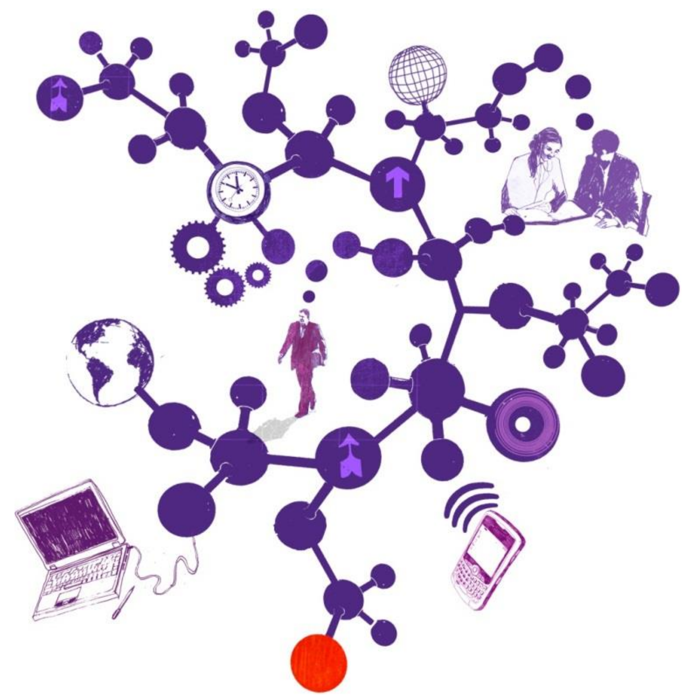
Report on Value for Money for Kent County Council

Year ended 31 March 2014

Report date 24 July 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 as part of the statutory external audit.

It compliments our Audit Findings Report, by providing additional detail on the themes that underpin our VfM conclusion.

Value for Money Conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VfM conclusion based on two criteria specified by the Audit Commission, which support our reporting responsibilities under the Code.

These criteria are:

The Council has proper arrangements in place for securing financial resilience: the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future (defined by the Audit Commission as "twelve months from the date of issue of the report".

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

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

Our approach

The approach involves:

- desktop analysis of relevant documentation
- meetings with key internal stakeholders
- a risk assessment to identify any significant risks.

Our approach is designed to assess:

- arrangements in place related to the specified criteria
- performance during 2013-14 and what that says about those arrangements
- any significant risks that we have identified.

Introduction

What is this context?

Nationally

The 2010 Spending Review set the Coalition Government's financial settlement for the four years to 2014/15, and the 2013 Review then covered 2015/16. By the end of this period, central funding to local government will have reduced by 35%.

2013/14 is the third year of councils having to deliver efficiency savings in response to the 2010 Spending Review and, given the 2013 Review and the budget statement in 2014, this will need to continue for the foreseeable future. Delivering 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

Kent is divided into 12 local authority districts and Medway Unitary Authority. The Kent County Council (KCC) area excludes Medway. It is the largest county council in the country. Kent's population is currently estimated to be 1,480,200 people with a forecast growing trend which is putting increasing pressure from higher demand on services.

Kent has traditionally been a high performing Council. In 2010 there was a 'poor' Ofsted inspection but the Council has worked hard since to improve the quality of the service and achieved an overall 'adequate' rating for children's services in January 2013. All improvement notices were removed during 2013/14.

Similar to all other public sector bodies, Kent is facing a significant financial challenge to deliver its current level of services with reducing funding. The Council launched 'Facing the Challenge' in July 2013 which is a whole Council transformation programme to deliver better outcomes and improved life opportunities for individuals at less cost to public spending. This is a highly ambitious programme which will alter the traditional council structure over the next two years. This is the Council's response to one of the most challenging, and continuous, financial periods . It has has made savings totalling £269 million in the past three years. As part of the 2014/15 budget setting process, the Council predicts it will make a further £239 million savings by 2016/17 and has built in £81.8 million savings into the 2014/15 budget.

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 we have responded to in the course of our work:

- Review the budget setting process for 2014/15 and the achievement of savings in 2013/14, including the savings from adults transformation project
- Review the governance arrangements put in place to successfully deliver the Facing the Challenge transformation plans, including the decision making of phase 1 as reported to County Council
- Understand the new arrangements for commercial services.
- Review the progress made against any recommendations made as a result of the 2012/13 financial resilience review

Our findings in respect of these risks has been reported in the 2013/14 Audit Findings Report.

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 the Council has sound processes in place for financial governance, planning and control. It continues to face significant financial pressures to balance its budgets and has adopted 'Facing the Challenge' as a programme to transform services to meet increasing demands with reduced funding.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

Overall our work did not highlight any significant weaknesses that impact on our conclusion.

Executive Summary

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

Green	Adequate arrangements appear to be in place
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

Overview of arrangements

Risk area	Summary observations	High level risk assessment
Key Indicators of Financial Performance	• We have reviewed six key indicators of performance using published financial ratios from the Audit Commission and benchmarking against the Council's nearest neighbour group. The review considered the following: liquidity; borrowing; workforce; performance against budgets; reserve balances; and schools balances. • Overall the ratio analysis has shown a relatively positive outlook for the Council and although outliers were identified these are understood by the Council and are monitored as part of the quarterly budget reports to Cabinet.	Green
Strategic Financial Planning	• The Council has robust strategic financial planning arrangements in place. The Council's Medium Term Financial Plan (MTFP) is set for the period 2014-17 and takes account of the directorate and service business plans for the 2014/15 year. There are strong links between the MTFP and the Council's key priorities over the challenging transformation period. • The Council started the budget planning for 2014/15 early in the 2013/14 financial year to allow sufficient time for consultation on difficult decisions it may face. The Council undertook extensive consultation and reported the outcome of the feedback as part of approving the final budget for the year.	Green
Financial Governance	• The Council has sound financial governance arrangements. There is a robust process for setting the budget and identifying significant annual savings . • Cabinet members are engaged and have a good understanding of the financial environment the Council operates in. Training has been provided for new members of the Governance & Audit Committee to ensure they are well equipped to carry out the responsibilities of the committee. • Financial health indicators are reported as part of the detailed quarterly revenue and capital budget monitoring to Cabinet although these generally report the financial position at the end of the month and are not forward looking.	Green

Executive Summary

Overview of arrangements

Risk area	Summary observations	High level risk assessment
Financial Control	• The Council has well established financial control arrangements in place with the 2013/14 reported underspend being the 14th consecutive year of managing the budget effectively. Savings totalling £270m have been made over the three year period 2011/12 to 2013/14 with a further £81m identified in the 2014/15 budget. Without strong financial control, this significant challenge could not have been achieved. • The Project Initiation Document (PID) process has been fully reinstated for the 2014/15 budget setting. However, due to the changes in the directorate structure not all PIDs have been submitted to central finance at the end of June 2014 when the planned deadline was 1 May 2014. For effective management of the budget, and to ensure savings are delivered as planned, the Council should ensure all PIDs are received as part of the budget planning process. As at 11 July all remaining PID's have been received. • The Council has effective finance and internal audit teams which are well placed to help the Council move forward in the difficult financial environment. • The risk management arrangements have improved during the year through the positive approach taken to using the GRACE system for recording and updating risks in 'real' time. Training has been provided and the system is actively used although it is recognised that some divisions are stronger at this than others.	**Green**

Next Steps

Area for consideration	Recommendation	Responsibility	Timescale	Management response
Key performance indicators	Capital budgets need to be realistically set and closely monitored so there is a smaller underspend at year end.	Corporate Director of Finance and Procurement	31 March 2015	Agreed. This has proven to be the holy grail but we continue to press for more realistic timings for projects from the service managers.
Strategic Financial Planning	The Council needs to ensure that financial planning remains aligned to Facing the Challenge and is responsive to the changing Council structure.	Corporate Director of Finance and Procurement	On-going	Agreed. This is a 'constant' and we remain committed to this.
Financial Governance	The Council needs to ensure that all officers responsible for budget monitoring are aware of the unit costs.	Corporate Director of Finance and Procurement	31 March 2015	Agreed. This will have increasing importance and as a first step we are introducing intensive commercial expertise training for finance staff so they can help service managers look at their budgets.
Financial Control	The Council should ensure that PIDs are fully completed before the start of the financial year to ensure there is no slippage in the total deliverable in the year.	Head of Financial Management	February 2015	Agreed. We have reviewed the PID template ready for 2015/16 and beyond for completion before April 2015.
	The Council needs to ensure that where posts are removed or restructured all tasks undertaken by that role are captured.	Corporate Director of Finance and Procurement	On-going	Agreed.

Key Indicators of Financial Performance

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. For Kent, the statistical nearest neighbour group is the following county councils: Cambridgeshire; Derbyshire; Essex; Gloucestershire; Hampshire; Hertfordshire; Lancashire; Leicestershire; Nottinghamshire; Northamptonshire; Oxfordshire; Staffordshire; Warwickshire; West Sussex; and Worcestershire.

We have also made use of published material on rates of sickness absence.

Area of focus	Summary observations	RAG-Rating
Council's own financial health indicators	• The Council monitors its own performance against five financial health indicators: cash balances; long term debt maturity; outstanding debt owed to the Council; percentage of payments made within payment terms; and recent trend in inflation indices. • The Council currently has a policy to use cash to fund capital expenditure rather than borrow and there has been a consistent downward trend in cash balances held over the past few years. However, cash balances in 2013/14 were higher as the Council only repaid £2m debt principal in the year. • Debt owed to the Council increased by £5.79m between March 2013 and March 2014. The main area of debt owed is within Families and Social Care (FSC) directorate and was largely due to invoices raised to the Home Office for unmet asylum costs. The total year end position is £25.17m, with £22.24m in FSC and £2.93m • The Council has set a local payment target of 20 days which is 10 days less than the public sector average. Invoices paid within 20 days is 75.3% in 2013/14, compared to 77.3% in 2012/13.	**Green** **(2012-13 Green)**
Liquidity	• The working capital ratio in 2012/13 was 1.76% which is an increase from 1.22% in 2011/12 . The working capital ratio indicates whether a council has enough current assets to cover its immediate liabilities. The increase is a positive movement as it shows a greater stability in the Balance Sheet. The Council monitors the ratio as part of budget monitoring and reports this to Corporate Board. • The working capital ratio based on the audited 2013/14 financial statements is1.63% .Current assets total £468,592k and current liabilities total £287,796k. • The Council is considered the 'norm' for the ratio with its nearest neighbours ranging from 2.77 to 0.723 in 2012/13.	**Green** **(2012-13 Green)**
Borrowing	• The Council reports performance against prudential borrowing indicators in the full quarterly revenue and capital monitoring report in appendix 5. Its prudential borrowing indicator for 2013/14 was £993m. The operational boundary borrowing position (excluding debt relating to Medway Council) as at 31 March 2014 is £969m which means the indicator has been met. • The Council also set an authorised limit for external debt relating to KCC assets and activities of £1,033m for 2013/14. It has not needed to utilise the additional borrowing limits in the financial year and does not plan to in the MTFP. • The Council's Long-term Borrowing to Council Tax Revenue is 2.12 which indicates that it has long term borrowing which exceeds tax revenue by twice. This is the highest amongst the comparator group, with other authorities typically having a ratio of 1.32 or less. • The Council's ratio of long-term borrowing to long-term assets has slightly increased in 2013/14 to 0.59. This compares to the median of the comparator group of 0.28. In recognition of its comparative long term borrowing ratio, the Council has set a prudential indicator of 15% of net revenue being used for debt repayment. For 2013/14, the actual ratio was 13.62%.	**Green** **(2012-13 Green)**

Key Indicators of Financial Performance

Area of focus	Summary observations	RAG-Rating
Workforce	• The average sickness absence level for the public sector in 2012/13 was 8.7 days per FTE, local government average was 8.8 and the private sector average for the same year was 7.2. Many councils have taken a proactive approach to reducing the number of days lost to sickness each year as it often results in additional costs through using agency staff. • During 2013/14 the sickness rate at KCC fell to 6.84 days per FTE, a reduction of over 0.5 days per FTE, when compared with last year's figure of 7.38 days per FTE. This is a considerable achievement and demonstrates the Council's efforts to effectively manage sickness.	**Green** **(2012-13 Green)**
Performance against budgets (Revenue Capital & Savings)	• The Council has achieved an underspend for the past 14 years. This is a strong achievement in the current financial climate. • The year end financial outturn shows an underspend of £9.865m (excluding schools). This is offset by a reported reduction in school reserves for 2013/14 of £2.349m. This gives a total underspend as at 31 march 2014 of £7.471m. Plans for utilising the underspend have been included in the final outturn report presented to Cabinet in July 2014. • The Council achieved its planned savings of £95m in 2013/14. This is demonstrated by the underspend of the revenue budget and the outturn report including an overview of the whether the directorate had met its savings. • The year end capital outturn is an underspend of £53.038m with this money being re-phased into the 2014/15 financial year. The original capital budget for 2013/14 was £286m and the revised budget approved for the year was 256m. This underspend represents 21% of the planned spend for the year. The Council needs to ensure that the capital budget is realistic.	**Green** **(2012-13 Green)**
Reserves balances	• The Council has maintained the level of the general fund reserve, in line with its MTFP 2013-15, at £31.7m at year end. This amounts to 3.4% of the 2014/15 net revenue budget, and 2.2% of the gross revenue budget (excluding schools). • There has been a small decrease of £0.7m in earmarked reserves in 2013/14. • The useable reserves to gross revenue expenditure ratio is around 18% for 2012/13. There has been a relatively steady position for reserve balances over the past five years. Compared with its comparator group, KCC is below the median.	**Green** **(2012-13 Green)**
Schools balances	• The 2013/14 accounts showed a total carry forward to 2013/14 of £12.468m. This comprises a carry forward of £9.927m on the centrally retained Dedicated Schools Grant (DSG) budget and £2.542m on the schools' unallocated budget. The schools unallocated reserve now stands at £5.917m, and its use is determined by the Schools' Funding Forum who have committed the majority of the unallocated reserve and estimated that over half will be spent in 2014/15. • There has been a decrease of £2.394m in school reserves which is less than the budgeted position. This is partly due to the delegation of pupil referral units to schools part way through the financial year and a drawdown from the school unallocated reserve. • The Council's share of schools balances in relation to the total DSG allocation received for the year remains at 7%. This is average for the nearest neighbour group.	**Green** **(2012-13 Green)**

Strategic Financial Planning

Area of focus	Summary observations	RAG-Rating
Focus of the MTFP	• The Council has developed a Medium Term Financial Plan (MTFP) for 2014-2017 which is an increase view to cover a three year period (previous MTFP was for 2013-15). The MTFP was approved by the County Council alongside the revenue and capital budgets for 2014/15 on 13 February 2014. The Council has balanced its budget for 2014/15, identifying net revenue savings of £81 million. The budget strategy set for 2013/14 was based around the 4 P's: Prevention; Productivity; Procurement; and Partnership. These themes continue to underpin the latest MTFP. • The MTFP includes the national and local context for Kent to establish the overall challenges the Council is facing. It also includes clear spending demands and pressures alongside the potential income generation and savings proposals. As part of the budget proposals the Council has confirmed that it will continue to use its cash reserves to protect front-line services. However, it has recognised that reserves will need to be replaced if consumed and this is not a long term solution to a budget deficit. For 2013/14, the Council used £9m of earmarked reserves to balance the budget and plans to use further reserves this year. As part of the budget outturn report, £4m of the underspend was transferred to fund the 2014/15 budget. The need to replace these reserves in 2015/16 has created an additional pressure for next year. • The MTFP recognises that the focus of the budget over the next few years will be on reducing the demand led services of children's and adults. These are high spend areas and focus is placed on these to ensure savings can be achieved. Ofsted removed all children's service improvement notices in 2013/14 and although a new inspection is anticipated by the Council the directorate is recognising that savings need to be made without risking the achievements of the improved quality of the service. For adults, the general demand across the country has reduced which is at odds with the demographic of Kent. As part of the MTFP, the Council has stated that it is seeking to better procure services, increase prevention and improve partnership with the NHS to deliver better outcomes at lower cost. The Council has started to work towards this through the Kent Pioneer and Better Care Fund plans. • The Vision for Kent is the Council's countywide strategy for the social, economic and environmental wellbeing of Kent's communities. This sets out a 10-year vision for these ambitions with the capital investment programme focussed on achieving the vision for the period 2012-22. The vision is set around three key ambitions for Kent: Grow the economy; Tackle disadvantage; and Put the citizen in control. To achieve these ambitions, the Council has set a three year capital programme for the period 2014-17 totalling £634.6 million. • The Council set a new capital strategy for 2013/14 which focuses on capital investment and a greater focus on the Council's strategic priorities to ensure it maximises the value of its assets. During the financial year, the Council has utilised the limits in the strategy and has started to make equity investments and soft loans. It has developed fiscal indicators in the strategy with the key indicator being to limit the cost of borrowing to 15% of overall revenue and capital spend.	**Green** **(2012-13 Green)**

Strategic Financial Planning

Area of focus	Summary observations	RAG-Rating
Adequacy of planning assumptions	• The Council remains prudent in its spending plans and recognised that savings will be more difficult to achieve in the future without cutting services. As part of Facing the Challenge the Council reconfigured the directorates from five to four from 1 April 2014. This added a complication to the budget setting process as savings needed to be identified by Corporate Directors that were originally assigned to a different directorate. This has impacted on the prompt allocation of all savings to the relevant managers. • The assumptions around the national budget announcements and pressures are built into the MTFP, with the Council providing a clear assessment of how it is has interpreted this in relation to the residents of Kent. For example, the budget consultation asked residents whether they would accept a small increase in council tax to help protect frontline services. Around 70% of residents agreed with this and the Council has increased council tax by 1.99% (the maximum level before a referendum is triggered). • The budget recommendations paper to County Council in February 2014 included a high level three year plan. The Council predicts growing spending pressures and anticipated sustained funding reductions from central government. In the medium to long term, these high level assumptions appear reasonable for the future financial position. • The 2014/15 budget process built in scenario planning and stress testing before publishing the budget for consultation. The Council is working with and external efficiency partner to help transform adult social care in Kent. This work has involved making a number of assumptions and carrying out data analysis to ensure the savings plans are achievable over the three year period.	**Green** **(2012-13 Green)**

Scope of the MTFP and Links to Annual Planning	• The Council's MTFP 2013-15 is linked closely with the Bold Steps for Kent and other key Council policies. For the 2014/15 budget, the MTFP 2014-17 has been aligned with Facing the Challenge as the strategic vision and objectives for the future.
	• The three themes of Facing the Challenge underpin the financial assessment. These are:
	    • Market Engagement: the Council is testing the services it delivers against the best in the public, private and voluntary sectors to identify the most appropriate service delivery vehicles to drive out best value. It plans to become a lead commissioning authority and the County Council meeting in May 2014 agreed to develop a Strategic Commissioning Plan and Outcomes Framework to enable focus on this approach.
	    • Service Review and Integration: the Council plans to fundamentally transform the way it delivers its services to get the best possible outcomes at lower cost
	    • Demand Reduction: the Council has recognised that it needs to reduce reliance on publically funded services and identify activities which the Council does not need to statutorily provide.
	• The Council has clearly built these into the budget planning and makes strong links between the transformation agenda and the need to make significant savings in the next three years.
		Green
		
		(2012-13 Green)

Strategic Financial Planning

Area of focus	Summary observations	RAG-Rating
Review process	• The MTFP is reviewed and updated as part of the annual planning cycle. The MTFP 2014-17 covers the longer term financial planning view to support the whole Council transformation programme. • The annual budget goes through a number of iterations before final approval at Full Council. The Council started developing the savings requirements and budgets in early 2014 to ensure there was sufficient time for review by members before the consultation with the public. There is a comprehensive review process at all stages to ensure plans are robust and deliverable. • The Council reviews its financial performance regularly with quarterly reporting to Cabinet on the achievement of its corporate priorities. The reporting is clear and focused on the risk areas and performance targets that are not being met.	**Green** **(2012-13 Green)**
Responsiveness of the Plan	• The local budget consultation ran for a month at the end of 2013. The Council received feedback from the following activities: directly to the Council through its website; via BMG consultants through workshop sessions or on-line survey of a statistical sample of residents; and responses from staff survey conducted by BMG consultants. The main consultation was based on a campaign "2 minutes 2 questions" where the Council asked residents to answer two fundamental questions with the option to explore issues in greater detail by completing an on-line tool exploring services they valued most. This method has been very effective in engaging members of the public and the Council received 3,163 responses to the"2 minutes, 2 questions" and 487 responses to the on-line tool. This is significantly higher than the limited responses received to the 2013/14 budget consultation. • The 2014/15 final draft budget and MTFP included a number of changes from the budget presented for consultation. The MTFP had sufficient flexibility to enable members to respond to the feedback and further pressures by identifying savings to ensure that the budget presented for County Council approval in February was balanced. • There remains significant uncertainty about the financial position for 2015/16 and beyond. The Council has a good track record of delivering its annual budgets and savings plans which gives confidence that the business planning process is resilient enough to ensure good outcomes can be maintained despite major spending reductions. • The Council undertakes scenario planning for its major areas of spend and uses this to inform decision making. Members and officers have a clear understanding and awareness of the challenges the Council is facing and have been responsive to the Facing Challenge phase 1 programme.	**Green** **(2012-13 Green)**

Financial Governance

Area of focus	Summary observations	RAG-Rating
Understanding of the financial environment	• The Corporate Board has a sound understanding of the financial environment that the Council operates within. The introduction to the annual budget and MTFP sets out the national and local pressures and identifies the need for integrated thinking to meet these pressures, not only within the Council, but with its stakeholders. • The Council understands the challenges facing Kent residents. Through the budget consultation, it sought views about potential council tax increases and fed back clearly the reasons for increasing council tax by 1.99% in 2014/15 after three years of freezes. Cabinet recognises this hits the most vulnerable people in Kent following changes to the welfare benefit restrictions and liaises closely with the district councils about the changes and impact on residents. • Another example of the Council understanding the local financial environment is that as part of the proposal to amend the Kent Freedom Pass it sought the views of parents and users of the pass. As a result of feedback, the Council proposed a new scheme with different terms and conditions for member approval. The Council has also announced that it will provide additional financial support for young people in sixth form, at college or studying at work-based learning providers by reducing the cost of the Kent 16+ Travel Card. • It has continued to work with small and medium businesses in Kent and is an agent for the Regional Growth Fund money to help expand businesses in East Kent by creating / protecting jobs in an area of high unemployment and the Thames Gateway Innovation, Growth and Enterprise Fund offers 0% loans to growing businesses in Dartford, Gravesham, Medway, Swale and Thurrock. • The Cabinet receives quarterly revenue and capital budget monitoring reports which include detailed variance analysis and explanations on a directorate basis. The report also details the Council's key activity indicators and financial health indicators which gives decision makers the relevant information to make informed decisions. • Financial awareness training is provided to budget holders and a training session was given to the Governance and Audit Committee in July 2013 to ensure new members are aware of the financial environment and accounting framework before approving the financial statements. • The Council has approved and communicated to staff and members the financial regulations and standing orders in which the Council operates. These have been issued to all officers with financial management responsibilities. We have not identified any breaches in the Council's compliance with the financial regulations during 2013/14.	**Green** **(2012-13 Green)**

Financial Governance

Area of focus	Summary observations	RAG-Rating
Executive & Member Engagement	• There continues to be strong member and corporate director engagement on financial matters through the Corporate Board. • Cabinet portfolio holders are actively engaged in the budget setting and monitoring financial delivery. Members are aware of the need for greater savings in future years and have been involved in the Facing the Challenge progress through a variety of ways: all members through reports to County Council; Transformation Board members; and Transformation Advisory Group. • Members outside of Cabinet are also actively involved in understanding the financial environment . The business planning process for 2013/14 was reviewed and challenged by Cabinet Committees and the contribution from members of these committees was acknowledged by the Cabinet. • The Governance and Audit Committee meet throughout the year and have clear terms of reference for their responsibilities in ensuring the financial governance of the Council. There is a member work and development programme that is reviewed at every committee meeting to ensure that the committee receives relevant training to carry out its function. The Committee's membership changed following the elections in May 2013 and training has been provided on the financial statements, and role of internal and external audit to ensure new members are properly equipped to effectively carry out their role. • The LGA peer review commented on the open and honest engagement from members. Members commented that on the whole they feel engaged in the transformation agenda. The Council acknowledges that significant cultural change is required to achieve the desired approach to risk and to facilitate transformational change and commercialisation. Engagement across all levels at the Council, not just at the Executive and Member level, will help to deliver the ambitious transformation programme in the planned timeframe. Without this cultural change there is a risk the programme will not succeed.	**Green** **(2012-13 Green)**
Overview for controls over key cost categories	• The Council monitors and reports the revenue budget on a Cabinet portfolio basis. The reporting from the ledger is based on the pre-election portfolios and a decision was made to continue with that structure throughout 2013/14. • The Council acknowledged that managers understanding of costs was an area to be strengthened in the future as part of the 2012/13 vfm review. The Council has continued to focus unit cost reporting on the demand-led services of adults and children's social care, including asylum, but also reports at a cost level for the Social Care Fund for 2013/14. This is set out in the annexes of the quarterly budget monitoring report to Cabinet. • Improvements have been made in the understanding of costs by the budget holders through working with the central finance revenue budget monitoring team. Financial monitoring at an individual cost level is the responsibility of budget holders and central finance works closely with the budget holder to enable them to carry out their role more effectively. The Council is using unit cost information to transform its demand-led services to reduce overall costs. • Financial regulations are reviewed and updated as appropriate. • As a result of the continued focus of the Council to understand all of its costs, including those low risk budgets, especially given the size of the cost reductions over the next three years, this category remains as amber rated.	**Amber** **(2012-13 Amber)**

Financial Governance

Area of focus	Summary observations	RAG-Rating
Budget Reporting (Revenue & Capital)	• Comprehensive revenue and capital budget monitoring reports are presented to Cabinet quarterly with exception reports being presented in July, October, January and April. These highlight significant issues arising in a specific budget since the last full quarterly report and give the Cabinet sufficient information to make decisions as necessary between the detailed reporting. The budget reports set out detailed analysis of the variances to the budget and the corrective management action being taken to address the pressures so the year end budget is met. • The full budget monitoring reports were simplified and streamlined during 2013/14 . The information has been presented more clearly, repetition has been removed and the size of the report has reduced. Member feedback has been positive. However, these are still long reports and a further review is planned in 2014/15. Members of financial management have recently undertaken 'continuous improvement' mapping to improve the efficiency of report production. • The quarterly budget reports include sections for: revenue and capital budget monitoring; key activity monitoring; financial health indicators; prudential indicators; impact on revenue reserves; and directorate staffing levels. The reports enable members to make informed decisions on the budgeted outturn position and for corporate directors to understand the financial position. • In recognition of the changes that were likely to arise from Facing the Challenge, the Cabinet Member for Finance & Procurement agreed that the portfolio reporting basis would not be updated post-election. He reported to Cabinet that in "in terms of competing priorities, value added and risk, the work involved in mapping the pre-election portfolios to the post-election portfolio structure exceeds the benefits to be had, given the relatively short period that these new portfolios will be in existence before a further major change takes effect." This is a reasonable basis for reporting in 2013/14. • The Council has also updated the style of the MTFP 2014-17. The traditional portfolio by portfolio format has been removed to ensure the document more closely resembles the budget monitoring headings reported throughout the year to Cabinet and Cabinet Committees. In addition, the financial appendices to the MTFP now include a summary of 2014-15 budget setting out the planned changes for the new directorate structures and the detailed savings proposals, and a high level three year budget summary showing the key changes in funding and spending for each year. This has improved the MTFP.	**Green** **(2012-13 Green**
Adequacy of other Committee Reporting	• The Cabinet meets every month. There is a clear agenda and forward plan for the meetings. It discusses and takes decisions on the most significant issues facing the Council. The quarterly budget reports include financial health indicators covering cash balances, debt, payments made within agreed terms and inflation indices. • From the 1 April 2014, six Cabinet committees were created: Adult Social Care and Health; Children's Social Care and Health; Education and Young People's Services; Environment and Transport; Growth Economic Development and Communities; and Policy and Resources. These committees will meet quarterly to support the work of Cabinet and have taken on the responsibilities of the previous committees.	**Green** **(2012-13 Green**

Financial Control

Area of focus	Summary observations	RAG-Rating
Budget setting & monitoring - revenue & capital	• The Council has a robust process in place for setting the budget and has a strong record of achieving its budgeted outturn with an underspend for the past 14 years. • The Council met its aim to publish the 2013/14 budget much earlier than in previous years, and continued this trend by publishing the 2014/15 budget for public consultation in November 2013. This allowed for longer review of the draft budget by its stakeholders, and for members to give full consideration to the responses before approving the final budget in February 2014. The Cabinet's response to the consultation feedback is available on the Council's website. • The annual budget is built from a historical baseline adjusted for any growth, inflationary pressures and savings options. • The 2014/15 Budget Book sets out the budget in an a-z alphabetical listing identifying individual service budgets and which portfolio and new directorate is responsible for each line in the Budget. The expenditure budget is split between staffing and non-staffing and income between service income and grants. It also shows key performance and activity levels. The services continue to be split into four main sections: Direct service to the public; Financing items; Assessment services; and Management, support services (including support to front line services) and overheads. • The Council has reported and approved a revenue budget requirement of £940.313m for 2014/15. Extensive consultation and analysis has been undertaken to determine the revenue budget. The Council introduced stronger measures of budgetary accountability for Directors' budgets, placing more individual responsibilities for working within budgetary limits, and linking this to Director performance reviews and appraisals for the budget planning for 2014/15. • The capital investment proposals total £634.6m over three years from 2014-15 to 2016-17. This includes the roll-forward of £53m from the 2013/14 underspent capital budget. This is due to variances on a number of projects, as well as aligning some of the planned schemes in line with the Capital Strategy. The slippage on the 2013/14 capital programme needs to investigated by officers as the Council cannot deliver its ambitions without delivering the capital works alongside the revenue savings.	**Green** **(2012-13 Green)**

Financial Control

Area of focus	Summary observations	RAG-Rating
Savings plans setting & monitoring	• The Council has historically had a robust process in place for identifying and monitoring savings. The budgeted savings target for 2013/14 was £91.8m which was achieved by year end. The revenue underspend is £9.865m, which is greater than the £4m required to be rolled forward into 2014/15 budget to help deliver the savings. The Council has reported that it cannot be precise in how it delivered the £91.8m but that the underspend confirms all savings were made. A variance analysis at the directorate level is included in the outturn report reported in July 2014. Reporting against the original savings plans is seen as good practice and should be considered in future. • At the start of the financial year, the budget is closely monitored at the individual savings level to ensure that the approved savings are deliverable, and that if any savings move from amber to red rated corrective actions are put in place. As the year progresses, the budget monitoring places greater focus on the overall budget delivery. This approach has been effective to date although the challenge ahead is significantly greater than in 2013/14 so the Council needs to be reactive to additional pressures and slippage. • The Cabinet is being asked to approve the rolling forward of the uncommitted underspend of £4.766m into Economic Downturn reserves. • The savings target for the 2014/15 financial year is £81.4m. Although this is a reduction in the savings target for the current financial year, there is less reliance on one-off savings and draw-down of reserves which means that underlying savings required are more challenging to identify. The 2014/15 budget setting followed the same process as adopted in 2012/13 with budget savings being identified within each directorate. All savings identified in the budget are owned by Heads of Service. However, some staff within the directorates have commented that savings targets were imposed on them and that they are struggling to meet the level required. An example of this is in Families and Social Care children's services savings, where the 2014/15 savings target includes a pressure of £1m not delivered in 2013/14. This has been raised with the Budget Programme Board (BPB) by the budget holder and manager of the service and the team are currently reviewing how to meet the savings target. Directors have the opportunity to engage in the budget setting and identification of savings throughout the year. • The traffic light rating of savings reported as part of the budget approval in February 2014 showed £62m were green and £38m were amber. None of the savings were rated as red. However, the Council has identified that there is an added risk this year from Facing the Challenge due to the new directorate structure and changes to the staffing levels. The risk of not delivering the required savings in 2014/15 is included as a 'high' rated risk on the corporate risk register. • As a result of the savings being harder to identify, the Council has re-introduced the savings Project Initiation Document (PID) process for the 2014/15 budget with an enhanced template. For all projects over £200,000 the responsible directorate/ manager prepares a PID identifying how savings will be delivered, the quantum of savings and project milestones. The PIDs were due for completion by 1 May but at the end of June 2014 the central finance team monitoring has not received a PID for all savings. There was a gap of £7m mainly in respect of waste and children's savings. The outstanding PIDs are being chased by the Business Partners who should ensure these are completed in a timely manner by the directorate. Reporting of the PIDs is to the BPB and Cabinet as in previous years. BPB is chaired by the Deputy Leader and Cabinet Member for Finance and Procurement. • The Council has worked effectively with its efficiency partner for the Adult Social Care transformation. The outturn report confirmed that the savings required in 2013/14 totalling £18m had been met. The work has secured savings of around £30m over the next two years through re-engineering the processes for allocating support after first contact and significantly reducing delay and from changing the approach to re-ablement. This is an important achievement for the Council on the transformation programme.	**Amber** **(2012-13 Amber)**

Financial Control

Area of focus	Summary observations	RAG-Rating
Key financial accounting systems	• The Council has used Oracle as its main accounting system for a number of years. There is a sound understanding of the ledger within the financial systems team. They are able to interrogate the system and run specialist reports as needed by budget holders and directors. • The Council has a strong history of producing its accounts earlier than the statutory 30 June deadline to receive its audit opinion towards the end of July. It is the earliest county council to receive an audit opinion which is a result of the liaison and co-operation with its external auditors. • Internal Audit has not reported any limited assurance reports on the key financial systems during 2013/14.	**Green** **(2012-13 Green)**
Finance department resourcing	• The Corporate Director of Finance and Procurement is well respected across the Council and is a member of Corporate Management Team so has a good oversight of the financial impact of all key decisions made. He is closely involved in Facing the Challenge; the finance team is overseeing the cost analysis being prepared for the service review options. • The restructure of the finance department in 2012/13 centralised the finance staff from the previous devolved directorate finance teams. Through this exercise, there was a reduction in the number of finance staff overall. Although there has not been any significant impact on the effectiveness of the finance function in the year, the work we have undertaken on the 2013/14 financial statements has identified a small number of processes that have not been routinely completed. The Council needs to ensure that where posts are removed or restructured all tasks undertaken by that role are captured.	**Green** **(2012-13 Green)**

Financial Control

Area of focus	Summary observations	RAG-Rating
Adequacy of Internal audit arrangements	• The internal audit team has recruited a number of new auditors during the year and is now at full capacity. As set out in the Annual Report 2013/14 presented to Governance and Audit Committee in July 2014, this has enabled IA to deliver 97 audits and projects during the year. The team has issued 75 final reports, 3 draft reports and undertaken 19 compliance visits. The team has achieved delivery of 92% of the 2013/14 plan. • The IA plan for 2014/15 was drafted following an extensive risk assessment process that involved meeting with directorate and divisional management teams and confirming the risks identified with the Corporate Directors. The plan was approved by the Governance and Audit Committee in April 2014 and progress reports are presented to the committee at every meeting. • The Head of IA is leaving this role in September 2014. The Council has recruited an experienced auditor to fill the role and a small handover period has been planned to ensure minimal impact on delivery of the 2014/15 plan. • Internal audit has raised its profile within the Council over the past couple of years and is experiencing a greater workload as officers in the directorates request investigations or audits. The team also undertakes a number of 'watching brief' audits as part of the IA audit plan. It is a positive approach for internal audit to be involved at the early stages of an implementation project as it enables them to give a greater insight into the control environment and risks associated with the project before the system/plan is fully developed.	**Green** **(2012-13 Green)**
Assurance framework/ risk management processes	• The Council has a risk management policy and strategy. The roles and responsibilities for managing risk are clearly set out and GRACE (the system implemented in early 2013), is used to record risks and the control measures, is fully in use by officers. There are 17 regular users of GRACE across the Council. • Risk registers are maintained on GRACE at the Corporate, Directorate and Divisional level. With the exception of public health all registers are maintained on the system. There remains a varied quality of the risks but through monitoring by the corporate risk team these can be addressed in a timely manner. Officers have acknowledged that it is an efficient way of monitoring risks as the system is live. GRACE is personalised to the individual reviewing the system with a snapshot of the directorate or divisional risk status update. • Risk management continues to be reported to the Governance and Audit Committee with the corporate risk register presented every six months. The corporate risk team attend the Directorate management teams quarterly to raise awareness of the risks in that area. • The LGA peer review commented that the *"risk management arrangements for the transformation programme are appropriate. The programme has its own risk register which is reviewed monthly and reported to the Transformation Advisory Group. It uses a standard risk management methodology. The risk register includes 17 risks, the highest referring to the inability of achieving the financial savings. All risks have identified controls and actions and appropriate level risk owners. This supports robust programme management*." Sound risk management arrangements are imperative for the Council to have in place to deliver the transformation programme in a quick and efficient way. • Based on the work of the Corporate Risk Manager in implementing the system and training officers on GRACE, and the improved attitude across the Council to raise and monitor risks, the rating has been increased from amber to green.	**Green** **(2012-13 Amber)**