

Review of the Council's Arrangements for Securing Financial Resilience for Carlisle City Council

Year ended 31 March 2013

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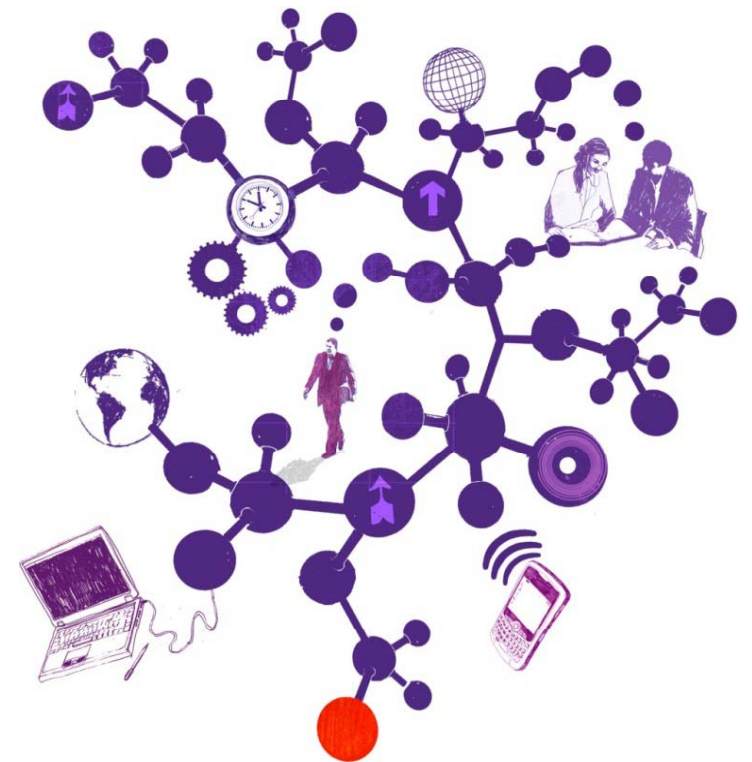
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to 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.

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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.

In so doing we have considered whether the Council has robust financial systems and processes in place to manage its financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. We have carried out our work in discussion and agreement with officers and completed it in such a way as to minimise disruption to them.

The definition of foreseeable future for the purposes of this financial resilience review is 12 months from the date of this report.

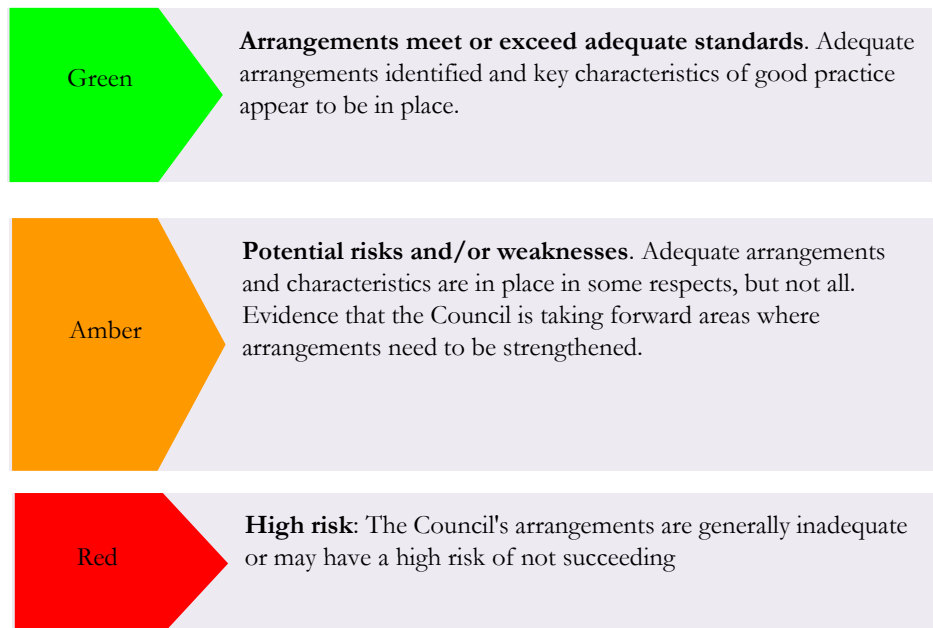
We have reviewed the financial resilience of the Council by looking at:

- Key indicators of financial performance;
- Its approach to strategic financial planning;
- Its approach to financial governance; and
- Its approach to financial control.

Overall we have assessed the Council as GREEN

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

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



Executive Summary

National and Local Context

National Context

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

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

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

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

Financial austerity is expected to continue until at least 2017.

Local Context

For Carlisle City Council the financial impact of the Comprehensive Spending Review (CSR) 2010 equated to a £3.011million reduction in central government support for the lifetime of the review (a 28% total reduction in the four year period). It is likely that the 2013 Spending Round, which announced a further 10% funding reduction, could cost the Council an additional £260,000 per annum from 2015/16. However, the Council's transformation programme has been successful in achieving savings and has given the Council a solid financial base to address the savings required from both Spending Reviews. The Council has developed a savings strategy which is reviewed on an annual basis targeting three key areas:

- asset review
- alternative service delivery models
- services which do not fall within core priorities or which are not statutory.

The reductions in central government funding has been a significant financial challenge for the Council. Savings have been spread over the next four years as a way of maintaining the Council's future financial health. However the temporary use of revenue reserves to cushion the funding cuts has been necessary, these falling below minimum levels in 2013/14 and 2014/15, before increasing again.

Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Key Indicators of Performance	- Carlisle's working capital ratio for 2011/12 was 2.65 which means that its above the preferred range of 2:1 whereas 3 of the comparable councils are now below the 2:1 ratio. - Carlisle's usable reserves were £5.086 million at the 31 March 2012 giving a ratio is 0.07 and is the lowest of its comparable councils, although it partly reflects the Council's decision to transfer its usable capital receipts to its Capital Adjustment Account. - The Council's General Fund balance at 31 March 2013 is £2.542 million which is just below its the Council set minimum level of £2.6 million. The Medium Term Financial Plan for 2013/14 to 2017/18 shows that the Council's General Fund balance will not reach its target level until the 31 March 2015. Members are well aware of this issue but the position should be closely monitored. - Carlisle's long term debt to tax revenue ratio of 1.06 for 2011/12 indicates that it has long term borrowing which slightly exceeds tax revenue. The increase to above 1.00 reflects the decreasing levels of central government funding and council tax freezes. Carlisle's long term borrowing represents approximately one tenth of its long term assets. - The Council sickness absence in 2012/13 totalled 9.1 full time equivalent (FTE) days compared with 11.1 days in 2011/12. This improvement has been as a result of a lean review of arrangements in early 2012 and the introduction of other initiatives such as an employee assistance programme. - The original capital budget for 2012/13 was £10.94 million and with carry forwards from 2011/12 added this increased to £12.63 million. Actual expenditure of £3.42 million against this represents only 27.1%. The Council needs to improve its profiling and delivery of its capital programme.	 Green
Strategic Financial Planning	- The Council's Medium Term Financial Plan (MTFP) for 2013/14 to 2017/18 was approved in September 2012 and updated in November 2012. When the revenue and capital budgets for 2013/14 were set in February 2013 there was also an updated Medium Term Financial Plan (MTFP) to 2017/18. - Key planning assumptions cover the main areas which impact on the Council's operations and an annual review of fees and charges has been undertaken by each directorate. - The MTFP 2013/14 to 2017/18 indicates savings of £1.27 million will be required between 2014/15 to 2016/17. - The Council is faced with the continuing challenge of finding further savings which will become increasingly difficult. It will be essential therefore to ensure that its savings plans are clearly communicated, link to specific policy decisions, and that the impact on service levels and quality is clearly identified and monitored.	 Green

Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Financial Governance	• The Senior Management Team (SMT) monitor the financial position on a monthly basis and any significant issues would be highlighted to the relevant portfolio holder. This allows early corrective action to be taken. On a quarterly basis the Executive formally considers the revenue and capital monitoring reports. • The quarterly revenue monitoring reports identify a number of high-risk budgets which required detailed monitoring throughout the year. The quarterly monitoring reports provided the financial position and narrative commentary on the individual high risk budgets. • Training is provided to improve both members and officers awareness and understanding of financial matters. For 2012/13 this has included training on budget setting and control, understanding financial statements and treasury management • The Audit Committee provides adequate challenge on financial governance matters. If they deem it necessary they will ask for further work on a particular issue i.e. asking officers to report back to them or internal audit to follow something up. • In year reporting of the revenue budget on shows year end forecast from Q3 onwards. Quarterly capital monitoring reports do not include year end projections. There is a need to improve year end forecasting for revenue and capital and ensure that these forecasts are included from Q2 onwards. • Public reporting on performance in 2012/13 has been limited to an assessment against five service standards but unclear how performance against Corporate Plan has been reported. Clear arrangements need to be in place to report performance against the Carlisle Plan 2013-2016.	 Green
Financial Control	• The Council has well established budget setting processes that encourage involvement and ownership from budget holders. Financial training is also provided to officers and members. The Council has a track record of managing within budget. • Internal Audit identified the need to improve contract monitoring arrangements for outsourced contracts. Action plans have been agreed and the Council now needs to ensure that the recommendations are implemented. • There is a clear process in place to produce the annual savings programme and progress against the plan is monitored through the Transformation Board. • Internal Audit concluded in its annual report that "the Authority's system of internal control is operating satisfactorily". • Appropriate risk management arrangements are in place.	 Green

Executive Summary

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Key Indicators of Performance	The Council's General Fund balance will not reach its target level of £2.6 million until the 31 March 2015. Members are well aware of this issue but the position should be closely monitored.	Director of Resources	On-going	Use of revenue reserves will continue to be monitored via the quarterly monitoring reports; however half yearly MTFP reports providing details of revenue reserves will be introduced.
	The Council needs to improve its profiling and delivery of its capital programme. Consideration should be given to how progress is reported and the potential impact of delays on service delivery.	Director of Resources	2014/15 budget process	The Corporate Programme Board will continue to monitor significant Council projects; however use of earmarked provisions for potential capital projects will be developed during the annual budget processes.
Financial Governance	Improve year end forecasting for revenue and capital and ensure that these forecasts are included from Quarter 2.	Financial Services & HR Manager	2013/14 Quarter 3	To form part of future Quarter 2 reports. The revised FS structure will facilitate improved budget monitoring with year end forecasts being provided in conjunction with Directors.
	Public reporting on performance in 2012/13 has been limited to an assessment against five service standards but it is unclear how performance against the Corporate Plan is reported. Clear arrangements need to be in place to report performance against the Carlisle Plan 2013-2016.	Chief Executive	1 April 2013	Improvements have been implemented for monitoring performance against the 2013/14 Carlisle Plan.
Financial Control	Internal Audit identified the need to improve contract monitoring arrangements for outsourced contracts. Action plans have been agreed and the Council now needs to ensure that the recommendations are implemented.	Senior Management Team (SMT)	January 2014	Revised staffing structures will facilitate this improvement with responsibilities for the monitoring of outsourced contracts being identified within job descriptions. An internal audit follow up report and regularly reporting of progress through Corporate Governance action plan will provide the necessary assurances.

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Appendix - Key indicators of financial performance

Key Indicators

Introduction

This section of the report includes analysis of key indicators of financial performance, benchmarked where this data is available. These indicators include:

- Working capital ratio
- Long term borrowing to tax revenue
- Long term borrowing to long term assets
- Sickness absence levels
- Out-turn against budget
- Useable Reserves: Gross Revenue Expenditure

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

St Edmundsbury Borough Council
Boston Borough Council
Fenland District Council
Mansfield District Council
Copeland Borough Council
North West Leicestershire District Council
Wyre Forest District Council
Amber Valley Borough Council
East Staffordshire Borough Council
Worcester City Council
North Warwickshire Borough Council
Newcastle Under Lyme Borough Council
Chesterfield Borough Council
Newark and Sherwood District Council
Bassetlaw District Council

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Liquidity	- Carlisle's working capital ratio for 2011/12 was 2.65 which means that its above the preferred range of 2:1 whereas 3 of the comparable councils are now below the 2:1 ratio. - Based on the 2012/13 unaudited accounts the working capital ratio increases to 3.18 as a result of reducing short term creditors and overdrawn cash balance. The Council has also managed to significantly reduce debtors at 31 March 2013 whilst increasing the level of cash available to invest at 31 March 2013. - The Council's working capital ratio has fluctuated over the last five years from 3.66 in 2007/08, rising to a high of 5.01 in 2008/09 and then falling to its lowest level of 2.25 in 2010/11 before starting to increase again. This fluctuating trend is consistent with most of the comparable councils. The working capital ratio reduction from a 2008/09 high has been a consequence of a significant reduction in investment balances and debtors as cash has been used to support the capital programme whilst creditor levels increased significantly in 2009/10. - The Council's collection performance during 2012/13 of 97.78% for Council Tax and 98.58% for National Domestic Rates shows an improving position when compared with performance in 2011/12 of 97.61% and 97.78% respectively.	 Green
Reserve Balances	- Carlisle's usable reserves were £5.086 million at the 31 March 2012 giving a ratio is 0.07 and is the lowest of its comparable councils. Based on the 2012/13 unaudited accounts the usable reserves ratio remains at this level at 31 March 2013. - The Council's usable reserves ratio has reduced each year from 0.14 in 2008/09 to 0.07 in 2011/12. There is no clear trend in the comparable councils with some councils increasing usable reserves (as a percentage of gross expenditure) and others decreasing reserve levels. Carlisle's reducing trend is consistent with 8 out of 15 comparable councils. - This Council's usable reserves have reduced in recent years with specific use being made of general fund reserves (£0.96 million) and earmarked reserves (reducing by £5.46 million). - Usable reserves includes usable capital receipts (UCRs) but Carlisle's UCRs is zero as the Council transferred any remaining UCRs to the Capital Adjustment Account (CAA) to minimise the revenue impact of the statutory provision for the repayment of debt. The amount of UCRs in the CAA was £6.20 million at 31 March 2012. Had this been in the UCR reserve the usable reserve would have increased from 0.07 to 0.15 making it sixth lowest of the comparable councils. - The Council 's revenue reserves as a percentage of the next year's net budget requirement are 38.2%. - The Council's General Fund balance at 31 March 2013 is £2.542 million which is just below the Council's approved minimum level of £2.6 million. The Medium Term Financial Plan for 2013/14 to 2017/18 shows that the Council's General Fund balance will not reach its target level until the 31 March 2015. Members are well aware of this issue but the position should be closely monitored.	 Amber

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Borrowing	- Carlisle's ratio of 1.06 for 2011/12 indicates that it has long term borrowing which slightly exceeds tax revenue. Carlisle is seventh lowest in the comparable group with six of the group having a ratio of 5.69 or over. Based on the 2012/13 unaudited accounts the long term borrowing ratio is 1.11 at 31 March 2013. - The Council's long term borrowing ratio was 0.94 in 2007/08, reducing to a low of 0.86 in 2010/11 before rising to 1.06 in 2011/12. The increase to above 1.00 reflects the decreasing levels of central government funding and council tax freezes. The trend in the comparable group is a deteriorating position in terms of long term debt as a percentage of tax revenue with only one council showing an improving position between 2007/08 and 2011/12. - Carlisle's ratio of 0.09 for 2011/12 shows that the Council's long term borrowing represents approximately one tenth of its long term assets - i.e. long term borrowing does not exceed its long term assets. Based on the 2012/13 unaudited accounts the Council's long term borrowing to long term assets ratio is 0.10 at 31 March 2013. - The Council's long tem borrowing as a share of long term assets has reduced only slightly from 0.10 in 2007/08 to 0.09 in 2011/12. As debt levels have remain constant the reduction related to the increasing value of the Council's long term assets, most notably the recognition of £16.1 million of heritage assets and increases of £8.63 million in investment properties. The trend in the comparable group is a deteriorating position in terms of long term debt as a percentage of long term assets with only two councils showing an improving position between 2007/08 and 2011/12. - The Council's long term debt relates to a £15 million stock issue in 1995 for 25 years at 8.75%. The Council periodically reviews this arrangement but with interest rates currently 0.5% the early redemption premium that would need to be paid means that redeeming this loan is not currently viable. - Target Minimum Level of Investments Classified as Specified was 50% but actual level at 31 March 2013 was 89%. This simply reflects the fact the Council has been investing its money for periods of under a year and not placing money with building societies that do not possess an appropriate credit rating.	 Green

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Workforce	- The Council's Transformation programme is continuing. Staffing cuts have reduced the Council's employee pay bill from £18.26 million in 2011-12, to £17.55 million in 2012-13, a reduction of £0.71 million. - The Council set itself a target for sickness absence of 10 days per full time equivalent (FTE) in 2012-13. Actual sickness absence totalled 9.1 days compared with 11.1 days in 2011/12. This improvement has been as a result of a lean review of arrangements in early 2012 and the introduction of other initiatives such as an employee assistance programme. This was in response to an increasing trend from 2010/11 onwards, partly as a result of the introduction of the revenue and benefits shared service. - Sickness absence is monitored monthly with quarterly reporting to the Senior Management Team (SMT) and the Council's Resources Overview and Scrutiny panel.	 Green
Performance Against Budgets: revenue & capital	- The overall revenue outturn, prior to any carry forwards, for 2012/13 was an underspend of £1.02 million against a revised budget of £14.58 million. In cash terms, the directorate with the best performance was Local Environment with an underspend of only £648 (-0.01%). Whereas the largest underspend in cash terms was the Resources directorate of £0.72 million (-23.96%) of which £0.63 million related to corporate issues. The main reasons for the overall revenue underspending related to savings on shared service pension costs (£0.17 million), greater than expected savings from staff turnover and pay awards (£0.65 million) and additional income from the Lanes (£0.1 million). - The overall capital outturn, prior to any carry forwards, for 2012/13 was an underspend of £3.42 million against a revised budget of £7.98 million. This represents an underspend of 42.9%. The main reason for this underspend were that no asset acquisition opportunities were identified in line with the asset management plan (£1.56 million), delays in vehicle replacement plan (£0.31 million), families accommodation replacement to be completed in spring 2013 (£0.61 million), planning delays on Castle Way cycle ramp (0.35 million) and revisions to the work on Old Town Hall meaning they were not completed until June 2013 (£0.3 million). - The original capital programme shows a worse position. The original capital budget for 2012/13 was £10.94 million and with carry forwards from 2011/12 added this increased to £12.63 million. Therefore actual expenditure of £3.42 million against this represents only 27.1%. The main budget reductions were re-profiling of asset acquisitions to future years (£3 million) and removal of environmental enhancement work (£1.79 million). The Council needs to improve its profiling and delivery of its capital programme. Consideration should also be given as to how the capital programme is reported, including an assessment of the impact of delays in the capital programme on service standards.	 Amber

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Appendix - Key indicators of financial performance

Strategic Financial Planning

Key characteristics of good strategic financial planning

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

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

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Focus of the MTFP	- The Council's Medium Term Financial Plan (MTFP) for 2013/14 to 2017/18 was approved in September 2012. An update to the MTFP was considered by the Executive in November 2012. When the revenue and capital budgets for 2013/14 were set in February 2013 there was also an updated Medium Term Financial Plan (MTFP) to 2017/18. - The MTFP includes high level sensitivity analysis, looking at a 1% change in costs or benefits and 1% change in population. Consideration is given to New Homes Bonus Grant and the effect of the localisation of Council tax benefit and business rates. The MTFP also adequately considers reductions in Government funding, shortfalls in income streams and the effect of its own revised Transformation targets.	 Green
Adequacy of planning assumptions	- The key planning assumptions included with the MTFP are split between external and internal factors. The external factors considered included the impact of the recession, inflation and government policy. The internal factors included consideration of general inflation, pay inflation, income generation and how the Council's asset base will help deliver strategic priorities. - The Council continued its annual review of fees and charges in each directorate. The Council's Corporate Charging Policy, which is part of the Strategic Financial Framework, was approved by the Executive and Full Council in September 2012 and sets out one of the key objectives of setting the charges is to recovering the cost of service provision. - The MTFP 2013/14 to 2017/18 indicates savings of £1.27 million will be required between 2014/15 to 2016/17. - The Council reviews the assumptions within its medium term plans as new information becomes available to mitigate against uncertainties in the level of future funding to be received from Government and the impact on savings required. However, given the current inherent uncertainties in the level of future funding to be received from Government and impact on savings required, this has been assessed as amber.	 Amber
Scope of the MTFP and links to annual planning	The MTFP shows the links between the Council's policy and budget frameworks. These then feed into Directorate Service Plans which provide a link between the resources used to deliver services and the delivery of agreed outputs. Service Plans are inextricably linked to each Directorate's budget. The MTFP also links to the Capital Strategy, Asset Management Plan, Procurement and Commissioning Strategy and the Organisational Development Plan.	 Green
Review processes	The MTFP is produced in September each year which means that it can reflect the true General Fund balance and earmarked reserves position from the previous year's accounts. The MTFP projections are then updated in the following February as part of the budget setting process. More frequent updates to the MTFP have been undertaken over the last couple of years to reflect the changing funding environment with an updated MTFP presented to the Executive in November 2012.	 Green
Responsiveness of the Plan	The Council has demonstrated that it has a process in place to update the MTFP and that it is willing to undertake more frequent updates as required. The arrangements for monitoring savings means that progress can be assessed as part of the updating of the MTFP. Scenario planning looking at changes of 1% of costs, benefits or population is useful in assessing impact. The MTFP includes a risk assessment and mitigation used to reduce the risk level.	 Green

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Financial Governance

Key characteristics of effective financial governance

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

Understanding

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

Engagement

- There is engagement with stakeholders including budget consultations.

Monitoring and review

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

Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
Understanding the Financial Environment	- The Senior Management Team (SMT) monitor the financial position on a monthly basis and any significant issues would be highlighted to the relevant portfolio holder. - On a quarterly basis the Executive formally considers the revenue and capital monitoring reports. - Training is provided to improve both members and officers awareness and understanding of financial matters. For 2012/13 this has included training on budget setting and control, understanding financial statements and treasury management.	 Green
Executive and Member Engagement	- The level of senior management and member level engagement in the financial management process remains appropriate. - In terms of consultation on the annual budget the Council consults with the trade unions and the large affinity group (large locally based firms). - The Audit Committee provides adequate challenge on financial governance matters. If they deem it necessary they will ask for further work on a particular issue i.e. asking officers to report back to them or internal audit to follow something up.	 Green
Overview for controls over key cost categories	- The quarterly revenue monitoring reports identified a number of high-risk budgets which required detailed monitoring throughout the year. - In addition to the position to date the quarterly monitoring reports also provided narrative commentary on the individual high risk budgets.	 Green
Budget reporting: revenue and capital	- In year reporting of revenue only included a forecasted outturn in Q3 and this suggested a year end overspend of £0.292 million which turned out to be an underspend of £1.02 million, reducing to an underspend of £0.325 million after committed carry forward. SMT were tasked after Q3 with closing the gap on the projected year end deficit. This included a moratorium on other than essential spending and taking a rigorous attitude to requests for carry forwards. - Although the capital budget is adjusted during the year the quarterly capital monitoring reports only show spend to date but no year end projection. The Q3 report showed £4.73 million of the capital budget to be spent in the last quarter. However, only £1.20 million spent (25% of expected spend in Q4). Some of this difference of £3.53 million related to not making asset purchases as nothing available that was appropriate (£1.55 million) but much of the rest related to delays in projects.	 Amber
Adequacy of other Committee/ Executive Reporting	- The Council has satisfactory reporting arrangements for reporting financial information to the Council, Executive and other committees. Financial reports are now trying to include better links to performance. - Directorate performance is reported to SMT on a monthly basis and any significant performance issues would be reported to full Council through the Portfolio holder reports. However, public reporting of performance has been limited to achievement against five service standards with no obvious public reporting of performance against corporate objectives in 2012/13.	 Amber

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Financial Control

Key characteristics of effective financial control

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

Budget setting and budget monitoring

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

Savings Plans

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

Financial Systems

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

Finance Department

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

Internal Control

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

Financial Control

Internal arrangements

Area of focus	Summary observations	Assessment
Budget setting and monitoring - revenue and capital	- The Council has well established budget setting processes that encourage involvement and ownership from budget holders. Financial training is also provided to officers and members. The Council has a track record in managing within budget. - Budget monitoring reports are discussed at SMT on a monthly basis with formal reporting of the financial position in terms of revenue, capital and treasury management on a quarterly basis to the Executive. - Monitoring arrangements are timely and capable of identifying areas requiring corrective action. - The overall revenue outturn, prior to any carry forwards, for 2012/13 was an underspend of £1.02 million against a revised budget of £14.58 million. The overall capital outturn, prior to any carry forwards, for 2012/13 was an underspend of £3.42 million against a revised budget of £7.98 million. This represents an underspend of 42.9%. The need to improve year end forecasting has already been identified. - During 2012/13 Internal Audit identified the need to improve contract monitoring arrangements for outsourced contract. Action plans have been agreed and the Council now needs to ensure that the recommendations are implemented.	 Amber
Performance against Savings Plans	- There is a clear process in place to produce the annual savings programme and progress against the plan is monitored through the Transformation Board. - The MTFP required savings of £1.38 million in 2012/13. The initial process was to deliver 10% savings across all Directorates with suggestions from directorate management teams. The new Administration, elected in May 2012, made changes to the proposals to minimise redundancies. The savings programme was re-scheduled for implementation between October 2012 and early 2013/14. Savings of £0.96 million were achieved with the rest to be delivered in 2013/14.	 Green
Key Financial Accounting Systems	- As part of Internal Audit's plan for 2012/13 it identified twelve systems and processes which were regarded as material to the Council's financial management and production of the Council's financial statements. - Of the twelve material systems 5 were given 'Substantial assurance' and 7 assessed as 'Reasonable assurance'. - Our work and that of Internal Audit has confirmed that the Council's financial system are capable of producing accurate and reliable information. - Internal Audit concluded in its annual report that "the Authority's system of internal control is operating satisfactorily".	 Green

Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
Finance Department Resourcing	• The Director of Resources has corporate responsibility for the finance function. He is supported by the Financial Services and HR Manager who is responsible for the day to day management of the finance function. Senior staff in the finance function are CIPFA qualified.. • The Finance function is responsible for financial planning, budget consultation and monitoring, producing the financial statements, treasury management, insurance, creditor payments, financial information systems, procurement and monitoring and reporting on partnerships and the efficiency agenda. • The Council has a track record in recent years of delivering good quality accounts and identifying requirements and resources early on in the process. In previous years this included bringing in additional technical accountancy resources to support the implementation of International Financial Reporting Standards (IFRS) • Overall assessment is that the Council's finance function is well resourced with experienced and capable staff.	 Green
Internal audit arrangements	• The Council has adequate arrangements in place. The Internal audit function is provided by a shared internal audit consortium hosted by Cumbria County Council and of which Carlisle CC is a partner. • The internal audit consortium is substantially compliant with the CIPFA Code of Practice, per its self assessment . The area for improvement was updating the local audit manual and revising it for the wider shared Internal Audit service. • The audit plan for 2012/13 was for 540 days but 559 days were delivered, the 19 days purchased to support unplanned work. • A total of 40 audits were originally planned , although only 27 delivered in 2012/13 with a further 4 in progress. Of the remaining 9 audits 1 was cancelled and the rest deferred into 2013/14 at the request of management and to reflect the need for Internal Audit to undertake 3 pieces of unplanned work. The deferred reviews have been built into the 2013/14 audit plan. • Process in place to follow up implementation of Internal Audit recommendations and report any where no action taken to implement an agreed recommendation. Internal Audit reported no instances where agreed recommendations were not being implemented in 2012/13.	 Green

Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
External audit arrangements	• There were 6 recommendations made in the 2011/12 Annual Governance Report (ISA260 report). • The key ones related to ensuring cash and cash equivalents are shown as a separate asset and liability in the balance sheet when there is no legal right of set off, giving greater consideration to the validity of large reconciling items in the bank reconciliation and ensuring the Council minimised the need to take out short term loans to cover short falls in cash flow and to meet its commitments. • Management reported progress on implementing the recommendation in the 2011/12 Annual Governance report to the Audit Committee on 11 January 2013. This showed that action had been taken on all the recommendations. Our assessment of progress will be reported in our Audit Findings Report (ISA260 report).	 Green
Assurance framework/risk management	• The Council has a Risk Management policy and strategy in place. • There is a portfolio holder responsible for risk management. • There is an officer based Corporate Risk Management Group who are responsible for risk management within the Council. They and the Senior Management Team (SMT) review the Corporate Risk register which is then considered quarterly by the Executive and the Resources Overview and Scrutiny Panel. It is also presented to the Audit Committee to assure them that risk management arrangements are in place. • The Corporate Risk Register assesses each risk against likelihood and impact and gives this a score. It also shows the score from previous assessments. There is a current action status / control strategy and a target date and target risk score. Individual risks are allocated to an officer and portfolio holder. • Directorate risk registers are also maintained.	 Green

1 Executive Summary

2 Key Indicators

3 Strategic Financial Planning

4 Financial Governance

5 Financial Control

Appendix - Key indicators of financial performance

Key Indicators of Financial Performance

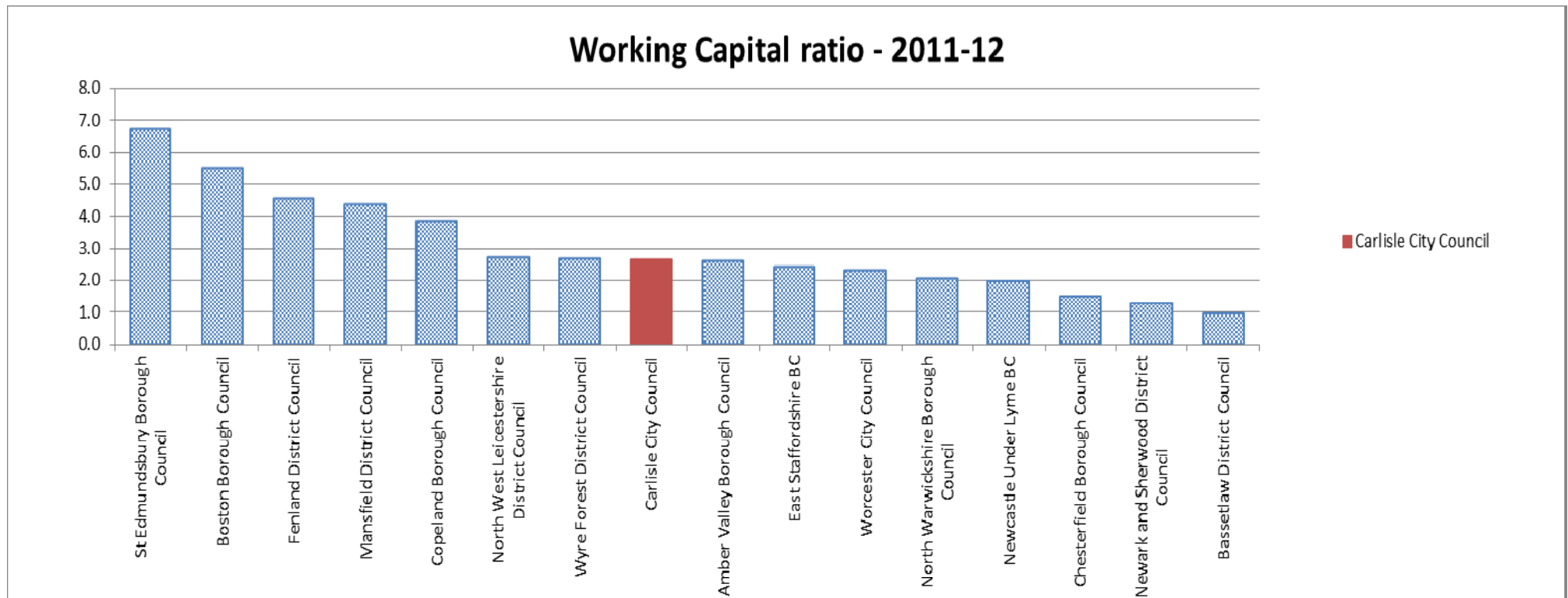
Working Capital - Benchmarked

Definition

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

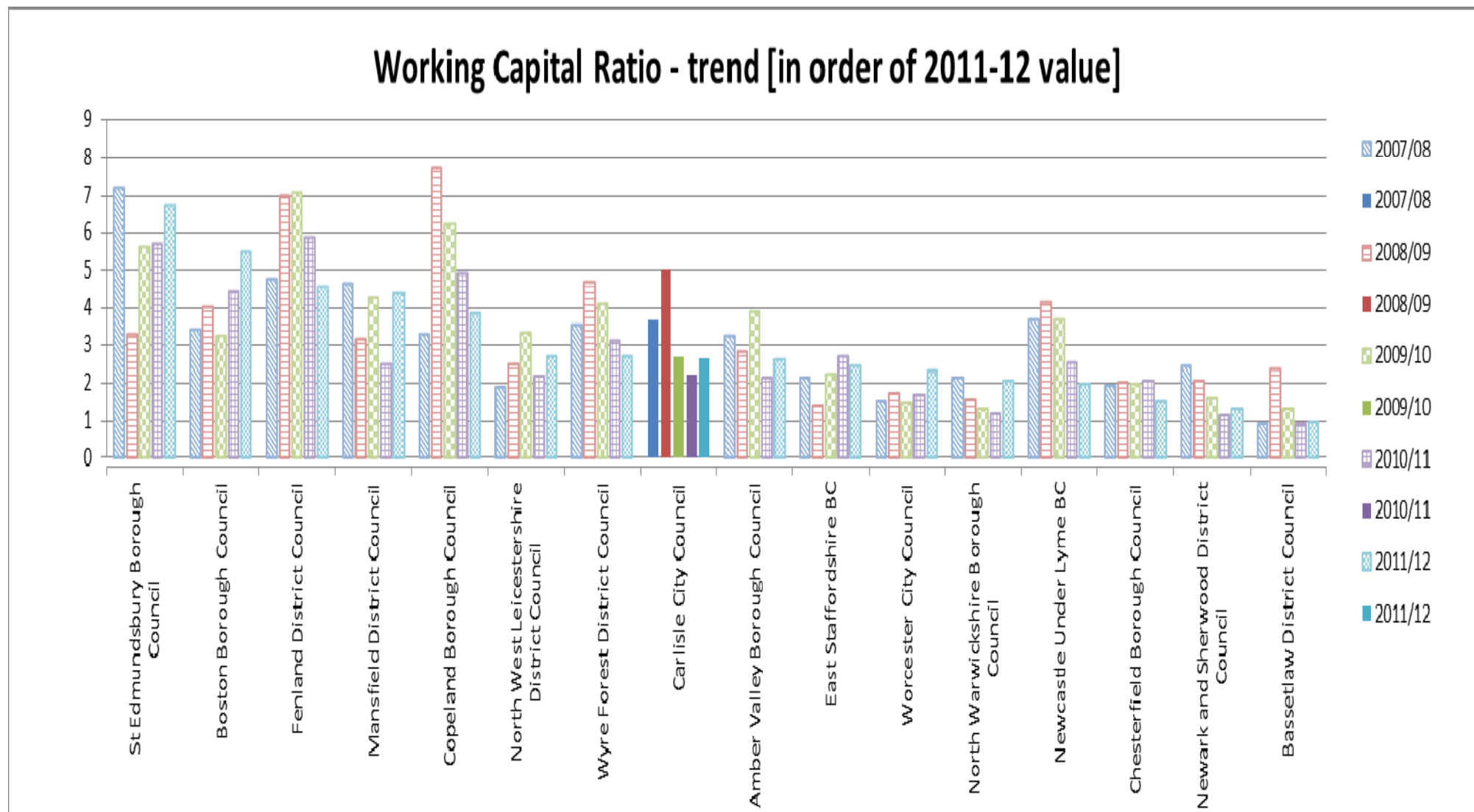
Findings

Carlisle's working capital ratio for 2011/12 was 2.65 which means that its above the preferred range of 2:1.



Key Indicators of Financial Performance

Working Capital - Trend



Key Indicators of Financial Performance

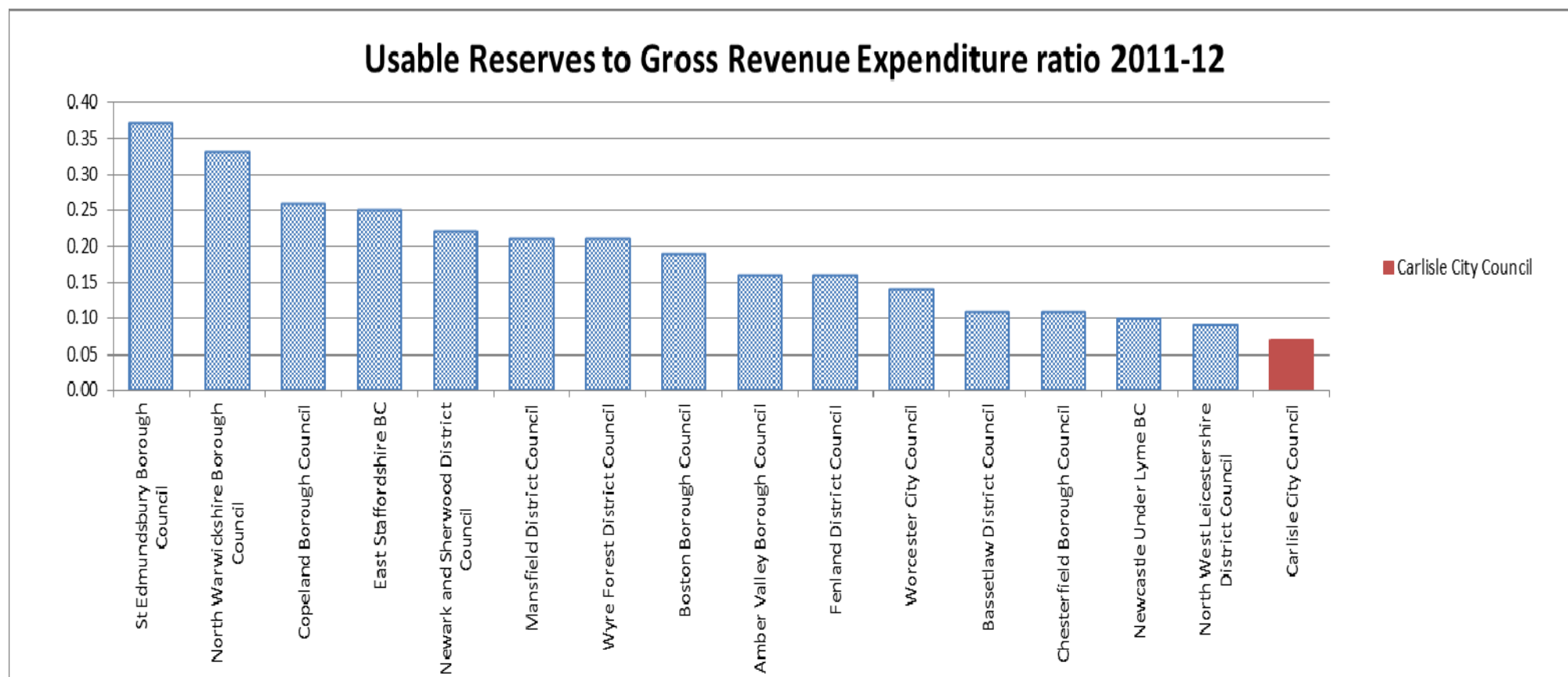
Useable Reserves - Benchmarked

Definition

This shows useable capital and revenue reserves as a share of expenditure. A ratio of one means the total reserves matches the level of expenditure.

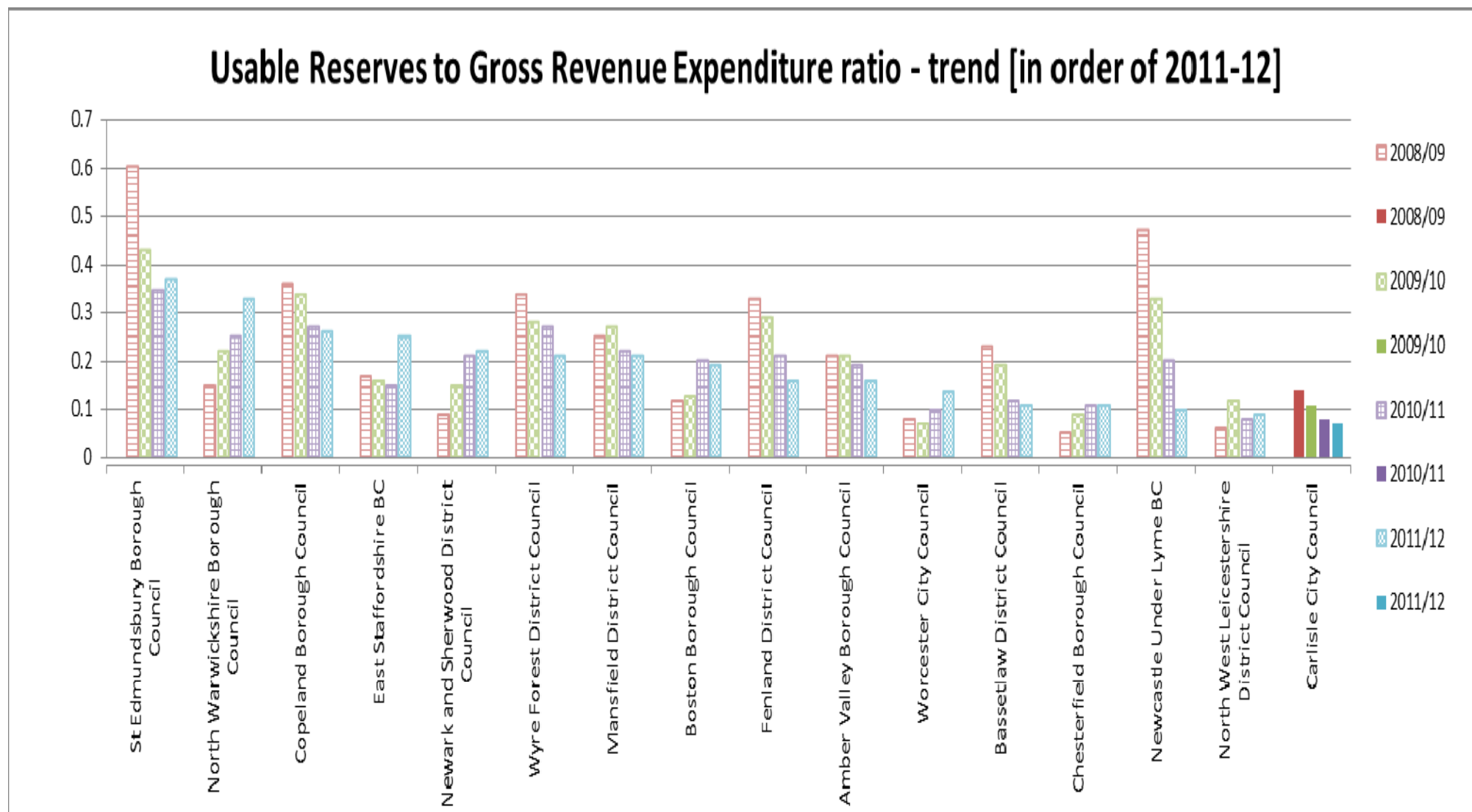
Findings

Carlisle's usable reserves ratio is 0.07 and is the lowest of its comparable council. Based on the 2012/13 unaudited accounts the usable reserves ratio remains at this level at 31 March 2013.



Key Indicators of Financial Performance

Useable Reserves - Trend



Key Indicators of Financial Performance

Long Term Borrowing to Tax Revenue - Benchmarked

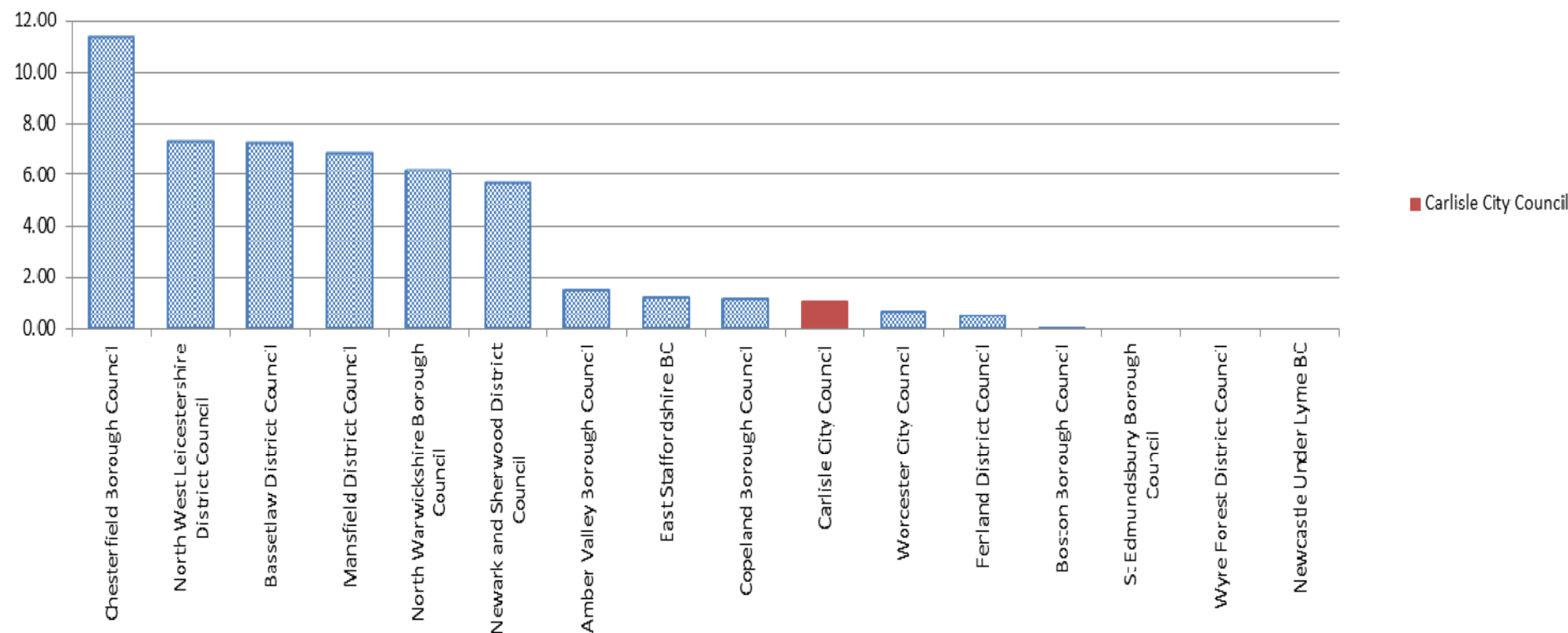
Definition

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

Findings

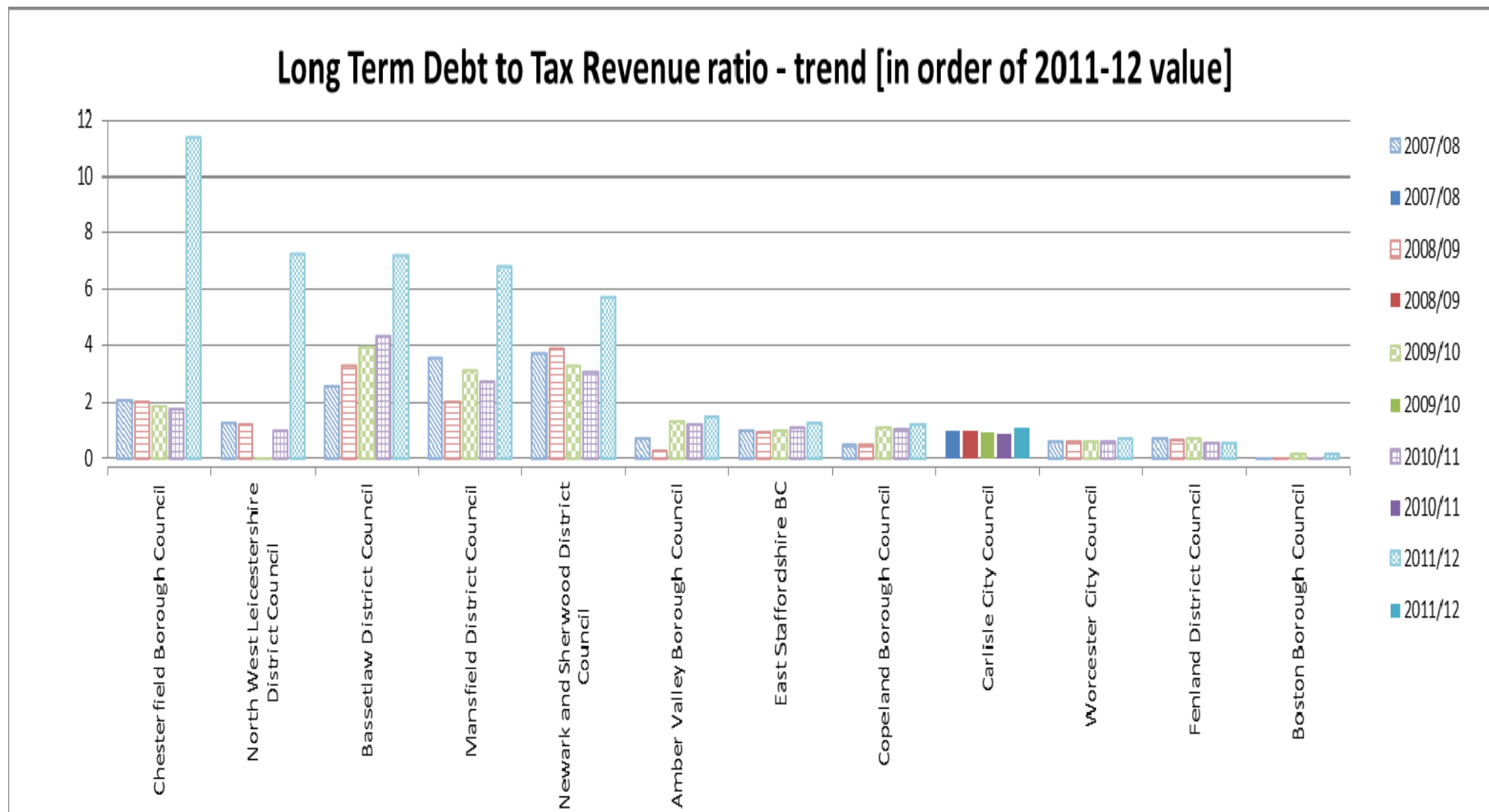
Carlisle's ratio of 1.06 indicates that it has long term borrowing which slightly exceeds tax revenue. Carlisle is seventh lowest in the comparable group with six of the group having a ratio of 5.69 or over.

Long Term Debt to Tax Revenue ratio 2011-12



Key Indicators of Financial Performance

Long Term Borrowing to Tax Revenue - Trend



Key Indicators of Financial Performance

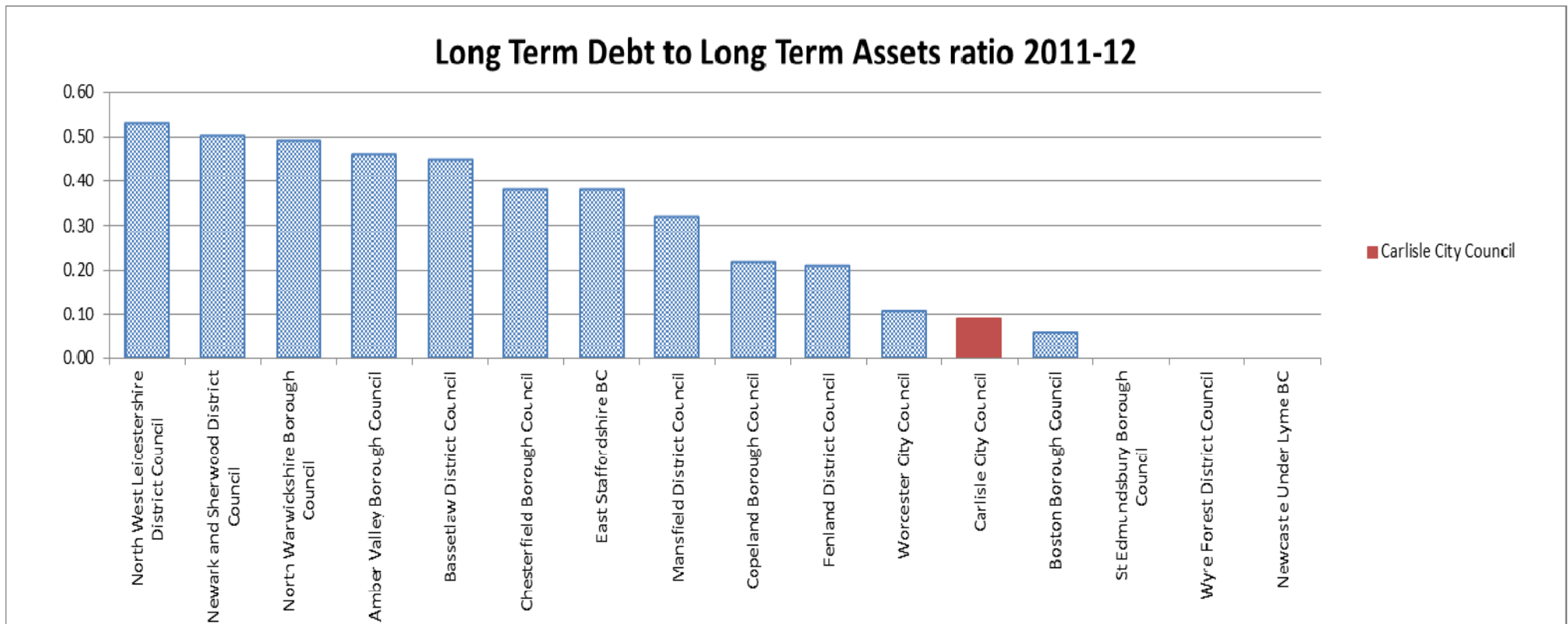
Long-term borrowing to Long-term assets - Benchmarked

Definition

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

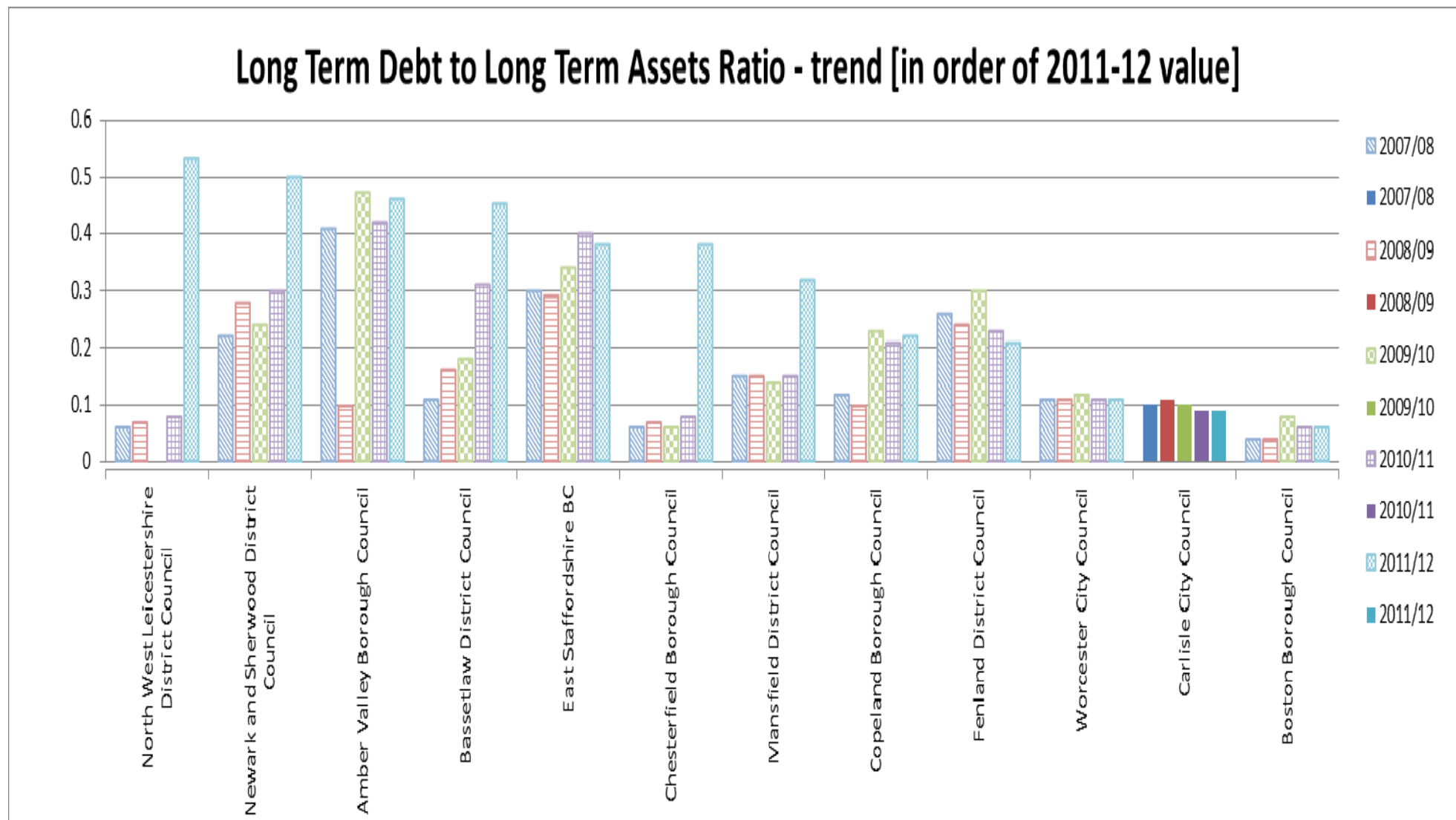
Findings

Carlisle's ratio of 0.09 shows that the Council's long term borrowing represents approximately one tenth of its long term assets - i.e. long term borrowing does not exceed its long term assets. Carlisle is fifth lowest in the comparable group.



Key Indicators of Financial Performance

Long Term Borrowing to Long-term assets - Trend



Key Indicators of Financial Performance

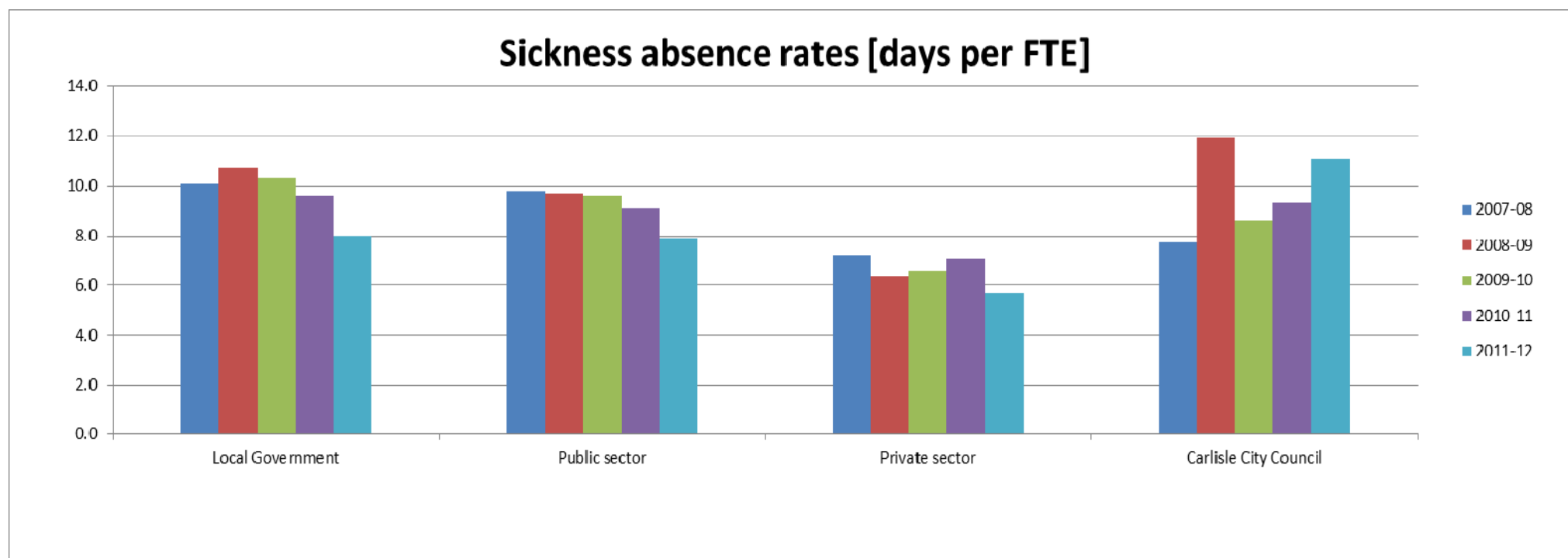
Sickness Absence Levels

Background

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

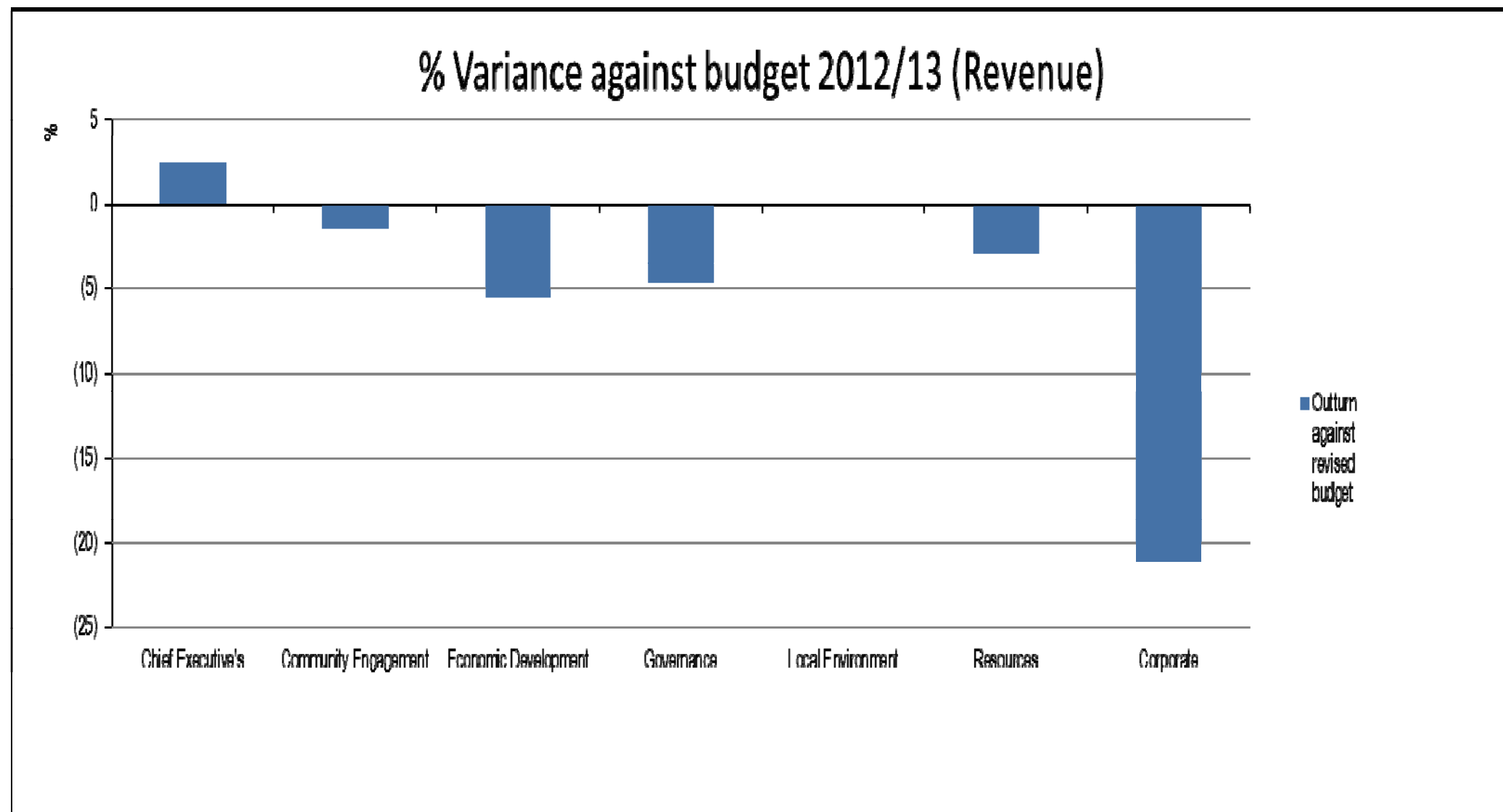
Findings

Carlisle's sickness absence levels have fluctuated over the past five years. It was 7.76 days per FTE in 2007/08 but increased at a high of 11.92 days in 2008/09 (an increase of 53.6%). The position improved in 2009/10 with a reduction to 8.6 days but an increasing trend returned in 2010/11 (9.3 days) and 2011/12 (11.1 days). The Council's absence level during 2011/12 of 11.1 days per FTE was above the Council's target of 8.4 days and the national local government average of 8.0 days.



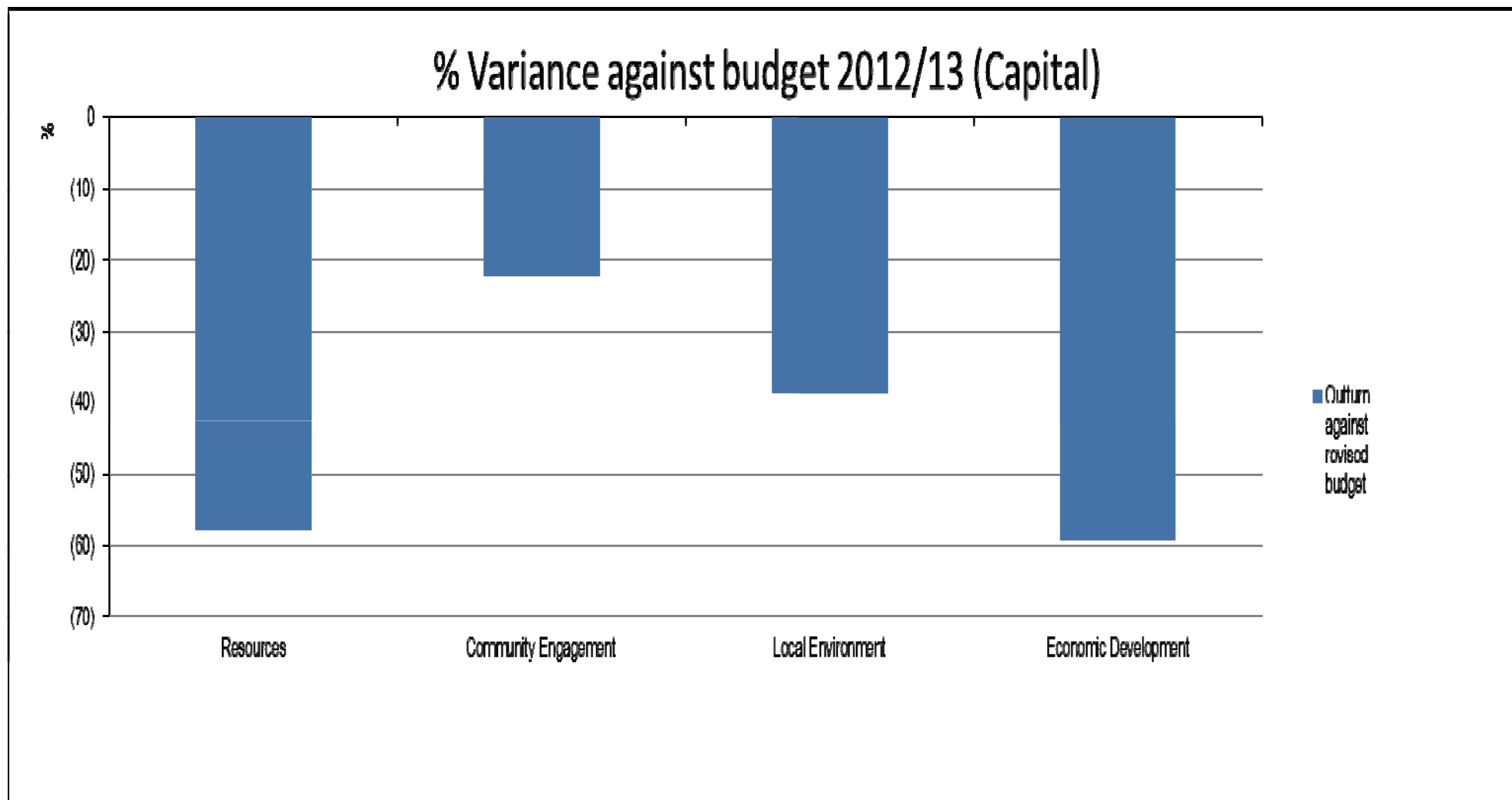
Key Indicators of Financial Performance

Performance Against Budget: Percentage Variances from Revised Revenue Budget



Key Indicators of Financial Performance

Performance Against Budget: Percentage Variances from Revised Capital Budget





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