

The Annual Audit Letter for Cumbria County Council

Year ended 31 March 2014

October 2014

Jackie Bellard

Director

T +44 (0)161 234 6394

E jackie.bellard@uk.gt.com

Gareth Kelly

Senior Manager

T +44 (0)141 223 0891

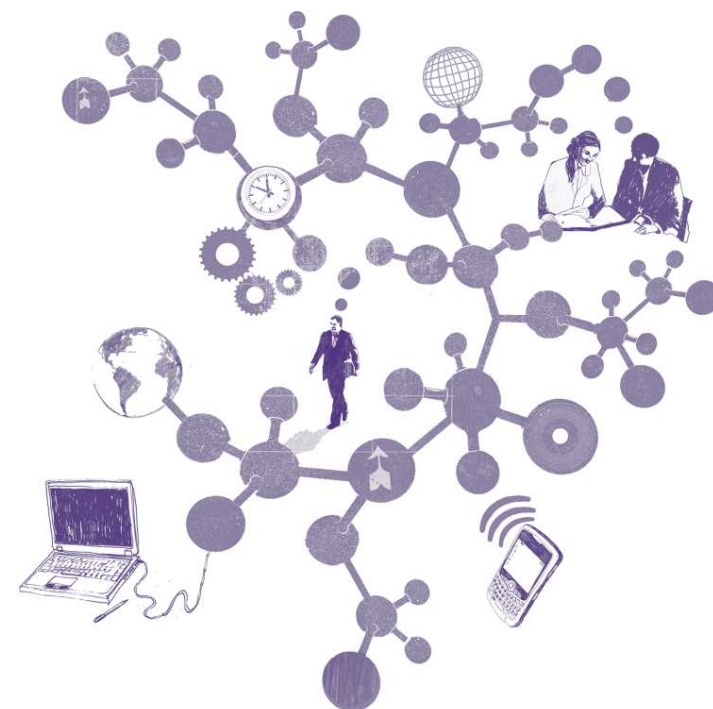
E gareth.kelly@uk.gt.com

Angela Pieri

Assistant Manager

T +44 (0)141 223 0887

E angela.l.pieri@uk.gt.com



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Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at Cumbria County 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 11 March 2014 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Financial statements audit (including audit opinion)

We reported our findings arising from the audit of the financial statements of Cumbria County Council including Cumbria Local Government Pension Scheme in our Audit Findings Report on 24 September to the Audit and Assurance Committee. The key messages are:

- we have identified no material adjustments or other adjustments affecting the Council's reported financial position
- the Council has again achieved a high quality standard of financial reporting for 2013/14 in terms of compliance with the CIPFA Code of Practice
- three audit adjustments to the single entity disclosure notes and some changes to the Cumbria Local Government Pension Scheme financial instruments disclosures, none of which affected the primary statements.

We issued an unqualified opinion on the Council's 2013/14 financial statements on 25 September 2014, in advance of the 30 September 2014 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.

The council's good performance on financial reporting places it in a good position to address the earlier accounts and audit deadlines, with sign off moving to July 2018 for the 2017/18 statement of accounts audits. Reviewing estimation techniques used, in the context of the earlier sign off will be key in achieving this significant change.

Key messages

Value for Money (VfM) conclusion – overall assessment	<p>We issued an 'except for' qualified VfM conclusion for 2013/14 on 25 September 2014.</p> <p>We are required to give a VfM conclusion based on the following two criteria specified by the Audit Commission; the Council has</p> <ul style="list-style-type: none"> • proper arrangements in place for securing financial resilience; and • proper arrangements for challenging how it secures economy, efficiency and effectiveness <p>In seeking to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, we have considered reports issued by other regulators. In May 2012, a joint report by Ofsted and the Care Quality Commission concluded that arrangements for the protection of children in the Cumbria County Council area were judged to be inadequate. A further report by Ofsted in June 2013 confirmed that, although the Council had made some improvements, overall arrangements for the protection of children remained inadequate. In a subsequent update letter from the Department of Education in August 2014, it was also highlighted that significant improvements are still required to these services.</p> <p>On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014, with the exception of the arrangements for the protection of children in Cumbria.</p> <p>Further detail of the work undertaken on the two specified criteria is shown below.</p>
Value for Money (VfM) conclusion – securing financial resilience	<p>We have considered the Council's arrangements to secure financial resilience against the following themes:</p> <ul style="list-style-type: none"> • Key financial performance indicators • Financial governance • Financial planning • Financial control <p>On key financial resilience key indicators the Council is largely in the mid-range against its benchmarked comparator authorities. The Council continues to face significant financial challenges and its Medium Term Financial Plan has aligned resources to Council priorities. We commend the Council's active engagement with the public and staff on the three year £83.4m gap for 2015/16 to 2017/18. The 23 October 2014 report to Cabinet has identified proposed savings to bridge the 2015/16 budget gap, but £30.5m savings by 2017/18 are still to be secured. Further work is ongoing to identify these savings.</p>

Key messages

Value for Money (VfM)

conclusion – detailed work on securing financial resilience continued

Key financial performance indicators

The Council continues to demonstrate good financial performance. The Council's level of general balances remains around £15m, which is in line with the limit set in the Council's medium term financial strategy. Overall, the Council's level of available reserves and contingencies provide adequate cover for known financial risks.

There remains scope for better profiling of the capital programme. In addition, the average of 13.84 sickness absence days per FTE for staff is well above local government, public and private sector averages of 8 to 9 days. Both of these areas are discussed in detail in the 'local VfM risks' section of this report.

Financial governance

The Council has a well established approach to financial governance in terms of understanding, stakeholder engagement and monitoring that has delivered positive results in recent financial years. It is critical that the Council continues to ensure regular on-going open engagement with all the Council's stakeholders in the context of the significant saving plans projected over the coming years.

Financial planning

The Council has a comprehensive approach to its Medium Term Financial Planning (MTFP), budgeting and identification of saving plans, which are agreed at a corporate level, by senior officers and Members. Financial resilience is key to the Council given the scale of the £24.5m savings largely delivered in 2013/14 as part of the total revenue budget deductions of £88m between April 2011 to March 2014. There is a further savings gap of £83.4m to be identified over the three years from April 2015 to March 2018.

Financial control

The Council's has a robust approach to financial management. The Council also demonstrates appropriate deployment of internal and external assurance mechanisms to give assurance over financial governance. There is clear evidence that the Council is proactively managing delivery of the savings required rather than just reporting on it.

Key messages

Value for Money (VfM) conclusion – challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity.

We have also undertaken work in the following areas to address the VfM related risks identified on:

- child protection and secondary school Ofsted inspections
- Better Care Fund (BCF) in terms of how the local pooled budget, governance and partnership arrangements are being worked through
- VfM implications of the material contractual dispute
- progress being made on delivering the significant BDUK project Connecting Cumbria
- capital programme slippages and sickness absence management

Prioritising resources

Senior management and members work well together developing the Council's priorities and the MTFP. The MTFP is at the forefront of the Council's business, through its annual review and via the quarterly reporting of performance against the budget. Members are not afraid to offer challenge and scrutiny when required. The Council continues to challenge the way services are delivered which will have to be stepped up to meet the challenging financial environment.

Improving efficiency and productivity

The Council has a proven track record of delivering savings having achieved approximately £88m over the last three years up to March 2014. In addition the Council has already identified all of its 2014/15 and options for 2015/16 budgetary savings allowing it to forecast a balanced budget for the next two financial years. The 2015/16 budget consultation commenced on 23 October 2014, and this budget will be agreed by the Council at its meeting on 19 February 2015.

Child protection inspections

In May 2013 an Ofsted inspection on protection of children in Cumbria assessed all of the areas of care as inadequate. We have reviewed the Safeguarding Improvement Board (SIB) progress and monitoring reports, responses from the Permanent Under Secretary, LGA peer review as reported in February 2014, and other Children services policies and procedures. We have reviewed evidence to support the positive direction of travel as highlighted from these various sources. However, there remains further actions to fully address all of the issues raised in the Ofsted improvement notice, most notably achieving all of the key performance indicators (KPIs) targets.

We are satisfied that management continues to take appropriate action to provide additional financial resources and leadership capacity to improve the arrangements for the protection of children in Cumbria but there is not yet sustained improvement across the whole service, as recognised by the SIB and management. It is critical the Council addresses the quality and consistency of frontline children services social work practice across Cumbria through effective implementation of its workforce strategy of "grow your own" to reduce pockets of dependency on agency staff. The Directorate is working hard to ensure experienced team managers and social workers are in place.

Key messages

Value for Money (VfM) conclusion – detailed work on challenging economy, efficiency and effectiveness continued

Secondary school Ofsted inspections

The Council received a letter from the Regional Director Inspector of Ofsted in February 2014, raising serious concerns about the quality of secondary education in the Cumbria county area. Although 5 of the 17 schools inspected were academies not under the control of the Council we note 5 including the pupil referral unit have been placed in special measures, of which 1 was an academy. We acknowledge that the Council is working through the Cumbria Alliance of Systems Leaders to improve educational attainment and related performance outcomes, with the aim of ultimately leading to better GCSE and A Level results. Therefore, continual robust management and monitoring of all secondary school performance is needed to drive up educational attainment.

Better Care Fund

Our initial review in February and follow up in April 2014 identified reasonable progress was being made on the BCF agenda including joint development working. We acknowledge that since April 2014, more work has been completed on breaking down KPIs further to include costings and detailed work-streams. Data quality is a regional and national issue and the Health and Social Care Directorate is working with the Cumbria Clinical Commissioning Group (CCG) to ensure robustness of baseline indicators and benchmarks. The detailed financial and operational plans are still in development, especially given the recent key policy changes in BCF issued on 25 July 2014 with plans resubmitted on 19 September 2014.

The financial position of the Cumbria wide health economy remains a significant challenge which may have an impact on the successful implementation of the BCF as they focus on their own financial positions. The Council needs to continue the close working it has established with all the key stakeholders to ensure the benefits of integrated health and care with seamless user friendly pathways of care are realised.

Material contractual dispute

We are satisfied that the Council is dedicating sufficient senior management and specialist professionals and staff input to rebut the disputed contract claim and to provide a robust counter claim. This remains as a significant issue for the Council to manage, but we are satisfied from a VfM perspective that the Council is managing the related financial risks up to this stage.

BDUK Connecting Cumbria project

The Connecting Cumbria project is aiming to deliver phase 1 Superfast Broadband with a minimum service at peak times of 24 Mega bytes per second(mbps) or above to 93% of premises in Cumbria and a minimum 2mbps to the remaining 7% of premises, by December 2015. At the end of May 2014 50% coverage had been achieved. Delivering Connecting Cumbria is a key priority for the Council, supporting its economic ambitions. The Council has responded to delays in securing the final approval on the funding of this £60m project, by re-profiling its Capital Programme over 2013 to 2015 and has deployed highly effective and innovative project management to co-ordinate delivery of this project, which is now scheduled to be completed in a relatively short timeframe.

Key messages

Value for Money (VfM) conclusion – detailed work on challenging economy, efficiency and effectiveness continued	<p>Capital programme slippages</p> <p>The Capital programme in 2013/14 experienced slippage of £47.6m on a total planned scheme of £111.9m, with £11.5m relating to connecting Cumbria, £3.3m on School maintenance projects, highways £11.1m. As a result the 2014/15 £114.3m programme is ambitious, especially as spend up to June 2014 is £8.3m, with connecting Cumbria and highways capital programmes continuing to be significantly underspent. There is scope to improve the delivery of approved capital programmes and to ensure robust assessments of the impact slippages have on service standards and delivery, especially on Council priority areas. We acknowledge that the direction of travel on the Council's approach to the capital programme is positive, including the re-profiling of some of the programme over 5 years.</p> <p>Sickness absence management</p> <p>The County's sickness absence levels continue to be well above all sector averages. The Council's reported absence level during 2013/14 of 13.81 days (12.44 days in 2012/13) per FTE is significantly above the national local government average of 8.8 days in 2012/13. We acknowledge that the Council is addressing sickness absence through on line sickness recording, revised policies and procedures, stuck not sick initiatives and line manager workshops. There are no defined directorate targets on sickness rates although monitoring arrangements are improving. The profile of sickness is also largely inverted compared to industry comparators, with 75% of sickness being long term as opposed to industry comparator of 40%. Scrutiny is currently reviewing sickness absence and will receive a further update in November 2014.</p>
Whole of Government Accounts	<p>We reviewed the consolidation pack which the Council prepared to support the production of Whole of Government Accounts (WGA). We reported that the Council's WGA pack was consistent with the audited financial statements.</p>
Certification of grant claims and returns	<p>No certification work is required under the Audit Commission certification regime. The Teachers Pension return audit will however be completed under a separate direct certification arrangement agreed with the Department for Education. It is expected that the audit fee for the work will be £4,200.</p>
Audit fee	<p>Our fee for 2013/14 was £152,820 excluding VAT for the Cumbria County Council audit and £24,620 for the Cumbria Local Government Pension Scheme audit, which was in line with our planned fee for the year. Further detail is included within appendix B.</p>

Appendix A: Key issues and recommendations

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

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
1.	<p>Estimation techniques</p> <p>Recommendation: Review estimation techniques used, in the context of the earlier closedown planned up to July 2018.</p>	Low	<p>The use of estimates will likely increase in future years. The Council will review the use of estimates and ensure that any impact on all the Primary Statements is taken into account before they are introduced as part of the Closedown procedures</p> <p>Responsible office: Assistant Director – Finance (S151 Officer) Due date: 31 March 2015</p>
2.	<p>Frontline Children Services social work practice</p> <p>Recommendation: Manage the quality and consistency of frontline children services social work practice across Cumbria to include effective implementation of the workforce "grow your own" strategy to reduce the use of agency staff.</p>	Medium	<p>Cumbria has recruited six trainee social workers from its existing cohort of child and family workers. This is year one of a three year programme and will ultimately create 18 additional social workers, which will reduce the reliance on agency social workers. The trainees have been recruited across the county but explicitly in the west of Cumbria where the need is greatest. The programme of learning is delivered in partnership with the University of Cumbria. In recognition of both the importance and shortage of qualitative Team Managers Cumbria again with the University of Cumbria is recruiting to an Aspirant Team manager programme which will also reduce the reliance on agency team managers developing a sufficient internal pool to recruit from.</p> <p>Responsible office: Assistant Director - Children and Families Due date: Ongoing</p>

Appendix A: Key issues and recommendations

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

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
3.	<p>Sickness absence</p> <p>Recommendation:</p> <p>Review sickness absence management arrangements, especially management of long term sick, improving data quality and ensuring directorate/ manager ownership underpinned by targets to reduce the increasing trend in staff sickness days.</p>	Medium	<p>Following acceptance of the majority of the recommendations of the Scrutiny Task and Finish Review in 2012, the Council has made significant progress. Key improvements implemented include the refresh of the Council's Positive Attendance procedure, the introduction of monthly metrics for management teams and the introduction of the 'stuck not sick' procedure. Scrutiny agreed to a further programme of work in May 2014, currently in progress to improve absence performance. These agreed actions focus upon improvements within three key areas: Organisational Culture, Clarity of roles and Clarity of process. Key interventions include; the introduction of absence targets within specific service areas, HR led intervention for long term sick, targeted support for 'hot spots' such as Cumbria Care and increased management accountability through management development.</p> <p>Responsible office: Interim Acting Assistant Director - People Management Due date: Ongoing</p>

Appendix B: Reports issued and fees

We confirm below the fee charged for the audit

Fees

	Per Audit plan £	Actual fees £
Audit Fee – Main audit	152,850	152,850
Audit Fee – Pension audit	24,620	24,620
Grant certification fee	4,800	4,200 *
Total fees	182,270	181,670

* No certification work is required under the Audit Commission certification regime. The Teachers Pension return audit will however be completed under a separate direct certification arrangement agreed with the Department for Education. It is expected that the audit fee for the work will be at the rate of £4,200.

Fees for other services

Service	Fees £
None	Nil

Reports issued

Report	Date issued
Audit Plan	March 2014
Audit Findings Reports for Council and Pension Fund	September 2014
Annual Audit Letter	October 2014



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