Manchester City Council

Review of the Council's Arrangements for Securing Financial Resilience

Year ended 31 March 2014

September 2014

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

Contents

Executive Summary

Our approach

Value for Money Conclusion

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

As part of our review 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. 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 and have considered:

- key indicators of financial performance
- criteria rated amber in our 2012-13 financial resilience review
- Audit Commission VfM profiles

and also the Council's approach to:

- strategic financial planning
- financial governance
- financial control.

Further detail on each of these areas is provided in the sections of the report that follow. Our overall conclusion is that the Council is performing well, despite continuing to operate in a challenging financial environment. The Council produced a Medium Term Financial Strategy covering the 2013-15 period in February 2013 and refreshed this in February 2014 for the financial year 2014-15. The Council delivered £29.3m of its Cost Improvement Scheme (CIP) savings targets in 2013-14, 82% of the original target. The Council achieved a similar proportion of its 2012-13 savings targets, and has delivered cumulative savings of £81m over the two financial years. The Council delivered an underspend on its revised 2013-14 budget of £0.2m, this excludes additional resources, not included in the revised budget, of £4.3m. The Council continues to monitor and refine its savings plans which amount to £41m in 2014-15 and a further £59m for 2015-16. Despite the level of savings required, the Council has ambitious vision and priorities to promote economic growth, reform public services whilst reducing dependency and, through its place-shaping role, create high quality places that attract and retain productive people and business.

Throughout this report we have used red/amber/green (RAG) ratings 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 in 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. Whilst health and schools will continue to be protected in line with the Government's policy set out in SR10, local government will continue to face significant funding reductions.
The Chancellor subsequently announced that public finances would not be brought back into balance during the lifetime of the current Parliament. The spending round for the period 2015-16 was announced on 26 June 2013 (SR13), with local government facing a further 10% funding reduction. Financial austerity is expected to continue until at least 2017, and both major political parties are targeting a surplus budget position by 2020.

The funding reductions come at a time when demographic changes and economic pressures are increasing demand for some services. For example, demand for social care, and debt, housing and benefits advice is rising. Meanwhile, demand for some paid-for services, such as planning and car parking, is reducing.

At the same time, local authorities continue to manage the implications of the government's policy agendas – such as those relating to localism and open public services – that should see a significant shift in the way public services are provided. This includes partnership working with other public bodies, significantly the NHS.

Local Context

Manchester is predominantly urban with areas of open green space and good transport links. It has a population of 514,417 (Office of National Statistics estimate of population mid 2013), an increase of 3.1% over 2010.

Total net spend per head of population is in the highest 10%, in comparison with its nearest neighbours (2012-13 Audit Commission VfM profiles) and this reflects some of the significant challenges faced by the Council. Demand on social care is high, and in particular spend per head of population on children's services is in the highest 20% in comparison to nearest neighbours (2012-13 Audit Commission VfM profiles) due to this high demand. The Council's key sources of income reflect the challenges faced. Specifically, the relatively high level of central government grants and the baseline level of business rates income, and the relatively low level of council tax income all reflect a relatively high level of deprivation in the Manchester area.

Following the Comprehensive Spending Review and the Local Government Settlement for 2011-13 announced in December 2010, the Council was required to identify unprecedented savings of £109m in 2011-12, rising to £170m in 2012-13, in order to balance its budget. Additional saving requirements of £80m over the two financial years 2013-14 and 2014-15 were announced in the Government's financial settlement in December 2012, and further savings of £90-£100m are being planned for over the two financial years 2015-17. Overall, the Council's funding is expected to have reduced by approximately 40% over the seven years 2010-11 to 2016-17.

Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Key Indicators of Performance	Review against key performance indicators shows that the Council is in a strong position, which will assist in managing the significant financial challenges that are likely to be faced over the next two to three years. Our review of indicators relating to liquidity, borrowing, performance against capital and revenue budgets, reserves balances and schools balances all rated the Council as green. Our review of indicators relating to the workforce rated the Council as amber, reflecting the potential efficiencies the Council could achieve by reducing levels of sickness absence to the public sector average. We do, however, note several examples of good practice and planned initiatives to monitor and manage short, medium and long-term sickness absence and we recognise that the Council has an overall Workforce Strategy and "m people" approach in place. Our overall review of key performance indicators has rated the Council as green. Further details are provided on pages 10 – 17 of this report.	● Green
Strategic Financial Planning	The Council has set out a strategic framework, including the Council's strategic priorities for growth, service improvement and a better quality of life for Manchester residents. The Council's vision is to reduce dependency and demand for high cost services that would otherwise become increasingly unaffordable. By tackling dependency the Council plans to secure resources to fund universal services to help the City's economy to grow and places to prosper. The Council's plans have been formulated within the context of the Greater Manchester Strategy, the Community Strategy and the priorities for growth, people-based reform and place. The Council recognises that it needs to act to increase the skills of the workforce, help create jobs and equip residents to access these jobs and it has set out its priorities for reform. The Council's adopted budget for 2013-14 and plans for 2014-15 include a requirement to deliver additional savings of £80m. It has reviewed its service provision and business planning process and is in a good position to be able to deliver effective services with reduced revenue funding. The business planning and budget setting process is embedded throughout the Council, with good member involvement and engagement with residents, businesses and partner organisations has taken place. The assumptions underlying the Medium Term Financial Strategy are reasonable and scenario planning has been used where appropriate. Further details are provided on pages 18 – 22 of this report.	● Green

Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Financial Governance	The Council has effective financial governance arrangements in place. Through the business planning and budget setting process, the Council understands its financial environment at all levels, including members, who are actively engaged in the process. Clear and comprehensive reports are produced at all levels covering capital and revenue budgets, treasury management and savings plans. Savings plans are risk-rated and subject to regular review. The Council has finance risk registers in place at both directorate and corporate levels. The corporate register includes several aspects of good practice, including assessments of the likelihood and consequences should risks materialise, and assessments of the Council's capacity to control risks and to secure improvements in the mitigation of risks. Further details are provided on pages 24 – 27 of this report.	● Green
Financial Control	Recent internal and external audit work programmes have provided assurance that the Council has generally sound internal financial controls in place across all key financial systems. The Council's assurance framework in relation to financial control, including an effective Audit Committee, works well. The Council's finance staff are experienced and appropriately qualified and the Council uses its financial system, SAP, to ensure effective financial reporting throughout the year. Good arrangements are in place to meet year-end statutory financial reporting requirements. The Council has an effective Internal Audit function in place. We also note that the Council has a good track record of delivering performance in line with agreed budgets. Further details are provided on pages 29 – 32 of this report.	● Green

Executive Summary

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Key Indicators of Performance	The Council should continue its efforts to reduce the incidence of short, medium and long term sickness absence.	Sharon Kemp - Assistant Chief Executive (People)	Ongoing	Reducing incidents of sickness absence to both enhance VfM and productivity and support improved health and well-being remains a corporate priority driven by the Strategic Management Team and proactively supported by the Executive Member for Finance and Human Resources. This is a complex issue given the diverse nature of the Council's work and the make-up of its workforce. Over the past year significant activity has been undertaken around: • enhancing the support provided to managers to manage absence cases • developing management understanding and capability in this area • improving the data available to support the organisation in understanding the issues • taking proactive measures to improve health and wellbeing • increasing the level of scrutiny and support provided to those areas of greatest concern This work will continue and, in particular, the following key actions will be progressed to support improvements: • Finance Scrutiny Committee – Human Resources Subgroup will meet at least twice per year to review performance and progress on managing attendance. These sessions will include details of activity taking place within the lowest performing departments in the Council, and managers responsible for these departments will attend the meeting to explain how they plan to improve attendance. • regular scrutiny of services which are the highest cause for concern in terms of attendance levels led by the Executive Member for Finance and Human Resources and Strategic Director (Reform). • shaping of management behaviours to support increased ownership and accountability of management of attendance through compliance checks. • continued delivery of the employee health and well-being strategy including effective management of the occupational health provision, development of a strengthened approach to mental health and well-being (the greatest cause of long term absence) and continued focus on general health and well being of the workforce with an emphasis on individuals taking responsibility for their own health. • strengthening the data and intelligence available to support the management of attendance including work to improve the availability of comparable data across Greater Manchester local authorities.

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
- Schools Reserves: Balances to DSG allocations

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

Birmingham City Council
Bristol City Council
Coventry City Council
Kingston upon Hull City Council
Leeds City Council
Leicester City Council
Liverpool City Council
Newcastle City Council
Nottingham City Council
Peterborough City Council
Reading Borough Council
Salford City Council
Sheffield City Council
Southampton City Council
Wolverhampton City Council

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Liquidity	The working capital ratio provides an indication of liquidity, this being whether an organisation has enough current assets to cover its immediate liabilities. The Council's working capital ratio was 1.09 at 31 March 2014, a significant increase on the 31 March 2013 ratio of 0.65. It is important that this ratio is seen in the context of the Council's approved Treasury Management Strategy which includes the use of internal cash backed reserves as a more cost effective alternative to entering into additional borrowing. One measure of the impact of this strategy is the ratio of long-term liabilities to the Council's capital financing requirement. This ratio has reduced by 18% from 0.76 in 2010-11 to 0.62 in 2013-14. The Council is performing well when compared to the Audit Commission Nearest Neighbour Benchmark Group for liquidity. A ratio of between 1:1 and 2:1 current assets to current liabilities is generally considered to be ideal, and a ratio of 1.09 is within the normal range for comparable organisations. At 31 March 2014 the Council had a net cash position on the Balance Sheet of £34.6m, an increase from 31 March 2013 at which point the Council's Balance Sheet net cash position was (£5m). We do not consider liquidity to pose any significant issues for the Council and we note that cash flow continues to be monitored on a daily basis, with forecasts produced for the weekly, monthly and annual position. We have considered the Council's performance in collecting Council Tax and Non-Domestic Rates (NDR) income. The Council's in-year Council Tax collection performance has improved in six of the last seven years, from 87.3% in 2006-07 to 92.9% in 2012-13, with a reduction to 91.7% in 2013-14. Given the replacement of Council Tax Benefit with a local Council Tax Support Scheme, the Council is considered to have performed well on collection in 2013-14. The Council also closely monitors the collection of arrears and, through significant recovery action, around £7m per annum in arrears has been collected in each of the last seven years.	● Green

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Liquidity	The Council's in-year NDR collection performance has been in the range 95-99% in each of the last ten years. In-year collection has been stable at around 97% throughout the economic downturn, and whilst performance decreased slightly to 95% in 2012-13 it improved in 2013-14 to 97.2%. The Council's gearing ratio between local Council Tax and Revenue Support Grant and nationally distributed NDR has remained stable at between 2.3 and 2.5 in the period 2007-08 to 2012-13. This ratio increased to 3.4 in 2013-14, following the replacement of Council Tax Benefit with localised arrangements and the partial localisation of business rates. This level of ratio means that for every 1% reduction in RSG and NDR the Council would need to raise Council Tax by 3.4% to achieve the same overall level of income. Currently there are limits on the extent to which the Council can increase Council Tax, with any increase in excess of 2% triggering a referendum.	● Green

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Borrowing	The Council's borrowing was £521.4m at 31 March 2014, with £9.2m (or 1.8%) due within one year. Total borrowing is well below the approved limited included in the Council's 2013-14 Treasury Management Strategy of £852m. The Council's long-term borrowing to tax revenues ratio was 1.3 in 2013-14 and 2012-13, a significant reduction from the ratio of 1.9 in 2010-11, following the HRA reform debt settlement. The ratio of long-term borrowing to long term assets was 0.2 in 2013-14 and 2012-13, a significant reduction from the ratio of 0.3 in 2010-11 and, again, this is due to the HRA debt settlement. The Council compares favourably to the Audit Commission Nearest Neighbour Benchmark data for the above indicators, having ratios amongst the lowest for the group. As part of its budget setting process for 2013-14 the Council determined a set of Treasury indicators, including an authorised limit for external debt, upper limits for fixed and variable interest rate exposures, upper limits for the maturity structure of borrowing and an upper limit for amounts invested for over 364 days. Comprehensive Treasury Management reports have been presented to members, including the Strategy in February 2013, an Interim Treasury Management report to Audit Committee in November 2013 and the 2013-14 Annual Report in July 2014. The Council entered into £30m of new medium term borrowing during 2013-14, at a rate below prevailing PWLB rates, and it also repaid £10m. The Council operated within the approved limits throughout the financial year.	● Green

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Workforce	For 2013-14, the average number of working days lost to sickness absence was 10.6 per employee and this remains higher than local government and private sector averages. We recognise that the Council is working hard to achieve sustainable reductions in sickness absence rates and the Council has performed well in reducing sickness absence levels in recent years. Sickness absence levels per employee have reduced by some 19% when compared to the average of 13.1 days per employee lost to sickness absence in 2007-08. The Council has workforce plans in place to continue to improve this performance and attendance monitoring reports are presented to the Human Resources Subgroup. The Council has developed new ways of reporting on and analysing sickness absence data and it monitors, on a monthly basis, short, medium and long-term absence by directorate. There are initiatives in place to prevent short and medium-term absences escalating into long-term absences and to bring resolution to long-term absence cases. The Council is supporting managers to take a more robust approach to absence management and additional information, guidance and advice has been made available on the intranet. We note the leadership of senior members in promoting effective absence management, and that there is a recognition that effective performance management is key in bringing about behavioural change. We also note that the Council has an overall Workforce Strategy in place and an "m people" approach which is designed to make better use of human resources and develop employees' skills whilst moving to a smaller, more agile workforce. The Council is also working with other authorities across the North West as part of the Sickness Absence Innovation and Action Research Group .	Amber

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Performance Against Budgets: revenue & capital	The Council has a strong track record in achieving its budget and managing its financial performance. The revenue underspend for 2013-14 was £0.2m, against a revised budget of £571.8m. Including additional resources that did not form part of the revised budget the underspend for the year was £4.5m. Savings of £29.3m were achieved in year, some 82% of the total agreed saving targets. The Council's capital outturn for 2013-14 was £204m, 85% of the amount forecast in February 2013. This level of outturn against forecast is comparable with the two preceding years, and the variance primarily relates to the re-profiling of budgets into future years. The Council is currently forecasting a marginal underspend against the 2014-15 budget. The Council has plans in place to deliver total savings targets of £41.0m for 2014-15, and it is actively monitoring this stretching target. The Housing Revenue Account (HRA) made an in-year contribution to HRA reserves of £17.5m for 2013-14, arising from Decent Homes Backlog funding, reduced spend on supervision and management and interest payable and as well as increases in rental income and VAT shelter income.	● Green

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Reserve Balances	At 31 March 2014 the General Fund balance was £40.9m, which is a £0.1m reduction on the prior year. The General Fund balance includes an amount of £15m which was transferred from HRA reserves in 2012-13. The Council plans to reallocate this £15m for housing purposes in due course, and this will become an earmarked reserve at that time. Total usable reserves were £437.4m at year end, an increase in balances of £82m from the prior year. Significant components of this increase in balances are the new Business Rates Reserve of £40m, an increase in HRA reserves of £17.5m, the Clean and Green Places Reserve £14.5m established from additional dividend income, and an increase in reserves held for capital purposes due to the re-phasing of some capital schemes. The Business Rates Reserve has been set up to hold the Safety Net and Small Business Relief Grant and will be used to fund the Collection Fund deficit relating to Business Rates. The total usable reserves figure includes both schools balances, which we comment on further in the section below, and HRA reserves. The Council's HRA reserves were £78.5m at the year end. Usable capital reserves have increased by £8.5m and total £98m as at 31 March 2014. Disclosure of the various usable reserves held by the Council is given within Note 37 of the Annual Statement of Accounts for 2013-14. When compared to the Audit Commission nearest neighbour benchmark group, the Council had the second highest level of usable reserves to gross revenue expenditure at the 2012-13 year end, at 14%. The comparative data is not available yet for 2013-14, but the Council's position has strengthened to 18%.	● Green
Schools Balances	The Audit Commission accepts that there will be some unspent Dedicated Schools Grant at each year end which will be transferred to reserves, but expects councils to ensure that the funding is spent on the current cohort of pupils. The Council's schools have historically maintained low balances and the latest available data published by the Audit Commission, for 2012-13, shows comparable reserves in relation to Dedicated Schools Grant (8%) to its statistical nearest neighbours. The schools (LMS) reserve level at the year end 2013-14 showed a slight reduction from £29.9m to £28.3m; this remains at an acceptably low level and confirms that funds are being spent on the education of the current cohort of pupils and are not being held in reserves for future projects. The LMS reserve is committed to be spent on the education service and is not available for the general use of the Council.	● 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 of good practice:

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

Strategic Financial Planning

Area of focus	Summary observations	Assessment
Focus of the MTFP	The City Treasurer made an initial assessment in February 2012 of what the overall financial position for 2013-15 might look like, taking into account both likely longer term funding reductions and changes to how local government would be financed. This assessment identified that the Council would need to reduce its spending by between £55m and £80m by the end of 2014-15. Provisional local government finance settlements for both 2013-14 and 2014-15 were published by the Government in December 2012 and the Council's analysis indicated it would face a resource shortfall of £40m in 2013-14, rising to £80m in 2014-15. The Council also took into account that further resource reductions were likely in 2015-16 and 2016-17, whilst demand for services was likely to rise. The Council's analysis gave a clear indication that, without radical change, there would be insufficient resources to fund anything other than debt financing costs, waste and transport levies and social care. Recognising the scale of the financial challenges it was facing, the Council determined to bring forward the timetable for setting its 2013-15 budgets. The Council published its proposed budget on 16 January 2013, a month earlier than in 2012, to allow for additional consultation and scrutiny of the proposals. Consequently, the Council refreshed the 2014-15 budget in February 2014 in the context of well developed savings plans for 2014-15, and it was able to invest time in developing a strategic framework to guide the development of a budget strategy for 2015-17. The Council's budget proposals set out a strategic framework, including the Council's strategic priorities for growth, service improvement and a better quality of life for Manchester residents. The Council set out a vision to reduce dependency and demand for high cost services that would otherwise become increasingly unaffordable. By tackling dependency the Council plans to secure resources to fund universal services to help the City's economy to grow and places to prosper. The Council formed its plans within the context of the Greater Manchester Strategy and the Community Strategy and the priorities for growth, people-based reform and place. The Council recognises that it needs to act to increase the skills of the workforce, help create jobs and equip residents to access these jobs.	● Green

Strategic Financial Planning

Area of focus	Summary observations	Assessment
Focus of the MTFP	The Council set out its priorities for reform and these include: • Troubled Families – using targeted interventions to change behaviours, reduce dependency and release savings • Early Years – providing targeted support where it is most needed, to ensure children get the best start in life • Education and Skills – improving the education system in Manchester and making it more connected to the world of work • Integrated Health and Social Care – accelerating the pace and scale of integrated care to improve patient experience and reduce spend • Worklessness and Skills – increased focus on helping people back into the labour market, or into the labour market for the first time • Integrated Delivery and Commissioning – bringing together aspects of adults and childrens' social care, providing a co-ordinated response with timely interventions to safeguard the most vulnerable	● Green
Adequacy of planning assumptions	We have considered the adequacy of the assumptions underpinning the 2013-15 MTFS and 2015-17 strategic framework as part of our VfM audit. These assumptions include those surrounding Government funding, income generation, inflation including pay inflation, the level of dividend income, increase in levies, changes in the council tax base and changes in employer pension contributions including those arising from auto-enrolment. We found that each assumption reviewed was reasonable and supported with underlying evidence. Scenario planning has been applied in the development of directorate business plans. We also note that the Council has a good track record of achieving its budget and cost savings requirements.	● Green

Strategic Financial Planning

Area of focus	Summary observations	Assessment
Scope of the MTFP and links to annual planning	The strategy for 2013-15 is underpinned by the Council's values of People, Pride and Place and it incorporates the overall priorities and objectives of the Council. The Council acknowledges that in order to achieve its priorities, within the resources available, it will have to go beyond the delivery of efficiencies. The Council's MTFS has also been prepared in the context of the Greater Manchester Strategy and the revised Community Strategy. The budget process for 2011-13 led to the establishment of a set of budget principles, to be used to guide the Council through the challenging times and the budget process for 2013-15 built on this work. The scope of the MTFS is in line with the Council's priorities, which extend further and include Greater Manchester by improving the economy and investments through the Manchester Investment Fund (MIF). The Council's Strategic Response 2013-15 was accompanied by a comprehensive suite of reports including: • Revenue budgets for 2013-14 and 2014-15 • Capital budgets for 2013-14 to 2015-16 • Housing Revenue Account budgets for 2013-14 to 2015-16 • Budget proposals for integrated commissioning and delivery • Budget proposals for Neighbourhood Services and the Corporate Core • The Treasury Management Strategy for 2014-15 • An update on workforce implications of the 2013-15 budget	● Green

Strategic Financial Planning

Area of focus	Summary observations	Assessment
Review processes	The Council's budget setting process starts with the production of business plans for areas of spend; planning guidelines and examples are provided to heads of service to aid the production of business plans. Budget proposals are subject to consultation with residents, stakeholders and businesses and also subject to review by the Council's Finance Scrutiny Committee prior to approval by full Council. Budgets are monitored on a regular basis throughout the financial year by the Council's Senior Management Team and the Executive and the Council has introduced a "Star Chamber" in 2013-14 to assess and monitor the delivery of savings plans. Members are provided with annual training by senior officers within the finance department to help them fulfil their financial governance role. The Council's MTFS is kept under review in the light of developments including, for example, forecasts relating to the partial localisation of business rate income and the localisation of council tax support.	● Green
Responsiveness of the Plan	Through regular revenue budget monitoring, undertaken through the Executive, the Council is able to monitor the performance of services against budgets and respond to significant cost pressures and issues identified. In preparing budgets the Council's directorates undertake scenario planning and the Council has a good track record of responding to emerging financial pressures, delivering financial performance in line with its budgets and achieving required savings.	● 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 of good practice:

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 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.
- There are only a small number of internal and external recommendations overdue for implementation.
- Committees and the Executive regularly review performance and it is subject to appropriate levels of scrutiny.
- There are effective recovery plans in place (if required).

Financial Governance

Area of focus	Summary observations	Assessment
Understanding the Financial Environment	The Council has a good understanding of its financial environment at all levels. The Senior Management Team and Heads of Finance are fully informed to enable effective business planning. Members are kept up to date on the financial environment and proposals for responses to risks identified through regular reports and briefings, for example on the risks associated with the partial localisation of business rate income. Business planning is integrated throughout the Council. Key budget messages are communicated to Heads of Service from the Senior Management Team and they are responsible for producing business plans for their areas of spend. This is supported by the performance team, who provide up to date information to enable effective business planning. Business plans are produced and reported through budget performance groups and ultimately reported to Executive for final approval. The MTFS for 2013-15 was approved by Executive and Council, with savings of £80m to be achieved in this two year period. The Council is on track to achieve this target, and understands the financial pressures it will face in the 2015-17 period. The Council's Risk Management Strategy is well developed and embedded throughout the organisation. This includes financial risks and is monitored by SMT and Audit Committee. The Annual Governance Statement, which the Council has reviewed and improved in year, outlines actions taken and those needed to address current concerns. It underpins the risk management culture of the organisation. The Audit Committee provides effective scrutiny of the Council's governance arrangements.	● Green
Executive and Member Engagement	There is full engagement by members throughout the business planning and budget setting process. The Council conducted an extensive consultation process as part of the 2013-15 budget setting process, involving consultation with partners, residents and businesses. The Council has also carried out specific consultations in relation to savings proposals where statutory consultation is required. The City Treasurer is a member of the Council's Senior Management Team and this team meets regularly and considers financial and performance indicators.	● Green

Financial Governance

Area of focus	Summary observations	Assessment
Overview for controls over key cost categories	The Council's Senior Management Team receives monthly finance reports including information on the delivery and achievability of savings targets. Savings plans are risk-rated to allow attention to be focussed on high risk areas. Internal Audit has given assurance in relation to the Council's arrangements for the delivery of savings.	● Green
Budget reporting: revenue and capital	The Council's reporting of progress against revenue and capital budgets is considered robust and comprehensive. Monthly reporting to the Senior Management Team includes information on original and revised budgets, and the forecast outturn position as well as a detailed narrative on budget variances directorate by directorate. Regular budget monitoring reports are presented to the Council's Executive during the financial year, including Global Revenue Budget Monitoring reports and Capital Programme Monitoring reports. These reports provide a good balance between financial information and accompanying narrative and draw members' attention to significant budget variances.	● Green

Financial Governance

Area of focus	Summary observations	Assessment
Adequacy of other Committee/ Cabinet Reporting	The Executive receives a comprehensive range of reports to allow it to exercise effective financial governance. In addition to reports on revenue and capital budgets, reports are provided on treasury management and savings plans as well as ad hoc reports providing financial information on Council projects and sector developments, such as the localisation of council tax support. The reports reviewed as part of our VfM audit work were found to be timely, consistent with underlying financial data and with the Council's statutory Statement of Accounts. Reports received by the Executive include both current and forward-looking financial information to help promote longer-term financial planning.	● 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 of good practice:

Budget setting and budget monitoring

- Budgets are robust and prepared in a timely fashion.
- Budgets are monitored at officer, member and Executive 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

Area of focus	Summary observations	Assessment
Budget setting and monitoring - revenue and capital	The Council has a robust framework in place for budget setting and monitoring, for both revenue and capital budgets. The budget preparation process involves the consideration of alternatives and it takes place early enough to allow meaningful consultation to take place before final budgets are approved. Budgets are monitored throughout the year, at both officer and member level, and this takes place at an appropriate level of detail and at an appropriate frequency to allow action to be taken where necessary.	● Green
Performance against Savings Plans	The Council has a good track record of achieving savings targets and meeting its budget. For 2011-12 and 2012-13, the Council identified that £170m savings would be required to achieve its budget across the two years. The Council has evidenced that this overall level of savings has been achieved through its reported underspends against budget in 2011-12 and 2012-13. The Council is planning to deliver a further £80m of savings across the 2013-14 and 2014-15 financial years and it considered a number of scenarios in developing business plans. The Council delivered savings of £29.3m in 2013-14 and is currently on track against its 2014-15 budget, and a marginal underspend has recently been forecast.	● Green
Key Financial Accounting Systems	Recent internal and external audit work programmes have provided assurance that the Council has generally sound internal financial controls in place across all key financial systems. The Council updates its financial system, SAP, regularly to ensure effective reporting of key financial information. The Council's financial statements and internal management accounts reconcile, confirming internally and externally reported financial information is consistent.	● Green

Financial Control

Area of focus	Summary observations	Assessment
Finance Department Resourcing	The Council has a sound and appropriate finance structure in place, with experienced senior managers and staff within the finance department. The resourcing of the finance department reflects the scale and complexity of the Council's financial affairs, and we note that due priority and importance is given to emerging issues, for example in relation to the partial localisation of business rates. Staff responsible for the production of the accounts, monthly finance reports and global revenue monitoring reports are all suitably experienced.	● Green
Internal audit arrangements	The Council has an effective in-house Internal Audit function in place which complies with CIPFA standards. Internal Audit plans are approved by the Audit Committee annually and the Committee is regularly updated on progress, findings and any significant changes to the audit plan. Action plans are followed up and monitored through regular reporting to the Audit Committee. Internal Audit's work programme is comprehensive in its coverage and contributes to an effective control environment at the Council.	● Green

Financial Control

Area of focus	Summary observations	Assessment
External audit arrangements	Recent external audits have resulted in unqualified audit opinions on the Council's financial statements and unqualified Value for Money Conclusions. The Council's 2012-13 Group financial statements were qualified in relation to the alignment of accounting policies for the valuation of property assets. Management responded to this in a planned manner, commissioning valuations of Manchester Airport Holdings Limited's property assets for the purposes of preparing the Council's 2013-14 Group financial statements. Management has established a robust process to track external audit recommendations and regular reports on the implementation status of such recommendations are presented to the Audit Committee. We do, however, note than an update on the recommendations contained in our September 2013 report on the objection to the audit of the 2011-12 Statement of Accounts (on taxi licensing matters) is currently awaited.	Green
Assurance framework/risk management	The Council has a Performance Management Framework in place and performance is reported the Council's Finance Scrutiny Committee using a dashboard approach. A Risk Management Strategy is in place and risk registers are subject to review by the Council's Senior Management Team and Audit Committee. Finance risk registers are in place at both directorate and corporate levels. The corporate risk register includes several aspects of good practice, including assessments of the likelihood and consequences should risks materialise, and assessments of the Council's capacity to control risks and to secure improvements in the mitigation of risks. Each risk on the register is allocated a risk owner and the register includes narrative against each risk.	Green

Appendix - Key indicators of financial performance

Key Indicators of Financial Performance

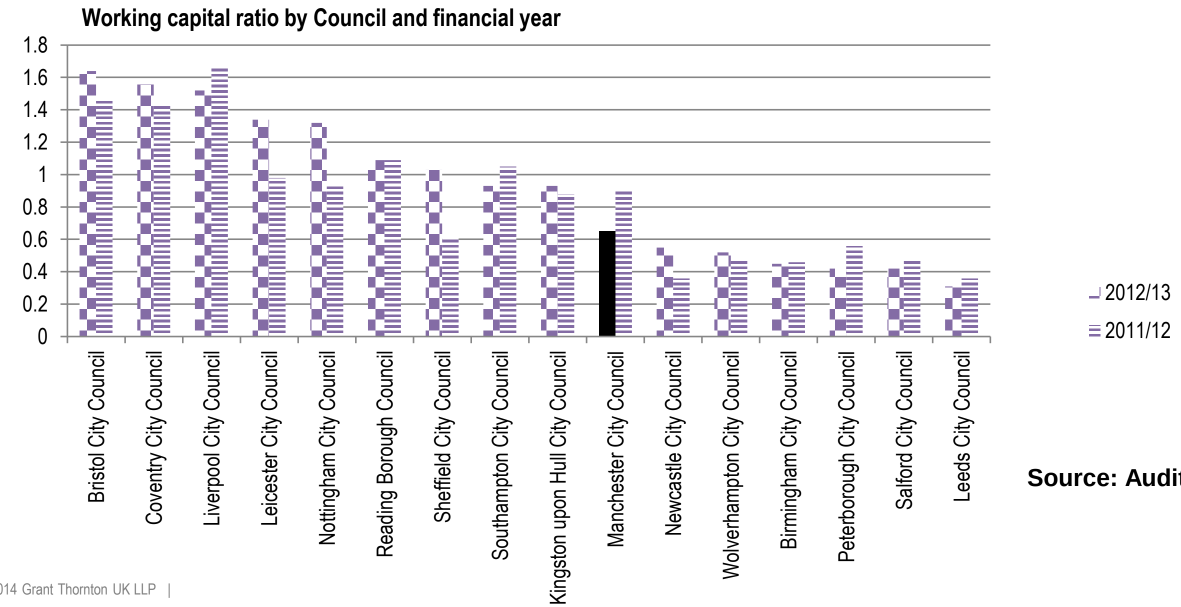
Working Capital - Benchmarked

Definition

The working capital ratio provides an indication of whether an organisation 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 current assets to current liabilities of between 1:1 and 2:1 is generally considered to be adequate, whilst a ratio of less than one - i.e. current liabilities exceeding current assets can indicate potential liquidity problems. It should be noted that a high working capital ratio isn't always a good thing as it can indicate that an organisation is not effectively investing its excess cash.

Findings

The Council's working capital ratio reduced from 0.9 at 31 March 2012 to 0.65 at 31 March 2013, and then increased to 1.09 as at 31 March 2014. Whilst the ratio as at 31 March 2013 is below that generally considered adequate, it is important that this reduction is seen in the context of the Council's approved Treasury Management Strategy which includes the temporary use of internal cash backed reserves as a more cost effective alternative to entering into additional borrowing. One measure of the impact of this strategy is the ratio of long-term liabilities to the Council's capital financing requirement. This ratio has reduced by 18% from 0.76 in 2010-11 to 0.62 in 2013-14 and is a proxy for the Council's headroom to take on additional borrowing. We also note that the Council's cash flow continues to be monitored on a daily basis, with forecasts produced for the weekly, monthly and annual position.



Source: Audit Commission's Technical Directory

Key Indicators of Financial Performance

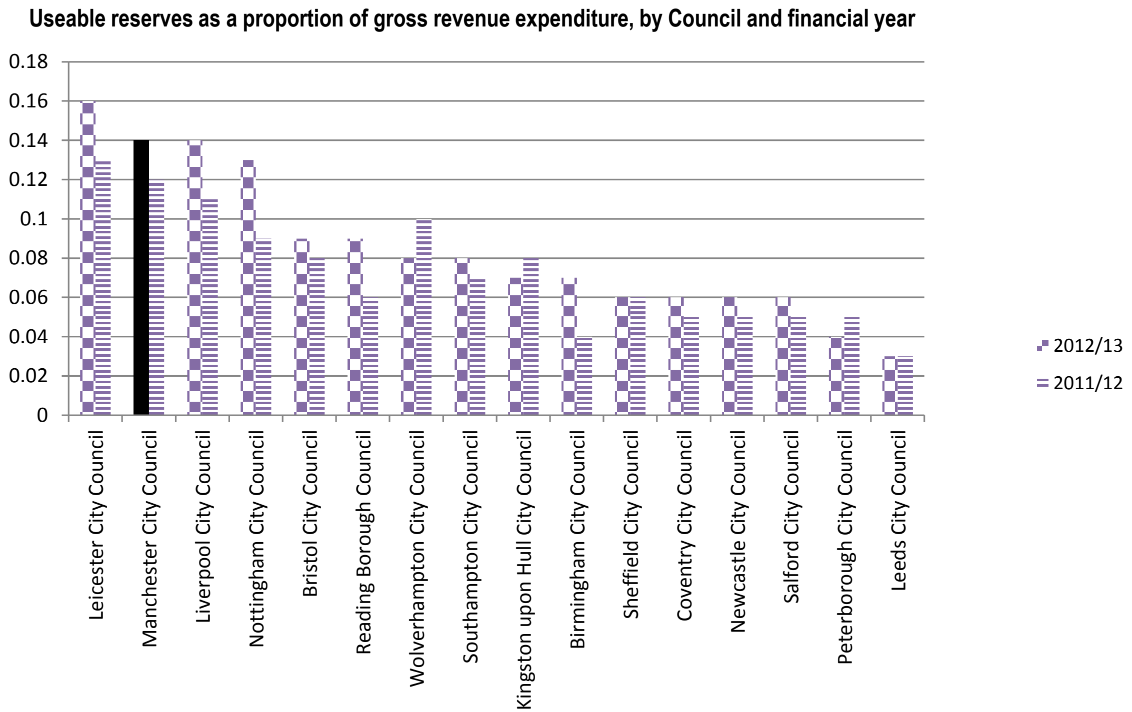
Useable Reserves - Benchmarked

Definition

This ratio compares the Council's useable capital and revenue reserves to gross revenue expenditure. A ratio of one would mean that total reserves match the annual level of gross revenue expenditure.

Findings

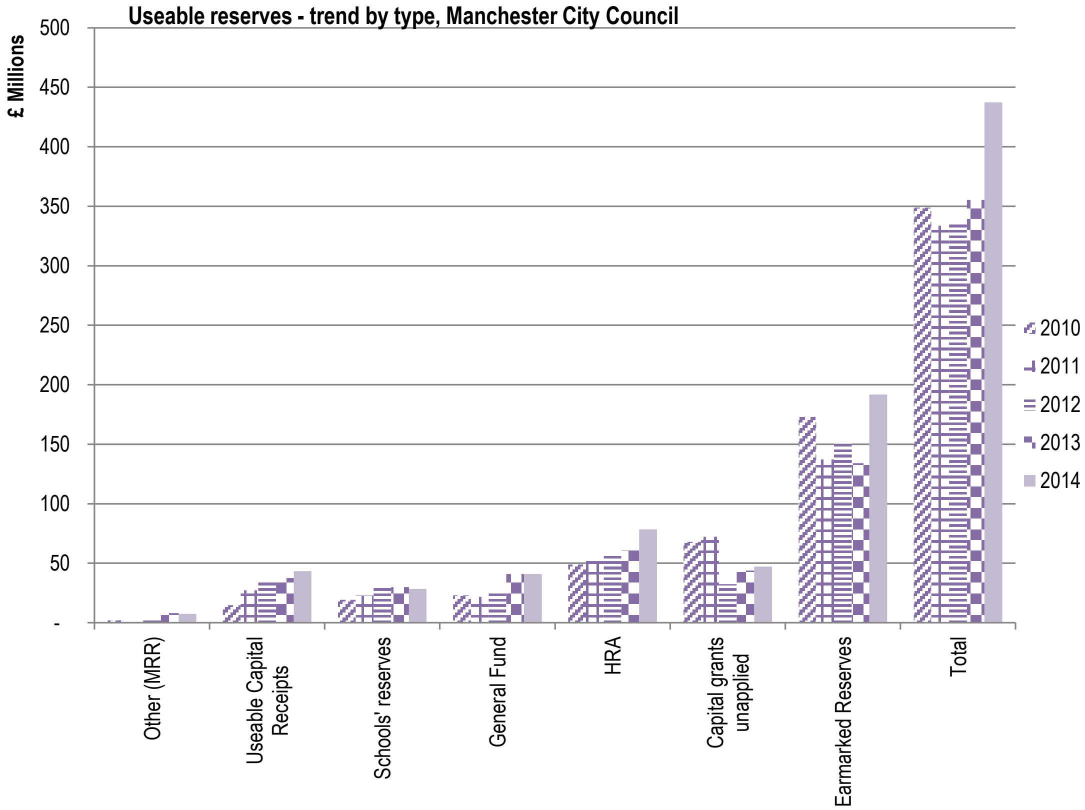
The Council has a high ratio of useable reserves to gross revenue expenditure relative to comparable councils. The Council's total useable reserves have increased in three of the last four financial years, rising from £319m as at 31 March 2009 to £437m as at 31 March 2014. The Council's prudent level of reserves provides a degree of cushioning from future budgetary constraints, allowing the Council to invest in initiatives that will reduce expenditure in subsequent financial years.



Source: Audit Commission's Technical Directory

Key Indicators of Financial Performance

Useable Reserves - Trend by Type



Source: Manchester City Council Audited Financial Statements 2008-09 to 2013-14

The Council's total useable reserves have increased in three of the last four financial years, rising from £319m as at 31 March 2009 to £437m as at 31 March 2014, as discussed further on page 16.

General Fund reserves remained relatively stable in the period from 2008-09 to 2011-12, being in the range of £22 to £26m. Following a transfer of £15m from HRA reserves in 2012-13, General Fund reserves increased to £41m as at 31 March 2013 and remained at this level as at 31 March 2014.

The Council has held earmarked revenue reserves (excluding schools' reserves) of between £134m and £192m during the period. We note that members are provided with comprehensive information on the purposes for which reserve balances are held as well as on the utilisation of these balances.

The Council's Housing Revenue Account (HRA) reserve balance has increased during the period from £49m to £78.5m. Several factors have contributed to the increase in HRA reserves, including a reduction in interest payable following HRA debt redemption, reduced spend on supervision and management as well as increases in rental income and VAT shelter income. We note that the Council is progressing plans to utilise some of the accumulated HRA reserves.

Key Indicators of Financial Performance

Long-term Borrowing to Tax Revenue - Benchmarked

Definition

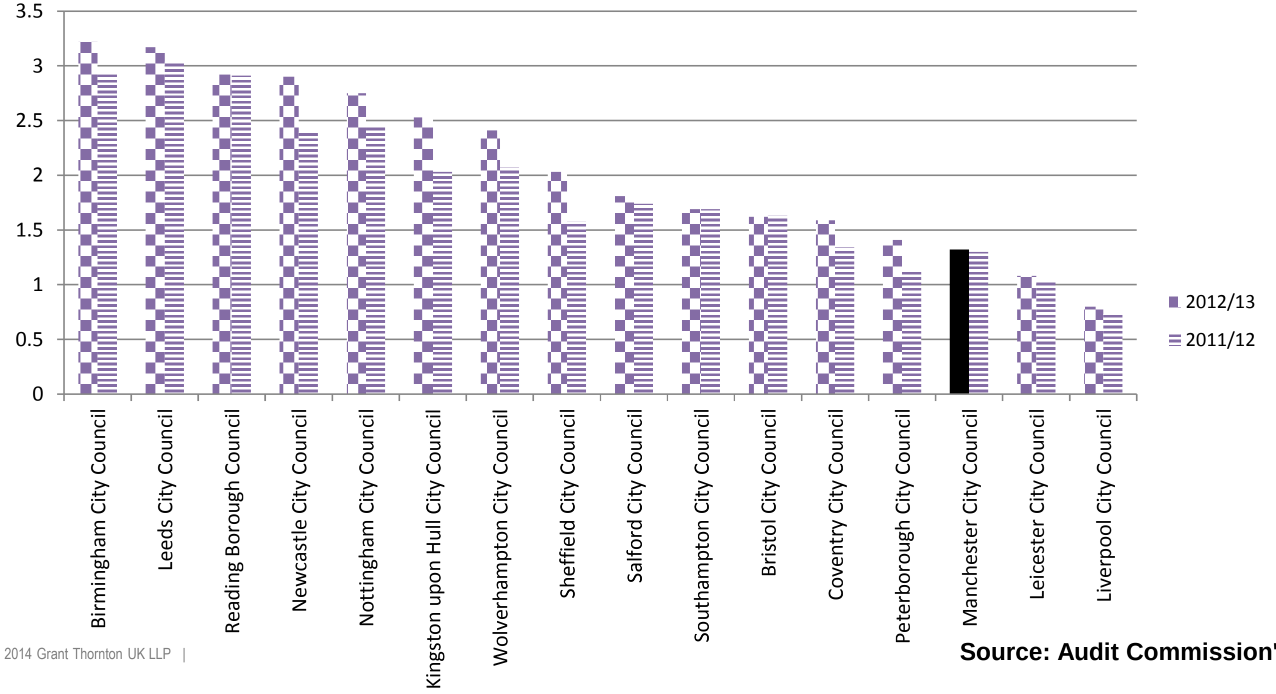
The chart below shows the ratio of long-term borrowing to the sum of council tax revenue, revenue support grant and re-distributed non-domestic rate income. The ratio provides an indication of the sustainability of a council's long-term borrowing. For the purpose of this chart long-term borrowing includes PFI and finance lease liabilities.

Findings

The Council's ratio of 1.32 (the ratio is little changed at 31 March 2014) indicates that it has long-term borrowing which slightly exceeds annual council tax, RSG and NDR revenues. Manchester's ratio reduced significantly from 1.9 at 31 March 2011 to 1.3 at 31 March 2013, primarily due to the redemption of £269m of HRA debt, but also due to a slight increase in revenues.

Manchester's ratio of long-term borrowing to council tax, RSG and NDR revenues compares favourably to comparable councils and there is no indication that the Council's long-term borrowing is unsustainable.

Ratio of long-term borrowing to Council tax, NDR and RSG income, by Council and financial year



Source: Audit Commission's Technical Directory

Key Indicators of Financial Performance

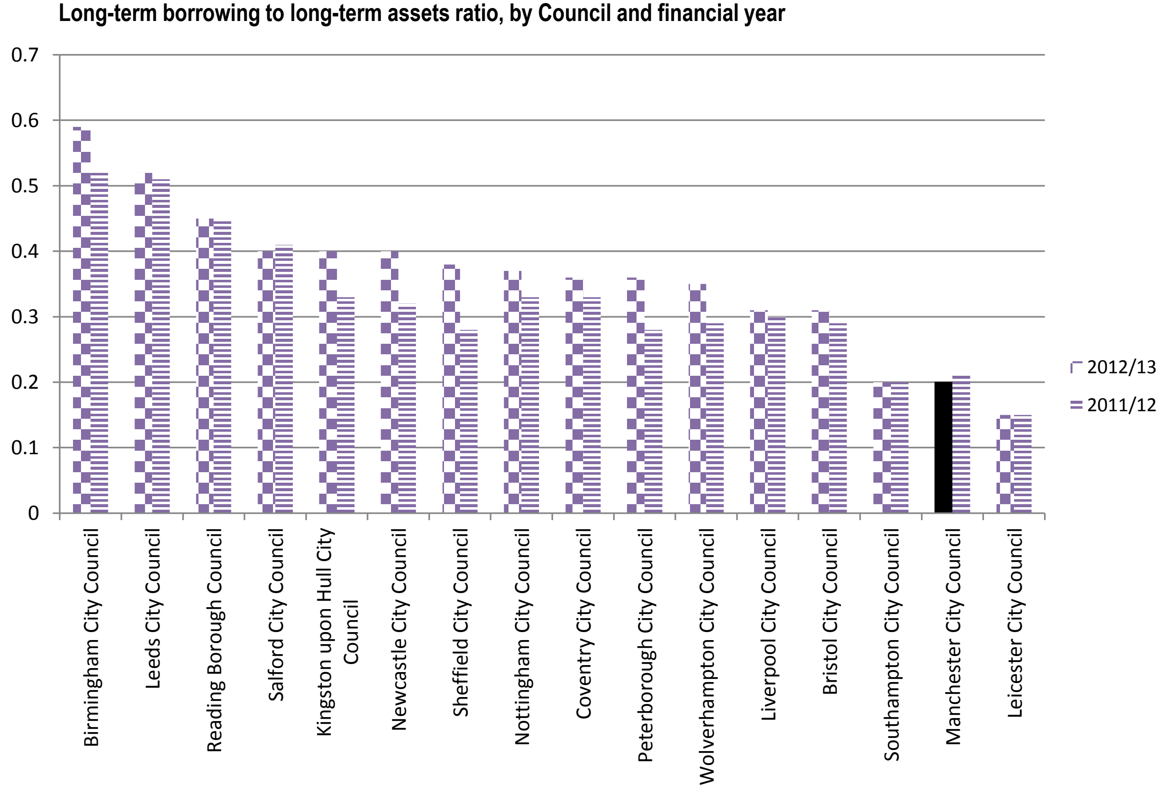
Long-term borrowing to long-term assets - Benchmarked

Definition

The chart below shows the ratio of long-tem borrowing to long-term assets. For the purpose of this chart long-term borrowing includes PFI and finance lease liabilities.

Findings

The Council's long-term borrowing equated to 20% of the value of its long-term assets as at 31 March 2013 - i.e. long-term borrowing does not exceed the value of long-term assets. In comparison to other councils in this benchmarked group, Manchester has a lower than average ratio. This is in the context of the Council, and the benchmarked group, having made long-term investment decisions prior to the current economic conditions.



Source: Audit Commission's Technical Directory

Key Indicators of Financial Performance

Schools balances to Dedicated Schools Grant (DSG) allocation - Benchmarked

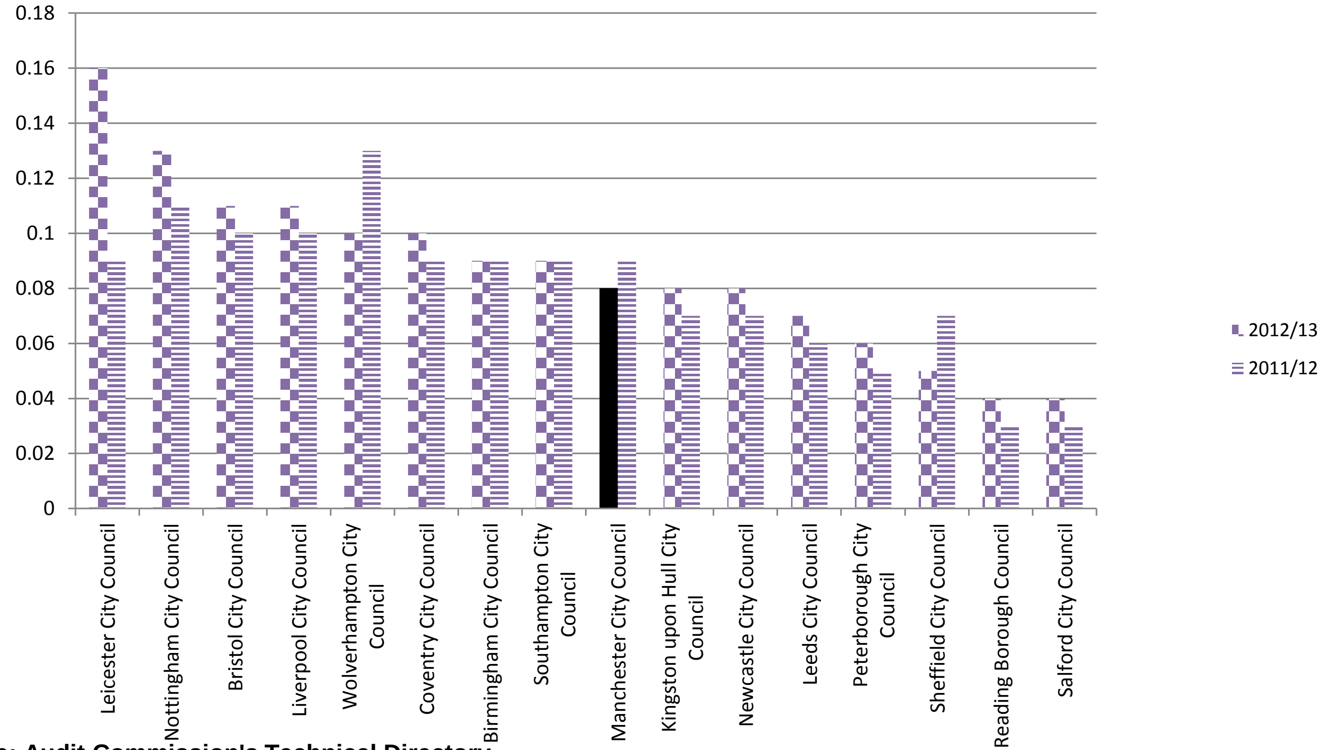
Definition

The chart below shows the ratio of schools balances in relation to the total DSG allocation received for the year. For example a ratio of 0.1 indicates that total schools balances equated to 10% of Dedicated Schools Grant for the year.

Findings

Manchester's ratio reduced from 9% to 8% between 2011-12 and 2012-13, and to 7% in 2013-14. This level of reserves is in line with the average for the benchmark group. The stability of this ratio indicates that funds are being spent on the education of the current cohort of pupils and not being held in reserves for future projects.

Ratio of schools balances to DSG allocations, by Council and financial year



Source: Audit Commission's Technical Directory

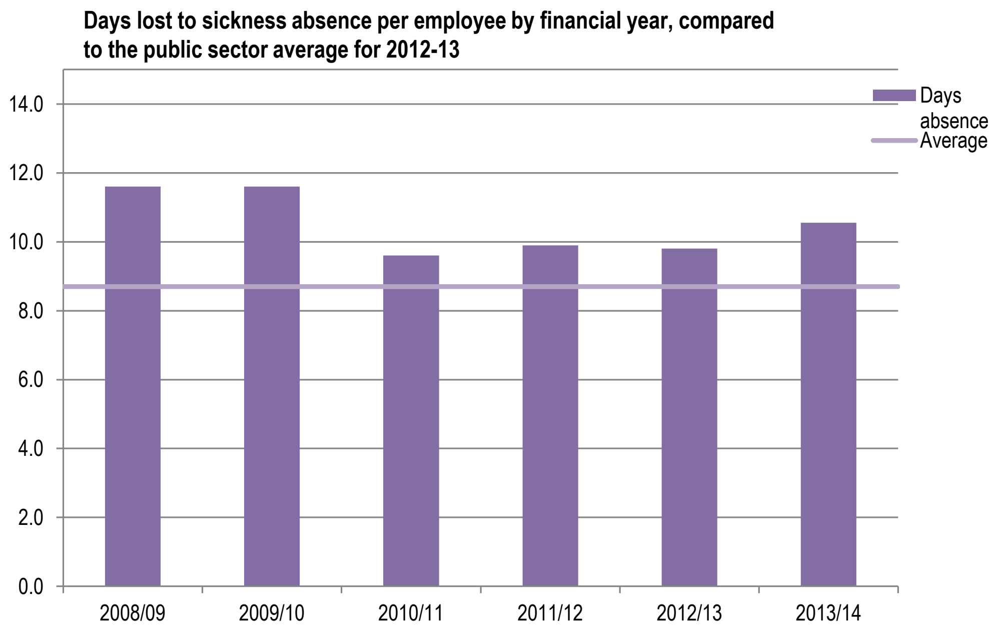
Key Indicators of Financial Performance

Sickness Absence Levels

Background

Many councils, including Manchester, have taken a proactive approach to reducing the number of days lost to sickness in recent years. The average sickness absence level for the public sector in 2012-13 was 8.7 days per FTE, whilst the private sector average was 7.2 days.

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



Findings

Manchester's sickness absence levels have reduced steadily over the past five years, from 13.1 days per employee in 2007-08 to 10.6 days per employee in 2013-14, a reduction of 19%, however the trend has reversed, and absence levels have increased slightly since 2011-12.

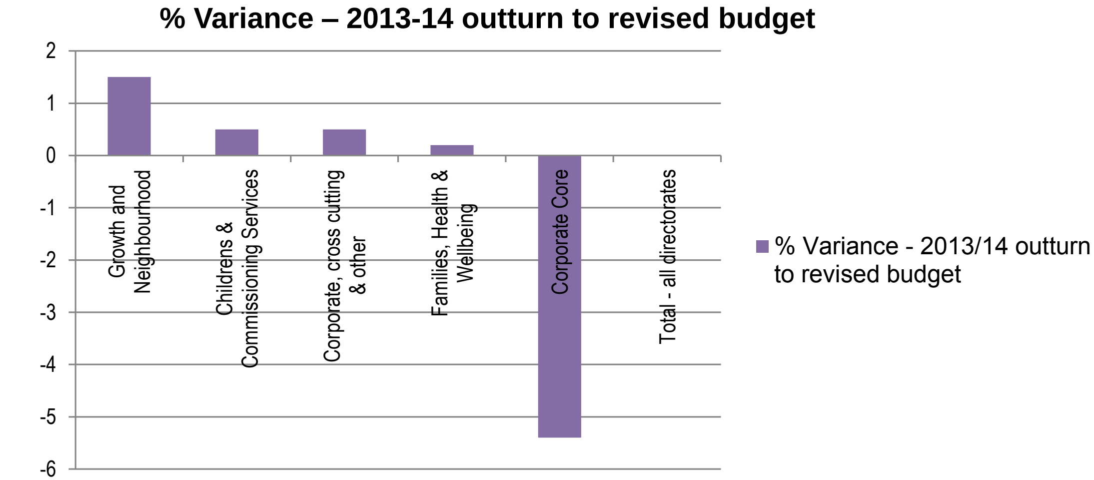
The Council's approach to the monitoring and management of sickness absence includes several aspects of good practice, including monitoring absences by directorate, duration and type, setting and monitoring triggers for management action, developing action plans related to medium and long-term stress related absence and providing managers with the support and skills they need to take early action to prevent short and medium term absence escalating into long-term absence.

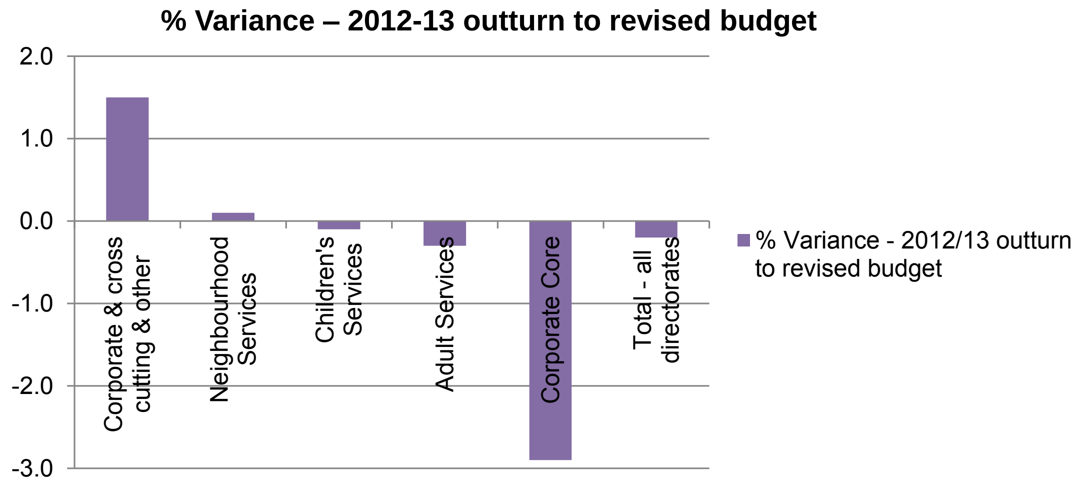
However, sickness absence levels at the Council remain higher than both the public and private sector averages.

Given the significant organisational changes that continue to take place, it will be important for the Council to maintain a robust approach to sickness absence monitoring and management to halt the current trend in sickness absence levels.

Key Indicators of Financial Performance

Performance Against Budget: Major Variances from Working Budget





The charts to the left summarise the Council's performance against its revenue budgets in the 2013-14 and 2012-13 financial years.

The charts illustrate that, as might be expected, in each year some directorates overspent against their revised budgets whilst other directorates underspent.

In both years the Council achieved slight underspends against its revised revenue budgets, an underspend of £0.2m in 2013-14 (against revised budget) and of £0.4m in 2012-13.

In the context of significantly reducing financial resources across the Council, a growing population and continuing demand pressures the fact that in both financial years all directorate level variances were 5.5% or less of revised budget is considered to be good performance.

The underspend on the 2013-14 Corporate Core budget reflects underspends on Legal Services, Democratic and Statutory Services and HR and Organisational Development, largely due to early achievement of future savings requirements.

We note that the Council has a good track record of performance against its revenue budgets over a number of years.

Source: Revenue Outturn Reports 2013-14 and 2012-13