

# City of Bradford Metropolitan District Council

## Review of arrangements for securing value for money

29 September 2016

# Contents

01 Executive Summary .....	3
02 Background and context .....	6
03 Informed decision making.....	7
04 Sustainable Resource Deployment .....	10
05 Working with Partners and Third Parties .....	18

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# 01 Executive Summary

## Background

Section 20 of the Local Audit and Accountability Act 2014 gives us a statutory duty to confirm that you have made proper arrangements for securing economy, efficiency and effectiveness in your use of resources. The Code of Audit Practice 2015 requires us to adopt a risk-based approach to this work, focussing on criteria set annually by the National Audit Office (NAO). NAO issued Audit Guidance Note 3 in November 2015 that defined sector specific risk areas for 2015/16. Auditors are required to reach their statutory conclusion on arrangements to secure VFM based on the following overall evaluation criterion:

*Overall criterion: "In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people."*

To help auditors to consider this overall evaluation criterion, the following sub-criteria are intended to guide auditors in reaching their overall judgements but these are not separate and auditors are not required to reach a distinct judgement against each one:

Sub-criteria:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

## Approach

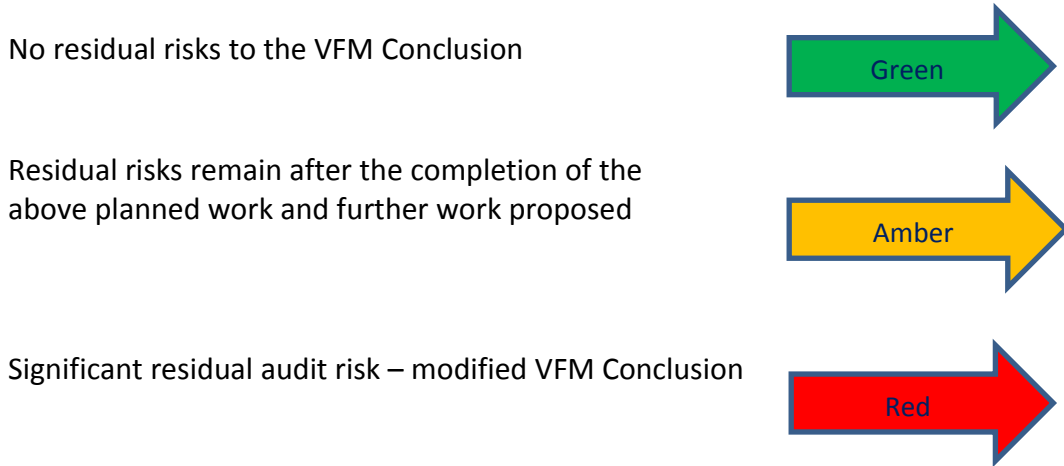
Between February and April 2016 we used NAO's guidance to carry out an audit risk assessment for our value for money work, which we reported to Governance and Audit Committee in April 2016. We considered that the Council's financial position represented a significant risk to our value for money conclusion and required us to undertake further work to reach our value for money conclusion. Your need to transform services and functions to reduce costs and address funding gaps in future years represents a significant challenge for sustainable resource deployment. The Council had arrangements in place in most areas but there remained a risk of those arrangements not achieving the required outcome and consequently further work was required to assess whether or not these arrangements were sufficient.

Our further work involved reviewing:

- arrangements for implementing savings plans and monitoring achievement;
- plans to bridge the funding gap for future years;
- the updated Medium Term Financial Plan;
- year-end financial and performance reports;
- the 2015/16 Annual Governance Statement;

- the Council’s response to the June 2015 OFSTED report on school improvement; and
- PSAA’s VFM Profile and benchmarking against other metropolitan authorities that we audit.




We have now completed this further work and this report summarises our findings and updates our initial risk assessment of your arrangements using the same red / amber / green (RAG) rating with the following definitions.



## Conclusion

The Council has a strong track record of delivering savings and keeping within budget. However, over the next 3 years the Medium Term Financial Strategy identifies savings of 17%, which is high even compared to other northern metropolitan authorities and savings are becoming increasingly challenging to deliver. The Medium Term Financial Strategy still has a cumulative funding gap of £32m by 2018/19 and some difficult choices will need to be made to balance the 2017/18 and 2018/19 budgets.

We updated the RAG rating for the 3 sub-criteria set out in the NAO guidance and the 10 underpinning characteristics of proper arrangements:

- |  |   |         |
|--|---|---------|
| 1. Informed decision making                      |  | (green) |
| 2. Sustainable resource deployment               |  | (green) |
| 3. Working with partners and other third parties |  | (green) |

Accordingly, we are proposing an unmodified report on the Council's 2015/16 value for money conclusion.

# 02 Background and context

## National Context

The Government's 2010 Spending Review, covering the period from 1 April 2011 to 31 March 2015, has led to significant reductions in public spending. In its 2014 report: Financial Sustainability of Local Authorities, the National Audit Office reflected on the 26% reduction (excluding funding for schools and benefit claimants) in the local government departmental spending limit in the first three years of the Spending Review. Changes in the funding formula have resulted in much greater cuts in metropolitan areas like Bradford than in more affluent, rural areas.

The 2015 spending review, Local Government Settlement and the Chancellor's Budget Statement in March 2016 indicate that austerity is likely to continue for several years. These funding reductions come at a time when demographic changes are increasing demand for services, especially social care. The result of the EU referendum has increased the uncertainty facing local government finances. The new Chancellor has indicated that there will not be an emergency budget and any adjustment to the strategy set out in the 2015 spending review will be made in autumn 2016.

We have found councils have generally responded well to this challenge and made adequate arrangements to ensure financial resilience, economy, efficiency and effectiveness. However, all single-tier councils are making tough budget decisions and finding it increasingly difficult to protect front-line services. In this context the risk of auditors giving an unsafe conclusion on arrangements to secure value for money is significantly increased.

## Local context

The City of Bradford Metropolitan District Council delivered savings of £172m between 2011 and 2016, which represents 43% of the current annual budget. Although access to some services has been managed, the Council's 50 key performance indicators suggest these savings have been achieved without a negative impact on overall performance.

By 2022/23 the Council forecasts its spending will reduce by a further 29% (£109m) on top of the £46M savings in the 2016/17 budget. The 2016/17 budget is balanced but there remains a funding gap of £11m in 2017/18, rising to £32M in 2018/19.

We note that 40% of the population live within the 10% most deprived super output areas in the country, which is well above the average for metropolitan councils. The Council also has one of the country's youngest and most diverse populations with rapid population growth placing extra demand on services. Between 2001 and 2011 there was a 20% increase in the number of 0-4 year old children in Bradford.




Accordingly, whilst Bradford is not alone in facing significant challenges maintaining services in the face of further funding cuts and rising demand, the scale of the challenge is immense. The rest of this report assesses the risks associated with this challenge in respect of:


- Informed decision making;
- Sustainable resource deployment; and
- Working with partners and third parties.

# 03 Informed decision making

## Characteristics of proper arrangements

Characteristics of proper arrangements for these aspects are covered below, together with our assessment of the Council's arrangements:

Typical characteristics of proper arrangements	The arrangements for City of Bradford Metropolitan District Council	Audit RAG rating
Acting in the public interest, through demonstrating and applying the principles and values of sound governance.	<ul style="list-style-type: none"> <li>Quarterly finance and twice-yearly performance reports to Corporate Overview and Scrutiny and Executive.</li> <li>Constitution on the website and subject to annual review and update.</li> <li>2015/16 Annual Governance Statement compliant with the CIPFA / SOLACE Delivering Good Governance Framework.</li> </ul>	Green 
Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management.	<ul style="list-style-type: none"> <li>No data quality issues in respect of financial and performance information we are aware of.</li> <li>Frequent updates on the financial position covering at least 2 years between the annual updates of the 3 year Medium Term Financial Strategy.</li> <li>Consistent data in financial reports.</li> <li>Action plan prepared in response to June 2015 OFSTED report and implementation on track.</li> </ul>	Green 
Reliable and timely financial reporting that supports the delivery of strategic priorities.	<ul style="list-style-type: none"> <li>Regular and timely reporting to members.</li> <li>Outturn has historically been reasonably close to projections in quarterly financial reports with small underspends carried forward to meet future pressures.</li> <li>Track record of delivering planned savings and efficiencies in prior years with 87% achieved in 2015/16 and the shortfall fully compensated to leave a £0.8M underspend.</li> </ul>	Green 

Typical characteristics of proper arrangements	The arrangements for City of Bradford Metropolitan District Council	Audit RAG rating
Managing risks effectively and maintaining a sound system of internal control.	<ul style="list-style-type: none"> <li>• Risk management strategy approved January 2016 and first of quarterly reports to Executive in March 2016.</li> <li>• Risk register reviewed throughout the year by the Corporate Management Team.</li> <li>• Annual governance statement prepared, reviewed and approved by members.</li> <li>• Regular reporting by Internal Audit on internal control.</li> </ul>	Green 

## Section 151 Officer's Assessment

The Local Government Act 2003 requires the Council's Section 151 Officer (your Director of Finance) to report annually on:

- the adequacy of proposed reserves and
- the robustness of estimates used in setting the budget.

This self-assessment informs our assessment of informed decision making. The Director of Finance reported to Council on 25 February 2016 that un-earmarked reserves of at least the £13M budgeted in the Medium Term Financial Strategy are required to cover the known risks in his report. This is in addition to the £10.8m general fund balance held as a minimum contingency against unforeseeable events and reserves earmarked for specific purposes. The need for earmarked reserves is reviewed each June before the accounts are finalised.

Reserves are proving useful at delaying savings plans whilst consultation takes place but are no substitute for reducing the recurrent net cost base as the reserves can only be used once. The risks considered in assessing the minimum level of reserves are appropriate and the strategy for using and adding to reserves is clearly articulated. We welcome the implementation of our recommendation in our 2015 Value for Money report that reserves should not fall below the minimum level determined by the Section 151 Officer's risk assessment and the Section 151 Officer's statement that this level will increase if further recurrent cost reductions to bridge the remaining funding gap are not found.

The Section 151 Officer's report to Council on 25 February 2016 discusses several assumptions underpinning the estimates. These include:

- approved savings plans will be fully implemented including those that have been delayed whilst further consultation or impact assessment takes place such as the changes to transport entitlement;
- savings plans will typically have a 6-9 month lead time;
- slippage in the implementation of savings schemes will be similar to prior years;
- pressures that caused overspends in 2015/16 will continue;
- the 2% increase in council tax increase for adult social care is available to meet rising demand in this sector in addition to the 1.99% regular increase;
- slippage of the capital investment plan can be managed without risk to affordability;




- non-pay budgets have been increased by 1.5% for 2017/18 and 2% for 2018/19;
- pay inflation of 1% per annum for three years plus the costs of the living wage;
- an increase in income of 0.5%;
- a phasing out of RSG with the grant reducing to £34M by 2019/20; and
- a £3.6m contingency, similar to 2015/16.



These are appropriate factors to consider in budget setting and have been clearly reported. Appendix 1 of the Section 151 Officer's report sets out the risks associated with these assumptions and provides the basis of the assessment of the adequacy of reserves.

# 04 Sustainable Resource Deployment

## Characteristics of proper arrangements

Characteristics of proper arrangements for these aspects are covered below, together with our assessment of the Council's arrangements:

Typical characteristics of proper arrangements	The arrangements for City of Bradford Metropolitan District Council	Audit RAG rating
<p>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.</p>	<ul style="list-style-type: none"> <li>Financial and performance reports demonstrate a history of achieving cost reductions without adversely affecting services to date. 53% of PIs showed improvement in 15/16 over 14/15 and savings of £33M were achieved.</li> <li>Balanced 2016/17 budget with detailed savings plans developed for 16/17 and 17/18.</li> <li>A three year Medium Term Financial Plan which is comprehensive and identifies the funding gap in order to focus work to identify savings.</li> <li>Funding gaps of £11M in 17/18 rising to £32M in 18/19 being bridged through outcome based budgeting with an Outcome Board for each directorate and proposals to December 2016 Executive.</li> <li>First quarter 16/17 reports show greater under-delivery of savings than in prior years but still 85% overall achievement. The main shortfalls are within Adults and Communities (£2.6M) and Children's Services (£1.6M). However, partially compensating savings have been identified.</li> </ul>	<p>Green</p> 

	<ul style="list-style-type: none"> <li>The Council has reserves and contingencies to cover the under-delivery of savings.</li> </ul>	
Managing and utilising assets effectively to support the delivery of strategic priorities.	<ul style="list-style-type: none"> <li>Asset register in place.</li> <li>Asset management plan in place.</li> <li>Significant savings in recent years from rationalising the estate to better fit the reduced size of the Council.</li> </ul>	Green 
Planning, organising and developing the workforce effectively to deliver strategic priorities.	<ul style="list-style-type: none"> <li>HR performance indicators such as sickness within the corporate indicator set reported twice yearly.</li> <li>New HR Strategy focused on talent management and plugging skill gaps as the size of the Council continues to fall.</li> <li>New training programme to equip staff for the challenges ahead.</li> </ul>	Green 

## Performance Indicators

The 2015/16 Performance Outturn report was presented to the Executive on 19 July 2016. The report included the following:

- a corporate summary of performance;
- a detailed review of each of the 45 Corporate Indicator PIs;
- commentary for each PI where targets were missed by > 5% with remedial action clearly stated; and
- a description of plans to develop new indicators for 2016/17 reflecting the recently approved Council Plan.

Overall, an analysis of the 45 PIs suggests overall performance has been sustained, despite the significant reduction in costs since 2010, although the extent of improvement has reduced. In 2015/16:

- Two thirds of PIs were either on target, showed improvement over the prior year or both, which is only slightly down on the 70% in the previous year;
- Just over half of PIs showed some improvement in 2015/16, which was similar to 2014/15; and
- 40% of targets were achieved, compared to about 60% in the previous two years.

Following the abolition of the national indicator set, benchmarking performance with other metropolitan councils is more difficult. The Audit Commission's VFM Profile provides some comparison in areas such as educational attainment, employment and recycling rates. The Council is better than average in some areas (e.g. recycling rates, housing energy efficiency, preventing delayed discharge and issuing child protection plans.) but worse than average in others (e.g. educational attainment, employment and the speed of processing SEN statements). Where benchmarking suggests poor performance there is evidence of recent action to improve performance.

## Financial indicators

The charts below show how Bradford compares with other authorities using seven financial health indicators. Five of the indicators have been published by PSAA within their VFM Profile tools and compare Bradford with all other metropolitan authorities. The other indicators (numbers 1 and 2 below) have been calculated by Mazars through analysis of the medium term financial plans of a range of other single tier authorities. This is a forward looking indicator, whereas the PSAA indicators use 2014/15 or 2013/14 data.

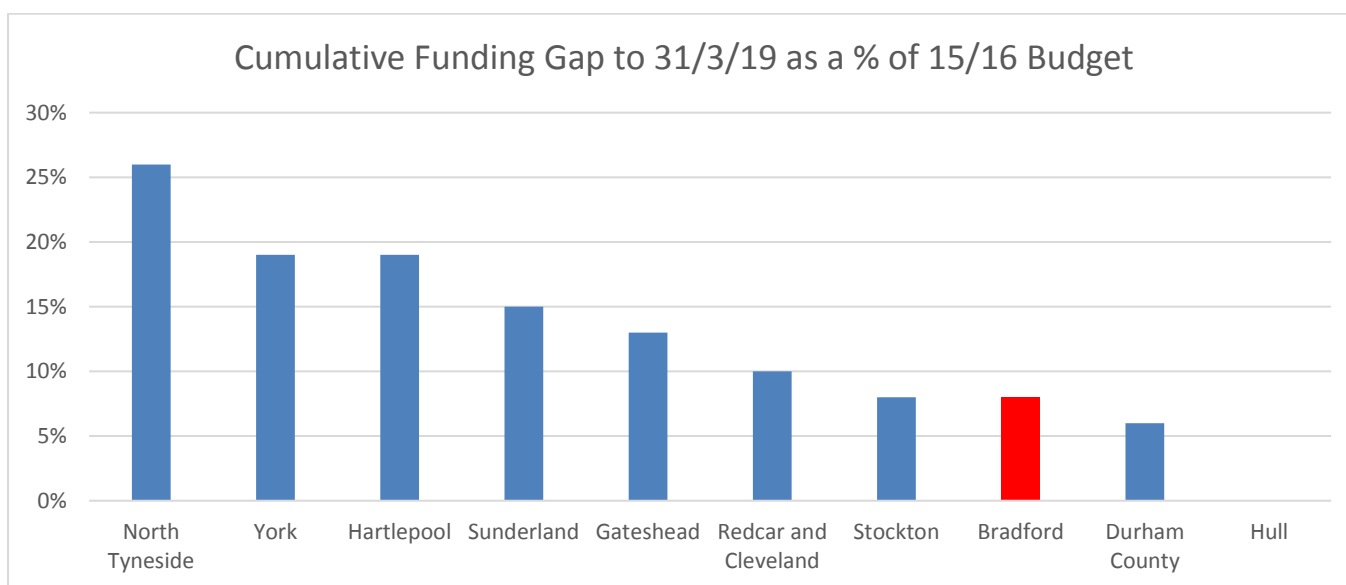
1. MTFP Funding gap (2016 to 2019) to 2015/16 Net Budget

### Definition

This ratio shows the shortfall in budgeted resources against budgeted expenditure over the next 3 years identified in councils' medium term financial plans. Budgeted expenditure already reflects approved savings schemes. As not all medium term financial plans are published the comparison is against single tier authorities that we audit rather than all metropolitan councils. All councils balanced 2016/17 budgets. The larger the gap, the greater the further savings required.

### Findings

The level of additional savings required as a proportion of the net budget is 8% compared to an average of 11%. Thus, although challenging the size of the budget gap is now below the average of the comparator authorities, in contrast to last year when it was above average, reflecting the Council's greater progress at identifying savings.



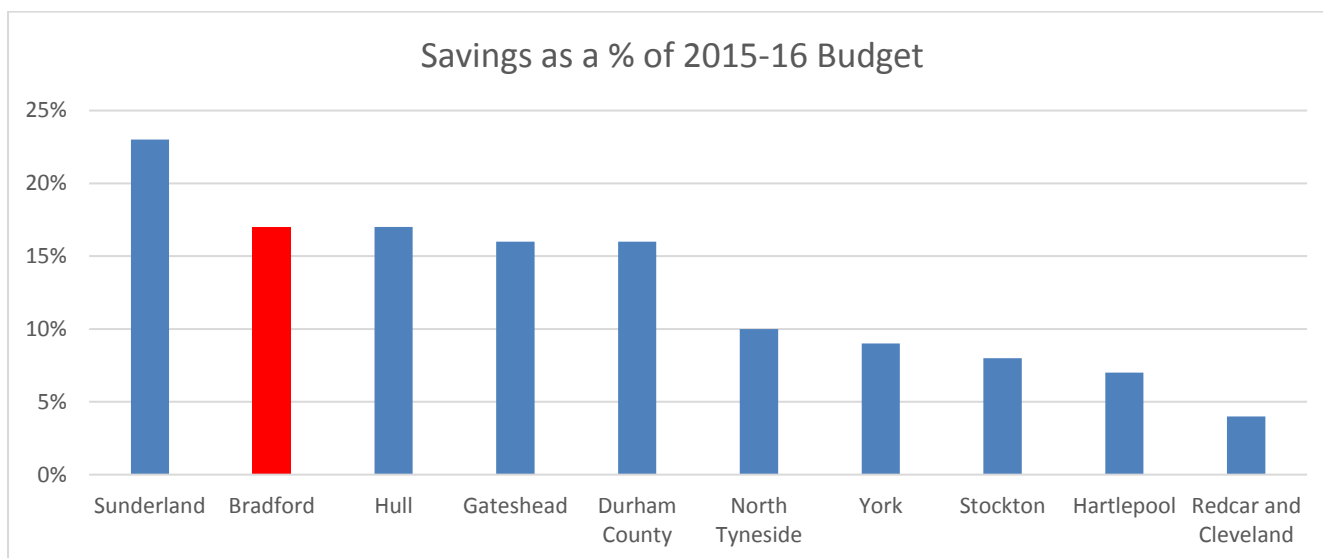
## 2. Savings approved (2016/17 to 2018/19) as a percentage of 2015/16 Net Budget

### Definition

This ratio shows the cumulative savings approved and within the Medium Term Financial Plan for the next 3 years relative to the net budget.

### Findings

The Council's savings plans represent 17% of the net budget, which is above the average of 13%. Taken together with the previous indicator it suggests that Bradford is facing similar challenges to other Northern Metropolitan councils but has a greater proportion of the required savings identified and approved.



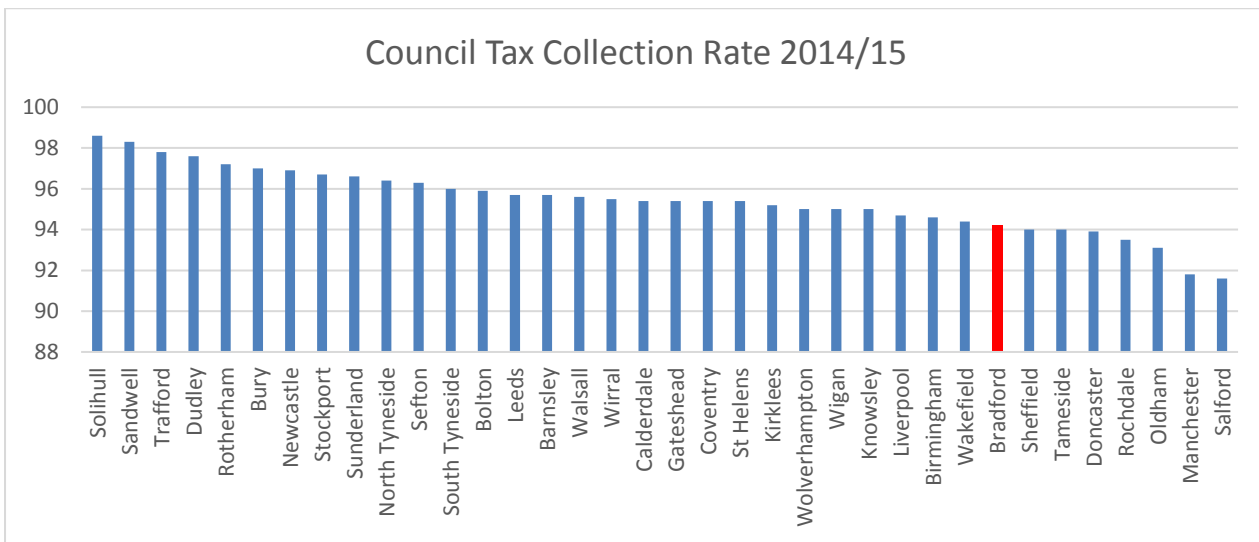
## 3. Council Tax Collection Rate

### Definition

This shows the proportion of council tax collected within 2014/15, an indicator of council's cash flow and debt.

### Findings

The Council's 2014/15 council tax collection rate is below average. However, the Audit Commission's Council Tax Collection Briefing 2013 found that there is a strong correlation with deprivation and demographics. Bradford is deprived (even compared to Mets) and its population is unusually young and the briefing suggests these are factors that could explain a small difference of about 1%. The briefing found pensioners are the best payers and Bradford has a relatively low proportion of pensioners.



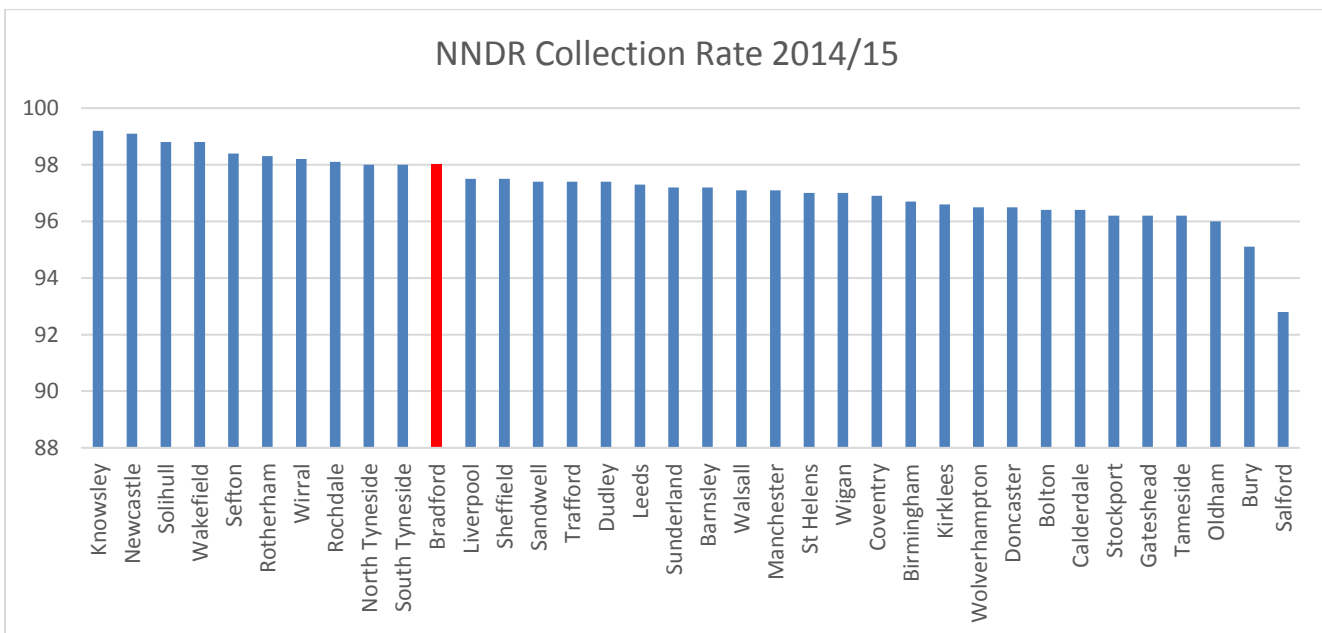
#### 4. NDR Collection Rate

##### Definition

This shows the proportion of Non-Domestic Rates collected within 2014/15, another indicator of council's cash flow and debt.

##### Findings

The Council collected 98% of NDR due in 2014/15, which is above the average of 97.2% and the highest for 5 years.



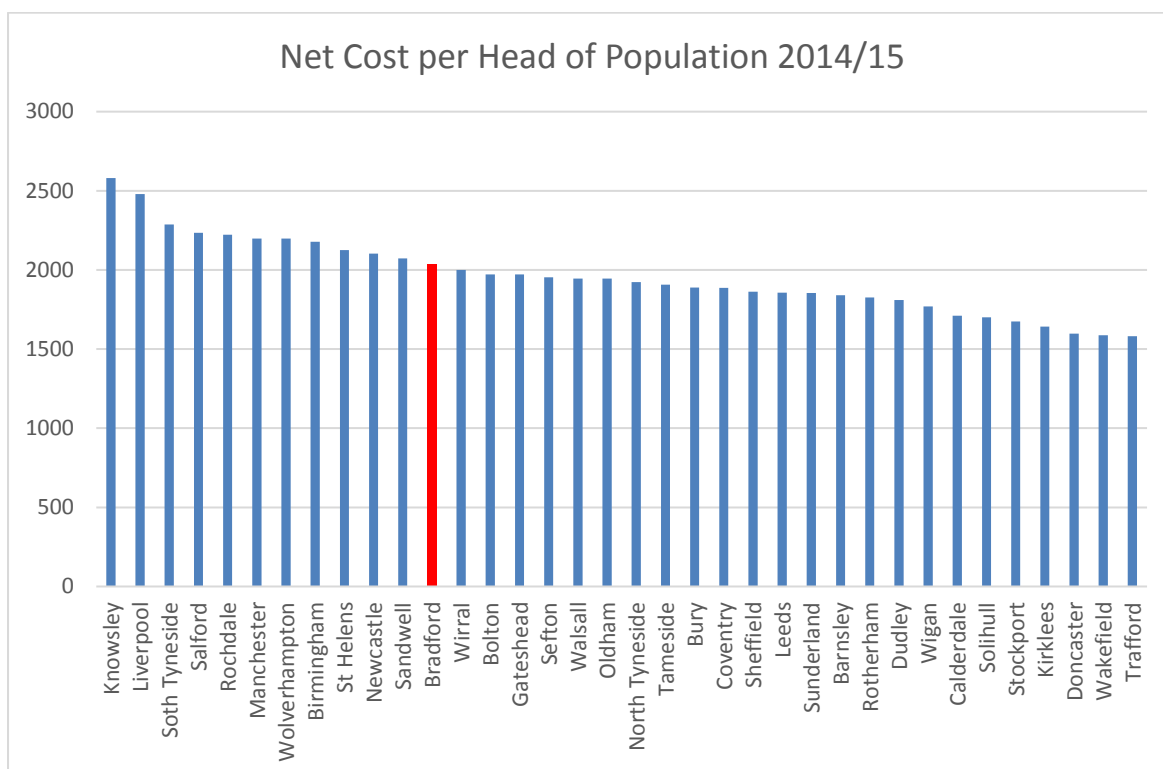
## 5. Net Cost per Head of Population

### Definition

The net expenditure per head of population is primarily a value for money indicator, but it is also indicative of financial resilience as a lower cost per head ratio indicates a council's historic ability to control costs.

### Findings

The Council's net cost per head is 3.7% above average but the numerator includes school expenditure, whereas the denominator is based on the entire population, a disadvantage to councils like Bradford with a relatively high school-aged population. There is also a correlation between cost per head and deprivation, which disadvantages Bradford.



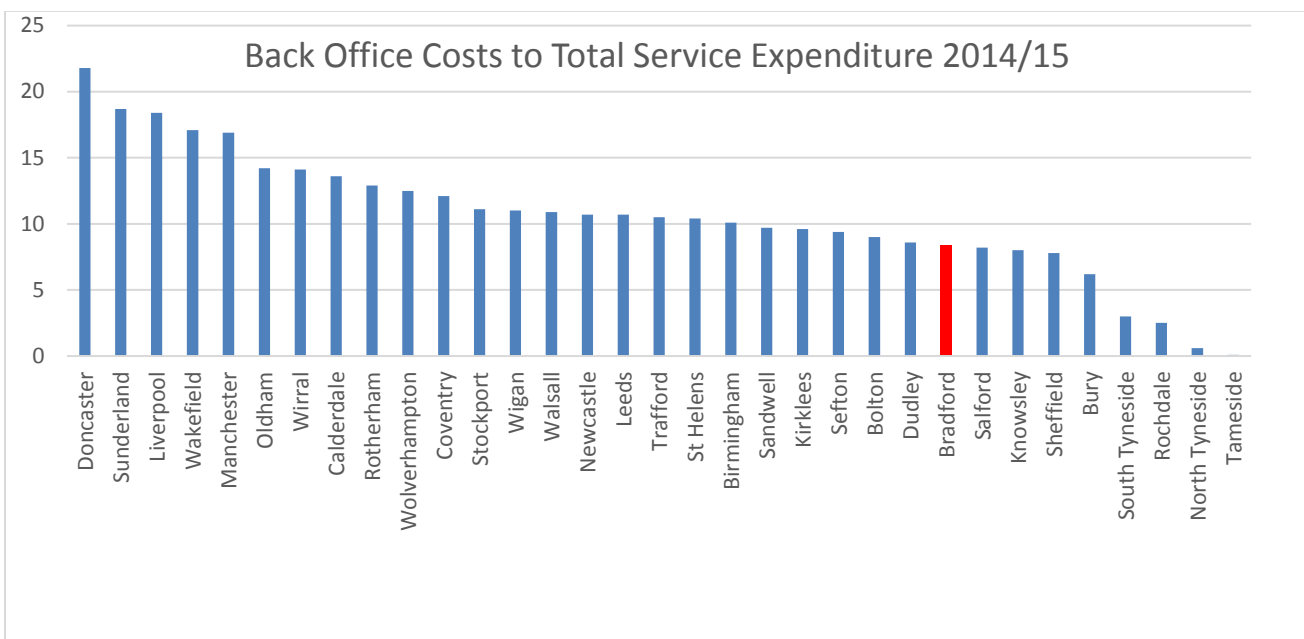
## 6. Back Office Costs to Total Service Expenditure

### Definition

Back office costs (for example HR, IT and Finance) support front-line services and are a source of potential savings that may not impact on service users. Councils with a low ratio of back office to service costs have potentially been most successful at targeting savings, an indicator of financial resilience and value for money. However, such councils may find it harder to make the further savings required than councils that still have relatively high back office costs.

### Findings

The Council's back office costs represent 8.4% of service expenditure, compared to an average of 10.6% suggesting savings have been targeted as intended to protect front line services but back office costs are not so low that capacity to implement change and deliver further reductions in back office costs might be limited.





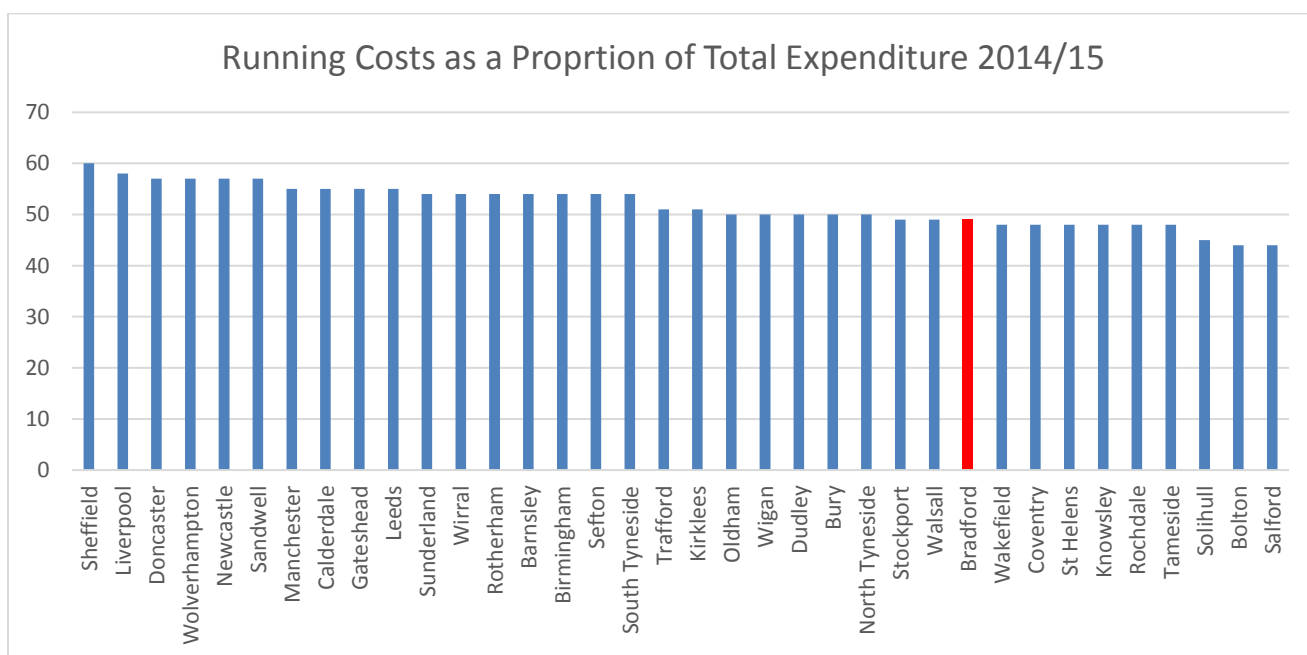
## 7. Running Costs as a Proportion of Total Expenditure

### Definition

Running costs include premises, transport, supplies and services and third party payments. A low ratio of running costs to total expenditure may indicate successful targeting of savings to limit impact on front-line services, although a level too low may indicate less scope to continue making such savings or a reluctance to explore alternatives to in-house delivery of services.

### Findings



The Council spends 49% on running costs, compared to an average of 52% so the ratio is neither unusually high nor low.



# 05 Working with Partners and Third Parties

## Characteristics of proper arrangements

Characteristics of proper arrangements for these aspects are covered below, together with our assessment of the Council's arrangements:

Typical characteristics of proper arrangements	The arrangements for City of Bradford Metropolitan District Council	Audit RAG rating
Working with third parties effectively to deliver strategic priorities.	<ul style="list-style-type: none"> <li>• Various policies and framework for partnership working established.</li> <li>• Better Care Fund plan being implemented with agreement for a pooled budget with CCGs.</li> <li>• OFSTED reported poor value for money in school improvement in June 2015. School improvement is a strategic priority.</li> <li>• Detailed RAG rated improvement plan prepared in response to OFSTED report which is subject to monitoring and scrutiny.</li> <li>• Action to improve educational attainment has included establishing an independently chaired Board, better risk analysis and targeting and closer working with academies.</li> </ul>	Green 
Commissioning services effectively to support the delivery of strategic priorities.	<ul style="list-style-type: none"> <li>• Successful in reducing costs and savings proposals include working with partners.</li> <li>• Better Care Fund Plan being implemented.</li> </ul>	Green 
Procuring supplies and services effectively to support the delivery of strategic priorities.	<ul style="list-style-type: none"> <li>• Use established national and regional procurement frameworks to maximise purchasing power.</li> <li>• Alternative delivery models already in place for some former Council services (e.g. libraries) and more planned or being researched.</li> <li>• Broadway (Westfield) shopping centre delivered.</li> </ul>	Green 