indicators of Financial Performance

Long Term Borrowing to Tax Revenue - Trend



Key Indicators of Financial Performance

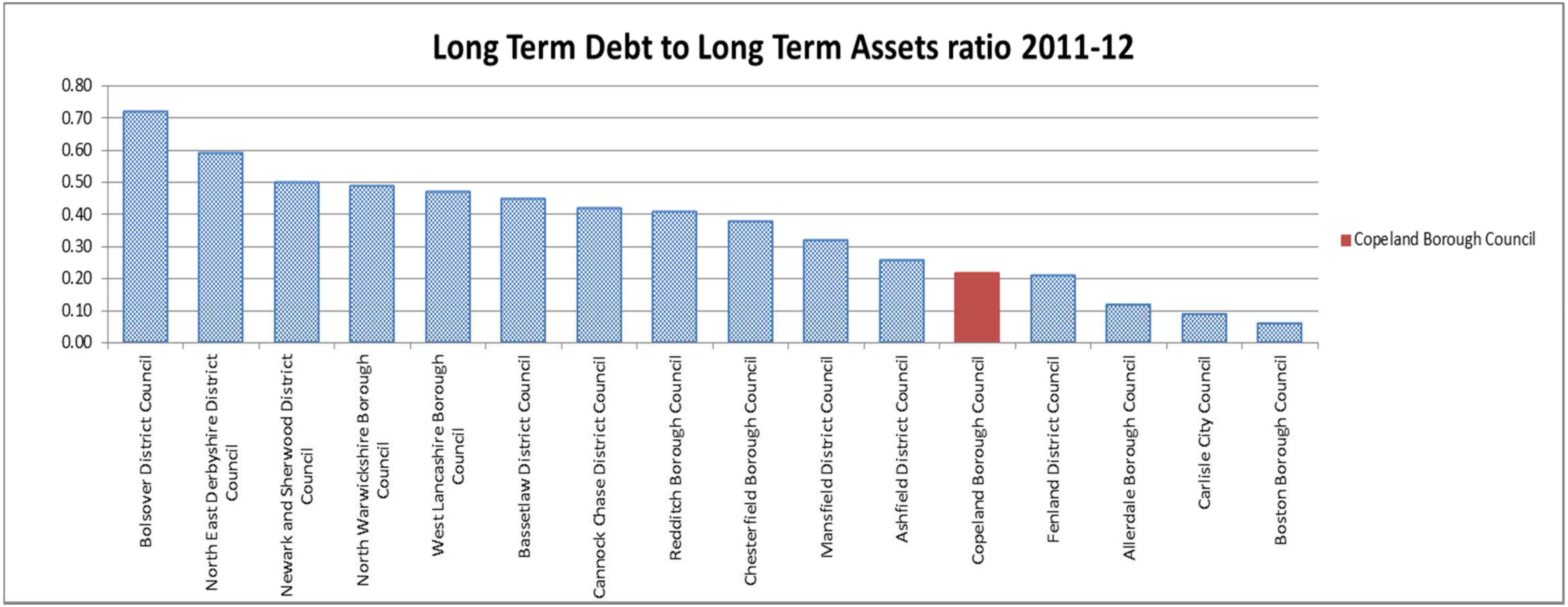
Long-term borrowing to Long-term assets - Benchmarked

Definition

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

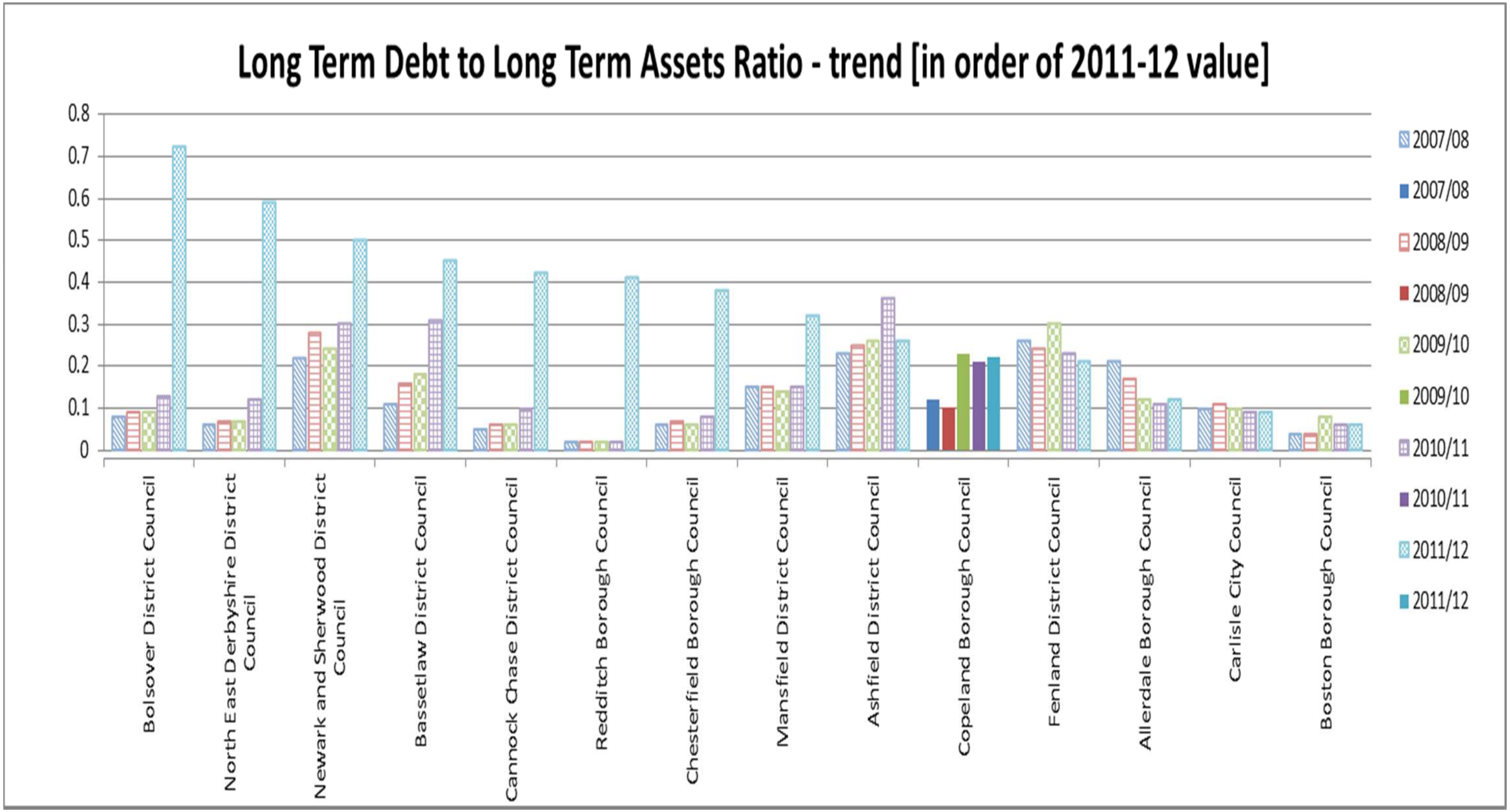
Findings

Copeland's ratio of 0.22 shows that the Council's long term borrowing represents approximately one fifth of its long term assets - i.e. long term borrowing does not exceed its long term assets. Copeland is fifth lowest in the comparable group.



Key Indicators of Financial Performance

Long Term Borrowing to Long-term assets - Trend



Key Indicators of Financial Performance

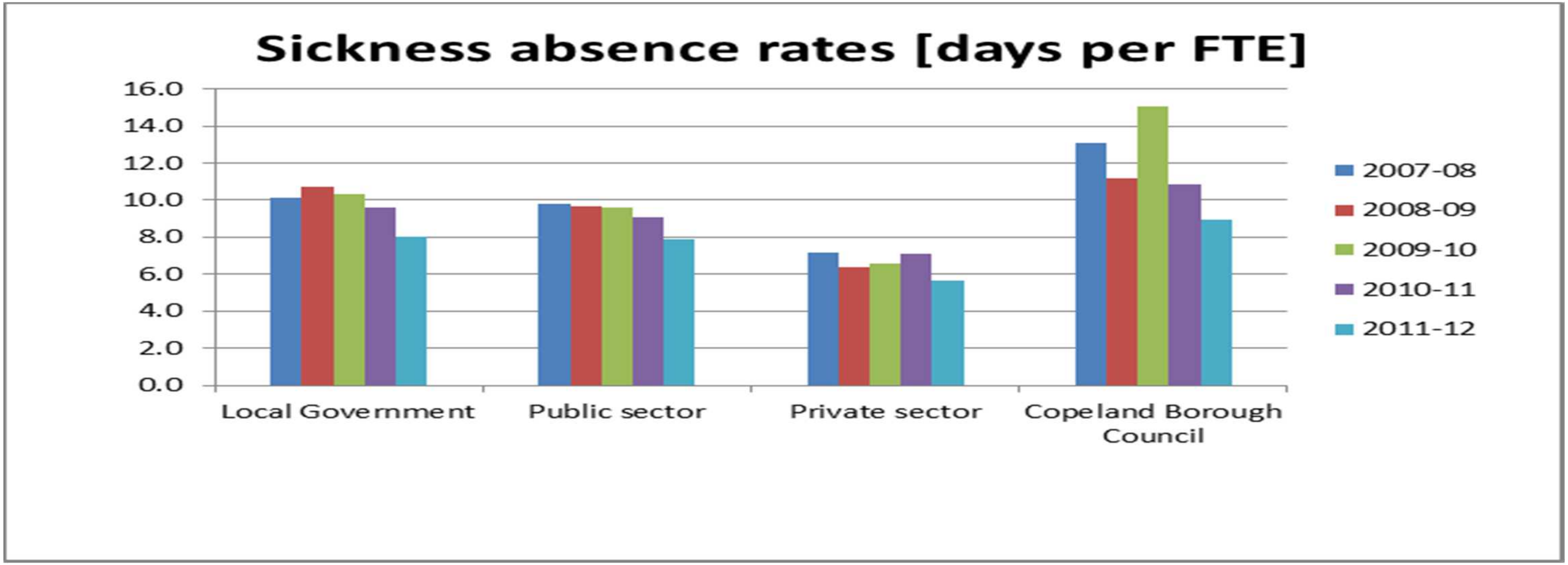
Sickness Absence Levels

Background

The average sickness absence level for the public sector overall is 7.9 days per full time equivalent (FTE) with local government being 8.0 days per FTE. The average sickness level in the private sector is 5.7 days per FTE. Reducing absenteeism saves money, improves productivity and can have a positive customer benefit.

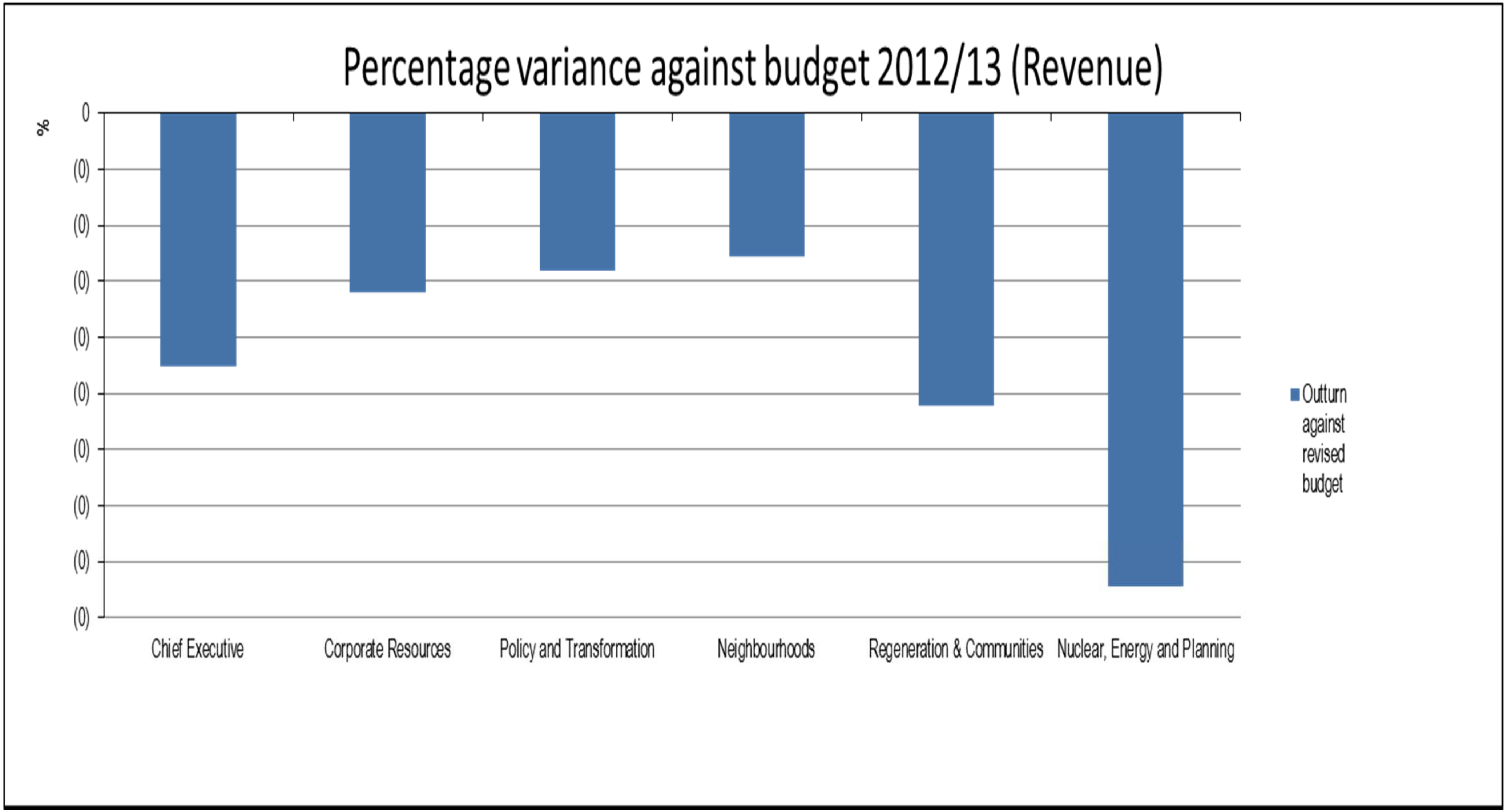
Findings

Copeland's sickness absence levels have fluctuated over the past five years. It was 13.1 days per FTE in 2007/08 reduced in 2008/09 to 11.2 days but increased to a high of 15.05 days in 2009/10. The position improved in 2010/11 with a reduction to 10.86 days and improved again in 2011/12 to 8.94 days. The Council's absence level during 2011/12 of 8.94 days per FTE was above the Council's target of 8.0 and the national local government average of 8.0 days.



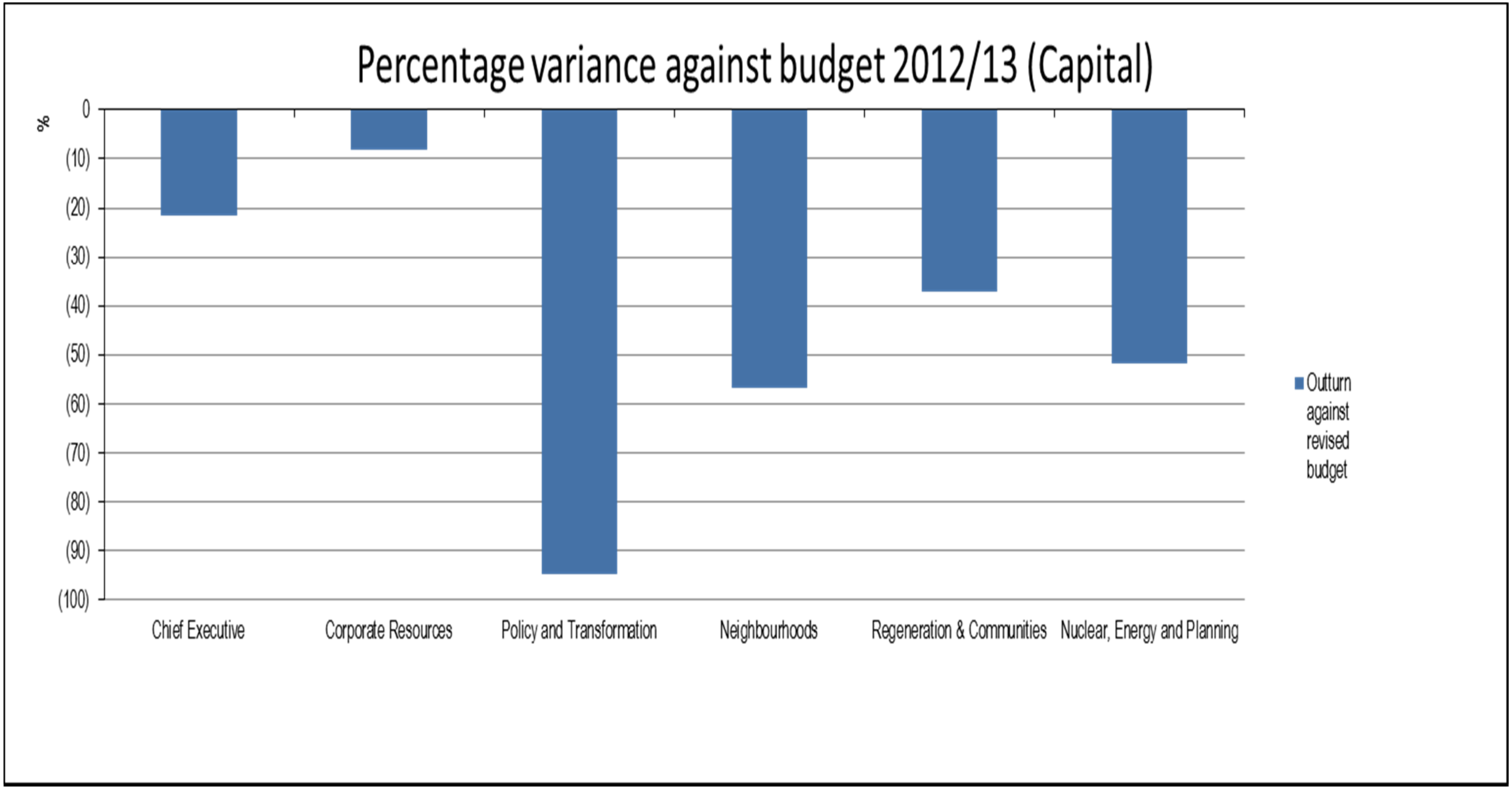
Key Indicators of Financial Performance

Performance Against Budget: Percentage Variances from Revised Revenue Budget



Key Indicators of Financial Performance

Performance Against Budget: Percentage Variances from Revised Capital Budget



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