



# The Annual Audit Letter for Manchester City Council

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**Year ended 31 March 2014**

27 October 2014

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## Contents

<b>Section</b>	<b>Page</b>
1. Key messages	3
2. Objection to the 2011/12 accounts	5
3. Value for Money Conclusion	6 - 10
<b>Appendices</b>	
A Key issues and recommendations	11 - 13
B Summary of reports and audit fees	14

## Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at Manchester City Council ('the Council') for the year ended 31 March 2014.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 20 March 2014 and was conducted in accordance with the Audit Commission's Code of Audit Practice (the 'Code'), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

<p><b>Financial statements audit (including audit opinion)</b></p>	<p>We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 22 September 2014 to the Audit Committee. The key messages from our financial statements audit were:</p> <ul style="list-style-type: none"> <li>• we provided an unqualified opinion on the Council's and the Group financial statements</li> <li>• a small number of adjustments and disclosure improvements were made following our audit, none of which affected the Council's financial position</li> <li>• we received good quality working papers from the Council's finance team, including valuation reports that allowed the Council to address the matters that gave rise to qualification of the opinion on the 2012/13 Group financial statements.</li> </ul> <p>We issued an unqualified opinion on the Council's and the Group 2013/14 financial statements on 30 September 2014, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.</p>
<p><b>Value for Money (VfM) conclusion</b></p>	<p>In September 2014 a report by the Office for Standards in Education, Children's Services and Skills (Ofsted), concluded that the overall arrangements for ensuring the effectiveness of Children's Services at the Council and the Local Safeguarding Board in the Manchester City Council area were judged to be inadequate. We comment further on the impact of the Ofsted report on our VfM conclusion on pages 7 - 9 of this report.</p> <p>On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, with the exception of the matter reported above, 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.</p> <p>We issued a qualified ('except for') VfM conclusion for 2013/14 on 30 September 2014.</p>

## Key messages

<b>Whole of Government Accounts</b>	We reviewed the consolidation pack which the Council prepared to support the production of Whole of Government Accounts. We reported that the Council's pack was consistent with the audited financial statements. The Council's draft consolidation pack was prepared to a good standard and the amendments made following our audit of the pack primarily reflected the amendments made to the Council's Group financial statements.
<b>Certification of grant claims and returns</b>	We certified four grant claims and returns relating to the 2012/13 financial year, none of which required amendment or qualification. To date we have certified one return for the 2013/14 financial year, with no audit amendment or qualification required. We will report in full on the findings of our 2013/14 certification work programme to the Council's Audit Committee, on completion of this work.
<b>Audit fee</b>	Our overall fee for audit and certification work for 2013/14 is anticipated to reduce compared to 2012/13, and will be confirmed on completion of our certification work. There has been a small movement between the certification and audit fees, and further detail is included within Appendix B.

## Objection to the audit of the Council's 2011/12 accounts

In last year's Annual Audit Letter we reported on an objection we had received to the Council's 2011/12 accounts, relating to the Council's taxi licensing charges, specifically:

- the advertisement of annual licence charges
- the Council's arrangements during 2011/12 for costing and charging for licences
- the level of licence fees charged by the Council.

We made a number of recommendations to the Council following the conclusion of our audit work on the objection, in a summary report to the Council's Audit Committee in September 2013.

We reported that our key conclusion regarding this objection was that the Council had put right, or had plans to address, many of the deficiencies identified through its own Internal Audit work and our external audit processes.

As part of our 2013/14 audit we have followed up on the implementation of our recommendations. We note that the Council established a Steering Group and a Project Group, including representatives of the Council's Licensing Unit, Legal Services, Finance and Internal Audit teams to address the recommendations contained within our report.

The Council's Licensing Unit has introduced a timesheet system that has provided the data underpinning the Council's revised licence costing model. We note that the Council advertised proposed taxi licence fees in August 2014, with fees based upon its revised costing model.

The Council's proposed fees for 2014/15 have been calculated taking into account accumulated surpluses held in the taxi licensing reserve. The Council considered comments received on the advertised fees at a meeting on 10 October 2014, and decided to implement the proposed fees.

The Council plans to revisit its fee costing model on an annual basis, taking into account actual surpluses or deficits arising in the prior year. The Council will continue to take into account relevant legal advice and Court judgements when proposing licence fees, to ensure compliance with guidance and the law.

The Licensing Committee plans to consider the Council's regulatory policies, and their impact on taxi licence fees, later in 2014.

We are satisfied that the Council has acted appropriately on the recommendations contained within our September 2013 report, although we do note that a period of 11 months elapsed between our report and the advertisement of revised licence fees based upon the Council's updated costing model. We commented previously, in our September 2013 report, on the pace of progress being somewhat slower than we would have expected. The Council should ensure matters are dealt with in a timely way, consulting and engaging interested parties as appropriate.

The Council will wish to ensure it keeps its licence fee costing model and regulatory policies under regular and timely review.

## Value for Money Conclusion

### Scope of work

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 a VfM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code:

#### **The Council has proper arrangements in place for securing financial resilience.**

Whether 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.

#### **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.**

Whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

#### **Securing financial resilience**

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- financial governance
- financial planning
- financial control.

Our overall conclusion was 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 target in 2013/14, 82% of the original target, and has delivered cumulative savings of £81m over two financial years.

The Council delivered an underspend on its revised 2013/14 budget of £0.2m, excluding 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.

#### **Challenging economy, efficiency and effectiveness**

As part of our work to assess whether the Council has proper arrangements in place for challenging how it secures economy, efficiency and effectiveness, we have taken into account:

- the September 2014 Ofsted report following inspection of services for children in need of help and protection, children looked after and care leavers and review of the effectiveness of the Local Safeguarding Children Board

## Value for Money Conclusion

and the Council's:

- preparations for the introduction of the Better Care Fund
- levels of, and arrangements to monitor and manage, sickness absence
- proposals to migrate its street lighting estate to LED technology
- Annual Governance Statement.

We comment on these assessments in the sections that follow.

### Ofsted inspection

In September 2014 a report by Ofsted concluded that the overall arrangements for ensuring the effectiveness of Children's Services at the Council and the Local Safeguarding Board in the Manchester City Council area were judged to be inadequate. Ofsted's conclusion followed a three week inspection process, conducted in June and July 2014. The focus of the inspection was on case tracking and the journey and experience of Manchester's children and young people from being identified as needing services to their receipt of services.

Ofsted delivered four key judgements, on a four point grading scale of 'outstanding', 'good', 'requires improvement' and 'inadequate'. These key judgements relate to:

Area of assessment	Ofsted assessment
1. The experiences and progress of children who need help and protection	Inadequate
2. The experiences and progress of children looked after and achieving permanence	Requires improvement
2.1 Adoption performance	Inadequate
2.2 Experiences and progress of care leavers	Requires improvement
3. Leadership, management and governance	Inadequate
4. The Local Safeguarding Children Board – the arrangements in place to evaluate the effectiveness of what is done by the Council and board partners to safeguard and promote the welfare of children	Inadequate

The inspection found no evidence of widespread or serious failings that left children harmed or children at risk; however, Ofsted concluded that children could potentially have been left at risk.

## Value for Money Conclusion

The inspection noted that:

- political support for children's services and looked after children is well evidenced
- all looked after children that were interviewed said they felt safe
- frontline staff, in particular social workers, generally do a difficult job well in challenging circumstances

but that:

- there are issues of timeliness in dealing with contacts and referrals, with little or no triaging of domestic abuse referrals
- a significant number of assessments of children in need were outside the 45 day standard
- social work caseloads are too high
- the turnover of social workers is too high
- children are waiting too long to be placed or adopted, and black and minority ethnic children wait longer
- the proportion of children not in employment, education or training ('NEET') is getting worse
- management oversight is not consistently robust
- change is implemented too slowly
- the Local Safeguarding Children Board is slow in responding to actions in serious case reviews, and there is insufficient partner engagement to drive changes required.

The Council is unequivocal in its acceptance of the Ofsted judgements, and the Council's commitment to an improvement programme was given to the Department for Education (DfE) at a meeting held on 8 September 2014.

The Council will be issued with a non-statutory Improvement Notice, containing a range of outcome driven targets, and DfE will undertake a full review after six months.

The Council took immediate action following headline feedback from Ofsted, received on 16 July 2014. In particular:

- a senior multi-agency Improvement Board was established, chaired by the Council's Chief Executive
- a sub-group of the Council's Executive has been established to oversee improvements
- a sub-group of the Council's Young People and Children Scrutiny Committee has been established, again to oversee improvements
- the backlog of assessments has been removed
- caseloads for social workers in North Manchester have been reduced, with plans being progressed for reductions in South and Central Manchester
- a new domestic abuse triage service is operational
- work is taking place to accelerate the matching of children to adopters; and
- good progress is being made towards introducing a multi-agency hub, with co-location of police, NHS and social care staff planned from December 2014.



## Value for Money Conclusion

The Council plans further actions, in particular:

- DfE's intervention includes the requirement for the Improvement Board to be independently chaired, and an independent Chair has now been appointed
- a leadership and management development programme for the Directorate of Children and Families is in development
- a new post of Deputy Director of Children and Family Services is being created to strengthen leadership and management arrangements
- further involvement of frontline staff in identifying and delivering improvements.

We note that the Council is taking Ofsted's report very seriously, and we will monitor the Council's progress in delivering required improvements as part of our 2014/15 audit.

### **Better Care Fund (BCF)**

We have considered the Council's preparations for the introduction of the Better Care Fund as part of our VfM audit work. We have been able to conclude that the Manchester area BCF Plan meets national conditions at a high level, for example in relation to the protection of social services, commitment to seven day service provision and data sharing based on NHS patient numbers. The Council has engaged effectively with its partners and there has been appropriate representation from stakeholders in developing plans. It will be important to keep risk management arrangements and management capacity under review to minimise the risk of failing to deliver on BCF performance metrics.

### **Sickness absence**

The Council has performed well in reducing sickness absence levels in recent years, and there are workforce plans in place to continue to improve performance. 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 Council's 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 recognise that the Council is working hard to achieve sustainable reductions in sickness absence rates, but note the average number of working days lost to sickness absence per employee remains higher than local government and private sector averages.

## Value for Money Conclusion

### LED Street Lighting

We have considered the Council's proposed migration to LED street lighting as part of our VfM work. We note that the Council is operating within a pre-existing PFI street lighting scheme, and at the time of writing the negotiation of a contract variation with the PFI operator has yet to take place. The Council has undertaken an initial option appraisal and its financial modelling indicates that significant revenue savings would accrue to the Council, through reduced electricity consumption, following migration to LED lighting.

The Council will undertake further appraisal and due diligence, prior to entering negotiations to vary the PFI contract and we will take this into account as part of our 2014/15 audit.

### Annual Governance Statement (AGS)

The Council has a robust process in place for preparing its AGS and this allows for senior officer and member scrutiny of the draft document at an early stage. We concluded that the AGS was consistent with our knowledge of the Council and met the requirements of the CIPFA/SOLACE "Delivering Good Governance in Local Government" framework.

### 2013/14 Value for Money conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, with the exception of the overall arrangements for ensuring the effectiveness of Children's Services at the Council and the Local Safeguarding Children Board in the Manchester City Council area, we were satisfied that, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

We therefore issued a qualified ('except for') VfM conclusion for 2013/14 on 30 September 2014. This is consistent with other authorities in a similar position regarding 'inadequate' Ofsted reports.

We have recommended that the Council monitors delivery of its improvement plan to secure improvements in children's services and we will monitor the Council's progress in delivering required improvements as part of our 2014/15 audit and take account of improvements achieved when considering our 2014/15 VfM conclusion.

## Appendix A: Key issues and recommendations

This appendix summarises the significant recommendations identified during the 2013/14 audit.

No	Issue and recommendation	Priority	Management response/ responsible office/ due date
1.	<p>The Council has unequivocally accepted Ofsted judgements following the inspection of children's services and has established an Improvement Board and prepared an improvement plan. Evidence of demonstrable improvement will be a key consideration in giving our 2014/15 VfM conclusion.</p> <p><b>Recommendation</b> The Council should monitor delivery of its improvement plan to secure improvements in children's services.</p>	High	<p>The Multi-agency Improvement Plan is embedded in the Council and wider partnership's programme for reform to reduce dependency and drive growth. This ensures that the actions taken to improve services to children are afforded the highest priority and benefit from senior corporate and political oversight to ensure change is effective and lasting.</p> <ul style="list-style-type: none"> <li>• Safely reducing demand for social work services including looking after children will improve the effectiveness and sustainability of our services.</li> <li>• Work is progressing with key partners on providing early help to prevent referrals to social work.</li> <li>• Work is progressing at pace on ensuring that referrals are subject to a multi-agency intelligence-led assessment of risk and a triage ( Multi-Agency Safeguarding Hub) to ensure children and families get the right assessment and the right coordinated support and services as early as possible.</li> <li>• Work is underway to commission the right interventions to safely prevent needs escalating and de-escalate needs.</li> <li>• The Fostering and Adoption Services are under review to put in place fundamental changes to ensure children are moved out of the care system to a safe and secure permanent placement as earlier as possible, with a specific focus on improving the numbers of children adopted and the timeliness of adoption.</li> <li>• The role and function of Social Work in safeguarding children and reducing dependency is under review to ensure that they are enabled to do highly effective and focused work with children and families, improving outcomes and job-satisfaction and improving retention and workforce stability.</li> </ul> <p>The Improvement Plan and actions are underpinned by work on developing a set of key enablers as follows:</p> <ul style="list-style-type: none"> <li>• Leadership of partners to play their full part in ensuring early help is available and children are safeguarded.</li> <li>• Front-line practitioners and managers from all agencies are directly involved in designing and implementing the changes and testing their effectiveness in practice.</li> <li>• Short-term financial investment to make immediate and tangible improvements followed by a detailed business case for investment to drive improvement and reduce dependency and costs.</li> <li>• Effective performance data to inform decision-making and the effectiveness of the Improvement Plan.</li> </ul> <p>Responsible officers: Chief Executive, Deputy Chief Executive (People), Director of Children and Family Services</p> <p>Due date: March 2015</p>

## Appendix A: Key issues and recommendations

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
2.	<p>Our review of indicators relating to the Council's workforce identified potential efficiencies that could be achieved by reducing levels of sickness absence to the public sector average.</p> <p><b>Recommendation:</b> The Council should continue its efforts to reduce the incidence of short, medium and long term sickness absence.</p>	Medium	<p>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:</p> <ul style="list-style-type: none"> <li>• enhancing the support provided to managers to manage absence cases</li> <li>• developing management understanding and capability in this area</li> <li>• improving the data available to support the organisation in understanding the issues</li> <li>• taking proactive measures to improve health and wellbeing</li> <li>• increasing the level of scrutiny and support provided to those areas of greatest concern</li> </ul> <p>This work will continue and, in particular, the following key actions will be progressed to support improvements:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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).</li> <li>• shaping of management behaviours to support increased ownership and accountability of management of attendance through compliance checks.</li> <li>• 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.</li> <li>• 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.</li> </ul> <p>Responsible office: Strategic Director (Reform)</p>

## Appendix A: Key issues and recommendations

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
3.	<p>The Council proposes to revisit its taxi licence fee costing model on an annual basis, taking into account actual surpluses or deficits arising in the prior year, its regulatory policies and revisions to guidance or the law.</p> <p><b>Recommendation:</b> The Council should ensure it keeps its taxi licence fee costing model, and regulatory policies under regular and timely review.</p>	Medium	<p>A model has been adopted for calculating fees having regard to relevant case law, a detailed assessment of the costs of the taxi licence service and the recommendations of Grant Thornton.</p> <p>The fees calculated for 2014/15 have been the subject of consultation and comments received were given due consideration. A decision has been formally made to introduce the fees by the appropriate persons in accordance with the Council's Constitution.</p> <p>The work carried out during the last 18 months to create the model will provide a sure foundation on which to base the annual review of the taxi licence fees and charges.</p> <p>The annual review will provide an opportunity to not only reassess the costs of the service and take into account further developments in case law but also provide a regular formal opportunity to engage with the views of interested parties.</p> <p>Responsible office: Deputy Chief Executive (Growth and Neighbourhoods)</p>

## Appendix B: Reports issued and fees

We confirm below the fee charged for the audit. We confirm there were no fees for the provision of non-audit services.

The Audit Commission agreed 2013/14 audit fee rebates directly with local government bodies. For the Council, the rebate amounted to £37,600 giving a net fee of £238,622. The fee quoted in the table below is the gross fee payable by the Council, before the Audit Commission rebate.

The 2013/14 grant certification fee will be confirmed on completion of this programme of work, and will be reported in our 2013/14 Grant Certification Report. A reduction on the estimated fee included in our Audit Plan is anticipated, following removal of the requirement for auditor certification of the Non-Domestic Rates Return 3. The audit fee for 2013/14 is £1,470 higher than reported in the Audit Plan, as additional audit work was required on the financial statements following removal of the requirement for auditor certification of the Non-Domestic Rates Return 3. Overall, the audit and certification fee, which remains to be approved by the Audit Commission, is anticipated to be lower than for the previous year.

### Fees

	Per Audit plan £	Actual fees £
Audit Fee	274,752	276,222
Grant certification fee	25,200	TBA
<b>Total fees</b>	<b>299,942</b>	<b>TBA</b>

### Fees for other services

Service	Fees £
None	Nil

### Reports issued

Report	Date issued
Audit Plan	20 March 2014
Audit Findings Report	22 September 2014
Certification report	To be completed
VfM – Financial Resilience Report	22 September 2014
Annual Audit Letter	27 October 2014



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