

Subject:	Financial Resilience	Status:	For Publication
Report to:	Audit and Accounts Committee	Date:	24 September 2013
Report of:	Grant Thornton	Portfolio Holder:	Finance and Resources
Key Decision:	<input type="checkbox"/> Forward Plan <input type="checkbox"/>	General Exception	<input type="checkbox"/> Special Urgency <input type="checkbox"/>
Equality Impact Assessment:	Required:	No	Attached: No
Biodiversity Impact Assessment	Required:	No	Attached: No
Contact Officer:	Simon Hardman – Audit Manager	Telephone:	07880-456202
Email:	simon.hardman@uk.gt.com		

1.	RECOMMENDATION(S)
1.1	Members are asked to consider the Financial Resilience Report for the 2012/13 financial year.

2. PURPOSE OF REPORT

2.1 The reports summarises the findings from our review of the Council's arrangements to ensure financial resilience.

3. CORPORATE PRIORITIES

- 3.1 The matters discussed in this report impact directly on the following corporate priorities:
- **Regenerating Rossendale:** This priority focuses on regeneration in its broadest sense, so it means supporting communities that get on well together, attracting sustainable investment, promoting Rossendale, as well as working as an enabler to promote the physical regeneration of Rossendale.
 - **Responsive Value for Money Services:** This priority is about the Council working collaboratively, being a provider, procurer and a commissioner of services that are efficient and that meet the needs of local people.
 - **Clean Green Rossendale:** This priority focuses on clean streets and town centres and well managed open spaces, whilst recognising that the Council has to work with communities and as a partner to deliver this ambition.

4. RISK ASSESSMENT IMPLICATIONS

4.1 All the issues raised and the recommendations in this report involve risk considerations that are linked to ensuring strong financial management to enable the Council to achieve its budget.

5. BACKGROUND AND OPTIONS

- 5.1 The Grant Thornton approach to support our Value for Money (VfM) conclusion includes a review to determine if the Council has proper arrangements in place for securing financial resilience.
- 5.2 We considered whether the Council has robust financial systems and processes in place to manage its financial risks and opportunities.
- 5.3 We have made a small number of recommendation to help further develop the arrangements in place to achieve financial resilience.

COMMENTS FROM STATUTORY OFFICERS:

6. SECTION 151 OFFICER

6.1 This is a report of the External Auditor

7. MONITORING OFFICER

7.1 This is a report of the External Auditor

8. POLICY IMPLICATIONS AND CONSULTATION CARRIED OUT

8.1 Discussed findings with the Finance Manager

9. CONCLUSION

9.1 Our overall conclusion is that the Council has robust arrangements in place to secure financial resilience but management need to subject plans to continuous scrutiny and review to ensure they are adequate to address the Council's long term objectives.

Background Papers	
Document	Place of Inspection
Audit Plan	http://www.rossendale.gov.uk/meetings/meeting/772/audit_and_accounts_committee

Review of the Council's Arrangements for Securing Financial Resilience for Rossendale Borough Council

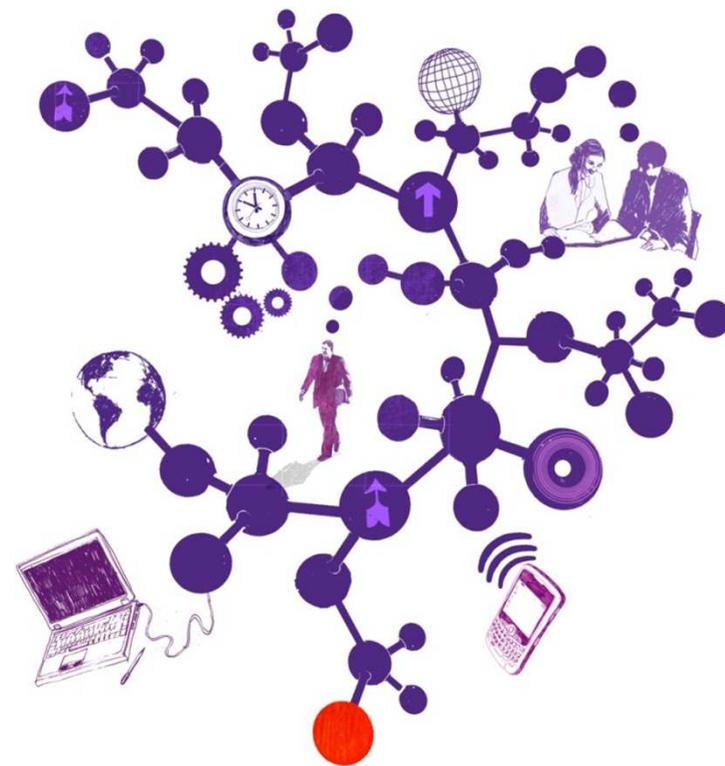
Year ended 31 March 2013

13 September 2013

Karen Murray
Director
T 0161 234 6364
E karen.l.murray@uk.gt.com

Simon Hardman
Manager
T 0161 234 6379
E simon.hardman@uk.gt.com

Sophia Iqbal
Executive
T 0161 234 6372
E sophia.s.iqbal@uk.gt.com



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.

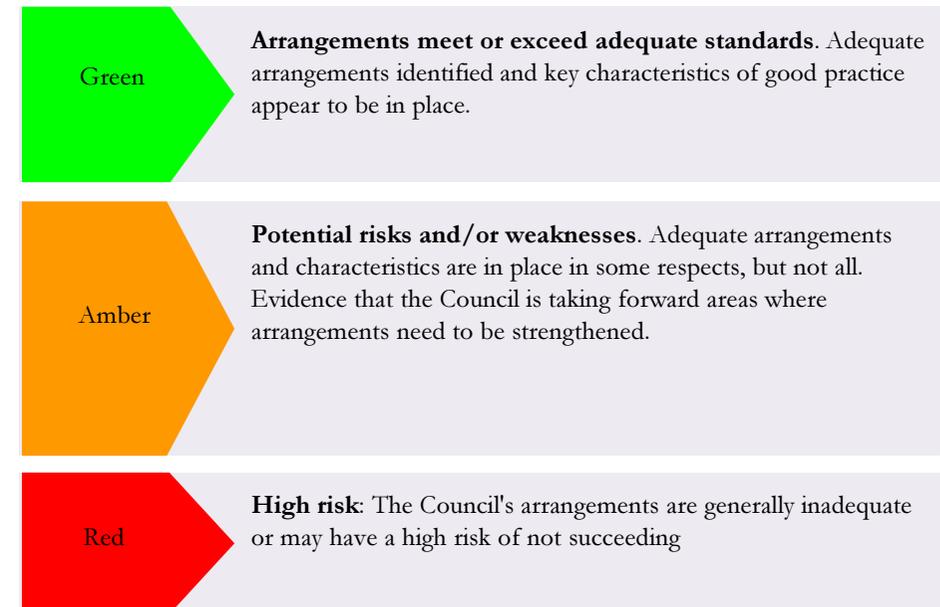
The definition of foreseeable future for the purposes of this financial resilience review is 12 months from the date of this report.

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.

Our overall conclusion is that the Council has robust arrangements in place to secure financial resilience but management need to subject plans to continuous scrutiny and review to ensure they are adequate to address the Council's long term objectives.

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 1920'. 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 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.

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.

The next spending review period will be for a single financial year, 2015/16. The timing of the announcement is yet to be confirmed, but is anticipated during the first half of 2013.

Financial austerity is expected to continue until at least 2017.

Local Context

Rossendale is a district in Lancashire consisting of the towns of Bacup, Haslingden and Rawtenstall and a number of villages such as Edenfield, Waterfoot and Whitworth.. Rossendale is a predominantly rural area and is immediately north of Bury, Manchester and Rochdale. The Borough is linked by the motorway network to Manchester, Burnley and Blackburn via the A56/M65 and M66 motorways. The Borough covers an area of 53 square miles and has a population of approximately 68,000.

In common with all local authorities, Rossendale Borough Council has experienced significant reductions in funding. Net expenditure has reduced from £10.6M in 2010/11 to a base budget of £9.6M for 2013/14. The reduction has been even greater in Government funding. Central Government funding, excluding service related grants such as Housing Benefit Subsidy, has decreased from £6.7M in 2010/11 to £4.3M in 2012/13.

Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Key Indicators of Performance	<p>The Council compares well in the key indicators of performance. In reviewing liquidity, debt levels and usable reserves Rossendale compares well to its nearest neighbours..</p> <p>The revenue budget was delivered, with additional savings, despite a challenging financial climate. However, sickness absence levels have increased. The Council will need to monitor and manage these carefully to try and minimise lost days.</p>	 Green
Strategic Financial Planning	<p>The Council's strategic financial planning is of a good quality. The medium term financial plan is regularly reviewed.</p> <p>Financial plans are updated as the Council identifies savings so the estimated gap between resources and planned expenditure in future years can be closely monitored. However, there remains a savings gap going forward. The budget estimated that this is £0.6m in 2014/15, increasing to £1.5m in 2016/17.</p>	 Green
Financial Governance	<p>Senior Officers at the Council work together to ensure that the financial position is a key consideration in decision making.</p> <p>Members are engaged in the overall managing of the finances and receive regular financial monitoring reports. These reports are detailed and contain a wide-range of information.</p> <p>The Council has also consulted with the public and consider the feedback when preparing its financial plans</p>	 Green
Financial Control	<p>The Council demonstrates a good level of financial control. Financial systems are fit for purpose and internal audit provides appropriate challenge and support.</p> <p>Reporting of risk management issues takes place through the integrated performance reports.</p> <p>The Council has an experienced finance team.</p>	 Green

Executive Summary

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Key Indicators of Performance	Continue to monitor and manage sickness absence levels.			
Strategic Financial Planning	Continue to identify financial savings to meet the challenges stated in the Medium Term Financial Strategy			
Financial Governance	Consider whether the achievement of savings should be reported separately			

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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
- Useable Reserves: Gross Revenue Expenditure

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

Ashfield District Council
Bassetlaw District Council
Bolsover District Council
Cannock Chase District Council
Chorley Borough Council
East Northamptonshire Council
High Peak Borough Council
Hyndburn Borough Council
Kettering Borough Council
Mansfield District Council
Nuneaton and Bedworth Borough Council
Pendle Borough Council
Redditch Borough Council
Tamworth Borough Council
West Lancashire Borough Council

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Liquidity	<p>The working capital ratio indicates if an authority has enough current assets, or resources, to cover its immediate liabilities . A ratio of less than one - i.e. current liabilities exceed current assets - indicates potential liquidity problems. The Council has a ratio of just over 3:1 which is good.</p> <p>The collection performance for Council Tax was 97.5% at the end of March compared to 97.6% in 2011/12 and the target of 97.8% for the year. Business Rates (NNDR) collection to the end of March was 96.7%, (97.8% at the end of 2011/12) compared with a 98% target for the year. The fall in collection rates is a reflection of the local economic situation.</p>	 Green
Borrowing	<p>When comparing Rossendale's long term debt to its tax revenue the ratio is only 0.39 in 2011/12. This means that long term borrowing is less than council tax revenue. We also considered the Council's long term debt to long term assets ratio and again Rossendale compared favourably. Treasury management reporting during the year has not raised any issues.</p>	 Green
Workforce	<p>Rossendale's sickness absence levels have fluctuated over recent years. Recently-produced figures for 2012/13 show that the level of absence has increased to 8.47 days, which is 1.72 days per FTE higher than the previous year.</p> <p>In overall terms, the Council's performance has tended to be better than the average for local government bodies.</p> <p>The Council needs to continue to monitor sickness absence and to take management action in line with its policies.</p>	 Amber
Performance Against Budgets: revenue & capital	<p>The March 2013 (Period 12) monitoring report on the General Fund for 2012/13 showed a £525k underspend compared to the original budget of £9,829k.</p> <p>This favourable variance was achieved through the careful financial management processes in place at the Council.</p> <p>At the end of March the capital programme was 86% complete with an actual expenditure of £4,526k. This leaves £825k of slippage in on-going projects which will be carried over to 2013/14, along with the respective funding.</p>	 Green
Reserve Balances	<p>The Council has usable revenue and capital reserves that equate to approximately 11 weeks of spend. When compared against its nearest neighbours benchmarking group this was the fourth highest.</p> <p>The Council has set a minimum general fund reserve balance of £1m and it achieved this at 31 March 2013.</p>	 Green

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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	<p>The current MTFP covers the period to 2016/17 and is updated each year through the budget process.</p> <p>The financial model incorporated into the MTFS is robust and takes account of the expected impact of internal and external pressures including the reduction in central government funding, legislative changes, the economic downturn, as well as the Council's own policy objectives and capital programme.</p>	 Green
Adequacy of planning assumptions	<p>Section 5.5. of the Budget paper provides details of the assumptions made with regard to the budget. These assumptions cover a wide range of issues including pay awards, RSG and VAT shelter income.</p> <p>The planning assumptions appear reasonable and are monitored by the finance team to ensure they remain appropriate over time.</p> <p>The June 2012 Cabinet report considered a range of different scenarios arising from the assumptions made and quantified the potential financial impacts.</p>	 Green
Scope of the MTFP and links to annual planning	<p>The MTFS supports the delivery of the Council's objectives and priorities as set out in the Corporate Plan 2013-2016. The MTFS is aimed at delivering the Council's Priorities of:</p> <ul style="list-style-type: none"> • Regenerating Rossendale; • Responsive Value for Money Services; and • Clean Green Rossendale <p>The MTFS sets out how the Council will manage its revenue finances up to 2016/17.</p> <p>The Strategy also highlights the longer term challenges particularly in respect of the Council's assets.</p>	 Green
Review processes	<p>The Council keeps its MTFS under review, including regular update through budget monitoring.</p> <p>During the year further reports are produced for members to keep them updated of progress and key issues, for example in relation to the savings plans and consultation.</p>	 Green
Responsiveness of the Plan	<p>The Council is open to consideration of the different delivery methods and options which may be open to it. As a result, it has seen a number of joint arrangements develop and also a rationalisation of assets.</p> <p>Alternative option are always considered, for example in November 2012 a report was presented to Members highlighting different alternatives to help achieve savings. However, in common with many other Council's the scale of the financial savings required over the medium term presents a significant challenge if the Council is to continue to balance its budget. Work needs to continue to ensure savings are identified and delivered on a recurrent basis.</p>	 Amber

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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 Cabinet 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	<p>The Management Team is fully aware of the financial situation and works together to address the current issues. Members are fully briefed on the financial position through the budget reports and other financial updates produced during the year. For example updates in relation to the MTFS were produced in June and November in addition to the regular finance monitoring report produced.</p>	 Green
Executive and Member Engagement	<p>Officers have taken steps to ensure that members are clear about the severity of the financial challenge the Council faces. This is evident in the Budget report presented at Council which states: 'Members, collectively, now have to acknowledge this growing deficit and make some difficult choices and decisions in order to balance annual income and expenditure over the medium term'. In preparing the budget the Council ensures there has been wide ranging consultation with members both through Cabinet and more widely through the annual budget briefing. The Council has arrangements in place for consultation with the public through the Citizens Panel and also through the Council Website. The Budget included some detailed feedback from this consultation.</p>	 Green
Overview for controls over key cost categories	<p>The Council's key cost categories relate to three directorates which are Place; Business; and Corporate Support Services. The financial position of the services in each of these directorates are reported clearly and includes an explanation of variances along with any other key issues that need to be considered.</p>	 Green
Budget reporting: revenue and capital	<p>Regular finance reports are produced and presented to Cabinet. The reports are detailed and set out detailed review of actual against budget at both a high level and service level with detailed explanation of variances. The Capital Programme is clearly monitored as is the actual resource to fund the capital spend.</p>	 Green
Adequacy of other Committee/ Cabinet Reporting	<p>The finance reports produced are in line with best practice. Some of the wide-ranging information is not always seen in other authorities finance reports. The reports include performance reporting on cash flow management, collection rates for debtors and council tax and a general economic outlook. Information on other treasury management issues is also produced as well as an update about the Council's resources. The achievement of savings is not reported explicitly, although this can be picked up through the budget variance reports.</p>	 Green

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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	<p>The budget is prepared by the Finance team at the Council.</p> <p>The budget is subject to regular formal review processes. However, in reality, the budget process has evolved into a continual process because plans are being updated as savings are identified.</p> <p>Budgets and cash are both closely monitored and managed as demonstrated in the finance reports.</p>	 Green
Performance against Savings Plans	<p>The achievement of budget savings is reported through the finance monitoring reports.</p> <p>There is no specific report to Members on savings because schemes are built in to the budget and slippage is reported through the variance analysis.</p> <p>More detailed monitoring of the delivery of savings is carried out by the Finance team on the achievement of savings through a detailed spreadsheet. This ensures that plans are on track or that emerging pressures can be identified and corrective action taken.</p>	 Green
Key Financial Accounting Systems	<p>The Council has financial systems in place that are appropriate for the business need.</p> <p>Internal Audit completed nine reviews of key financial systems and has concluded that, overall, the systems in place meet their control objectives.</p> <p>Eight of the systems reviewed received either full or substantial assurance.</p> <p>The one limited assurance related to property asset management and related income collection. An action plan has been agreed to address the control weaknesses identified.</p>	 Green

Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
Finance Department Resourcing	<p>The Finance Team has reduced in size as part of the drive to achieve savings. We are, however, satisfied that there are sufficient resources to meet all of the expected service requirements.</p> <p>Going forward, consider may be needed on how best to ensure succession planning and also avoid being over-reliant on individuals.</p>	 Green
Internal audit arrangements	<p>The internal audit function for the Council is provided by Lancashire County Council.</p> <p>Internal Audit reports regularly to the Audit and Accounts Committee so that members are aware of the issues arising from their work.</p> <p>Internal Audit presents a risk based audit plan to members on an annual basis and reported in June 2013 that it had completed its audit plan for the year as presented to the Committee in 2012.</p> <p>There is an effective working relationship between internal and external audit.</p>	 Green
External audit arrangements	<p>The Council's external auditor for 2011/12 gave an unqualified opinion on the 2011/12 accounts and the Value for Money conclusion.</p> <p>The accounts had been prepared in line with the statutory timetable and were supported by good working papers.</p> <p>The 2012/13 audit has progressed well.</p>	 Green
Assurance framework/ risk management	<p>The Council produces an integrated performance report on a quarterly basis. This report provides assurance across a number of areas. In addition to summarising overall financial performance, the report gives a summary of the service performance by priority area.</p> <p>The report is supported by detailed statistical information on the achievement of targets and descriptive commentary on current levels of performance.</p> <p>The report looks at Corporate Plan Actions and Performance Indicators.</p> <p>Risk management is covered in detail, summarising all of the Corporate Risks and includes a risk owner and target date.</p> <p>The report also includes a summary of complaints and compliments.</p>	 Green

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Key Indicators of Financial Performance

Working Capital Ratio - 2011/2012

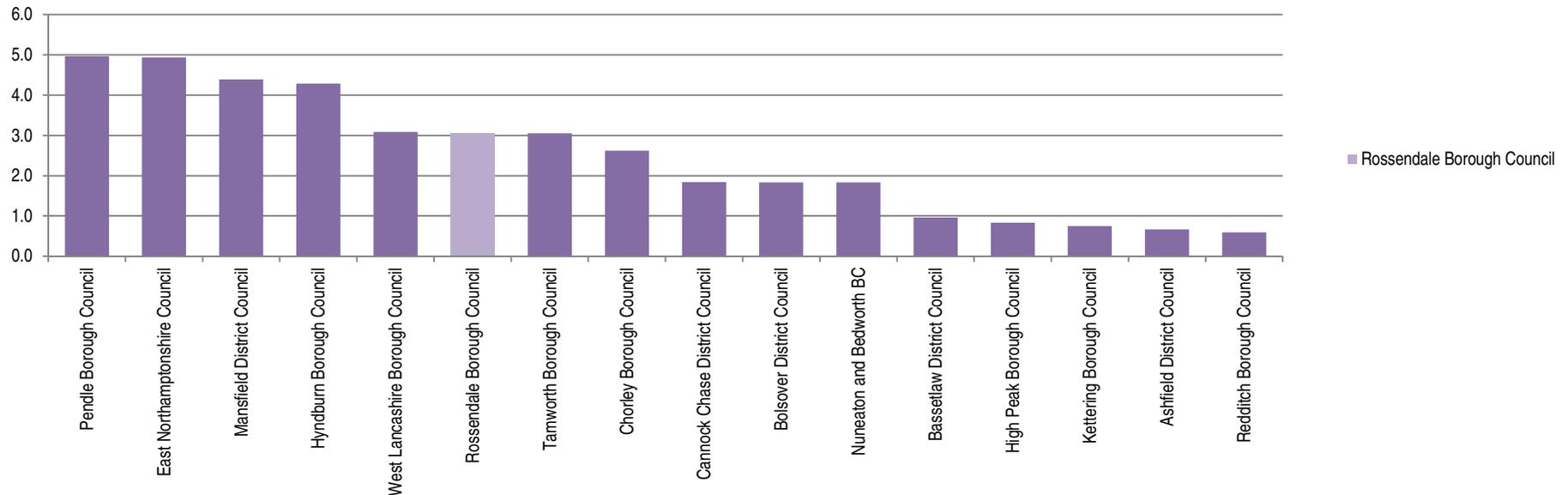
Definition

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.

Findings

The Council has a ration of just over 3:1.

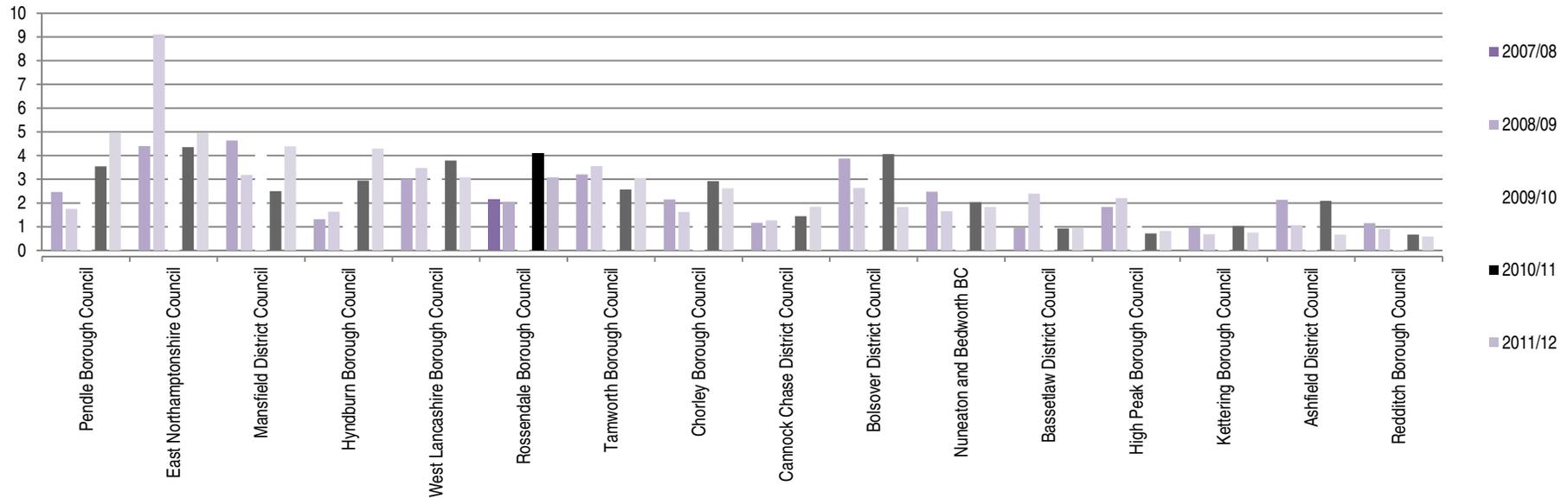
Working Capital ratio - 2011-12



Key Indicators of Financial Performance

Working Capital Ratio - Trend

Working Capital Ratio - trend [in order of 2011-12 value]



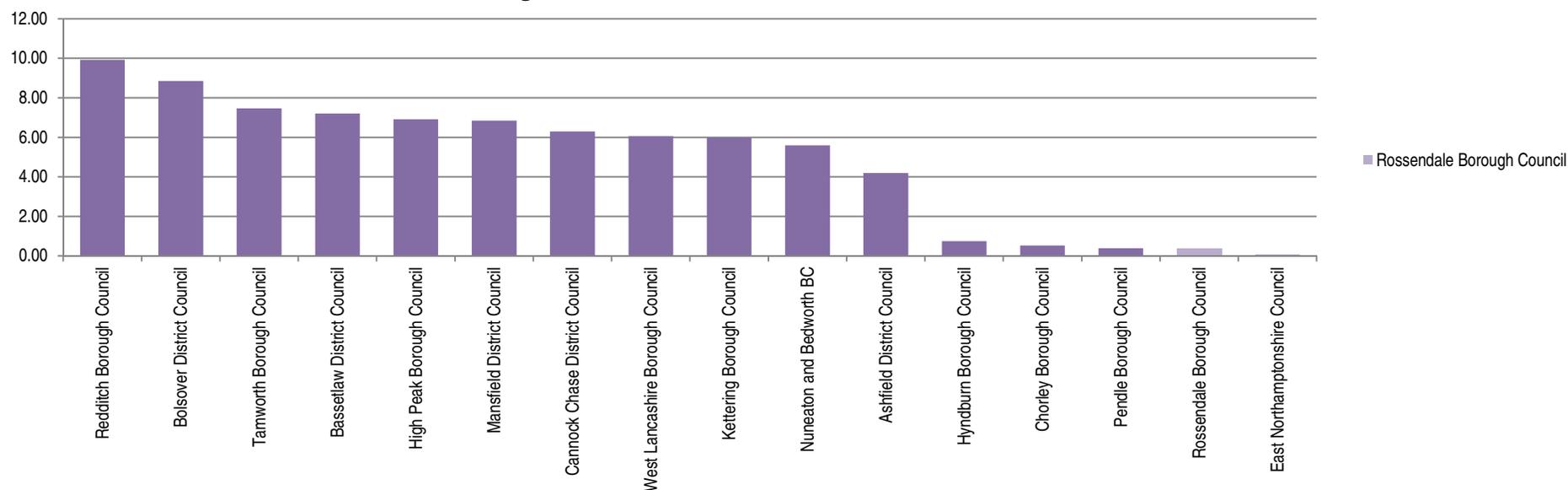
Key Indicators of Financial Performance

Long Term Debt to Tax Ratio - 2011/2012

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.

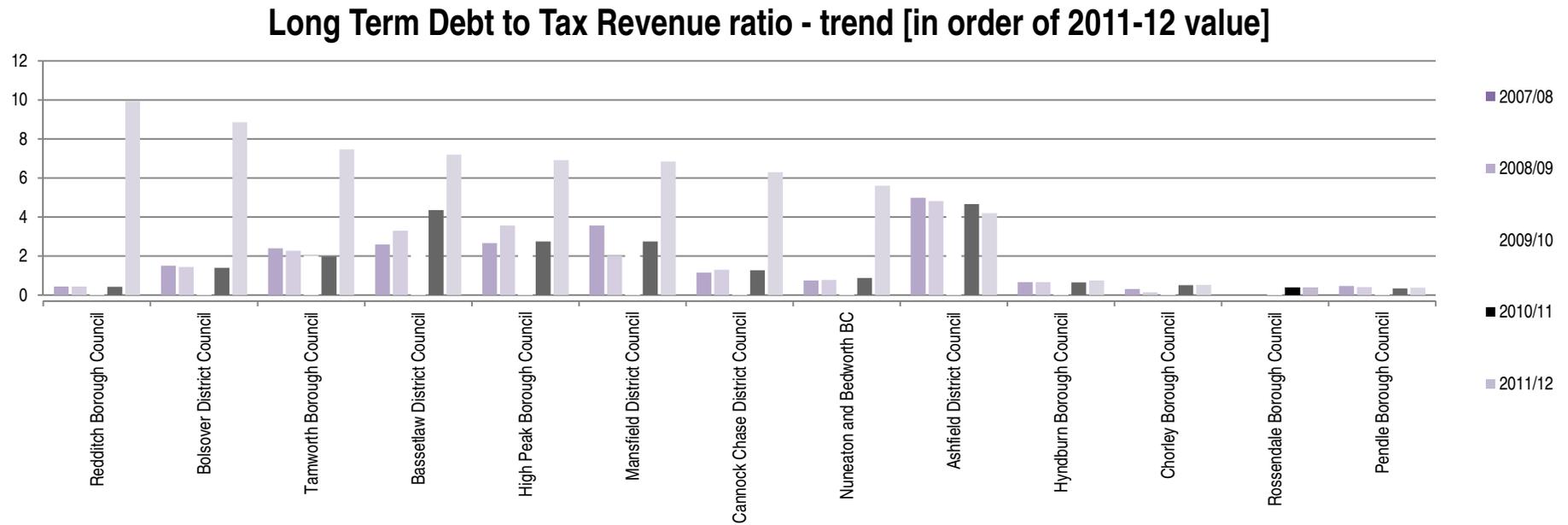
Findings: Rossendale's long term debt is less than its annual tax revenue.

Long Term Debt to Tax Revenue ratio 2011-12



Key Indicators of Financial Performance

Long Term Debt to Tax - Trend



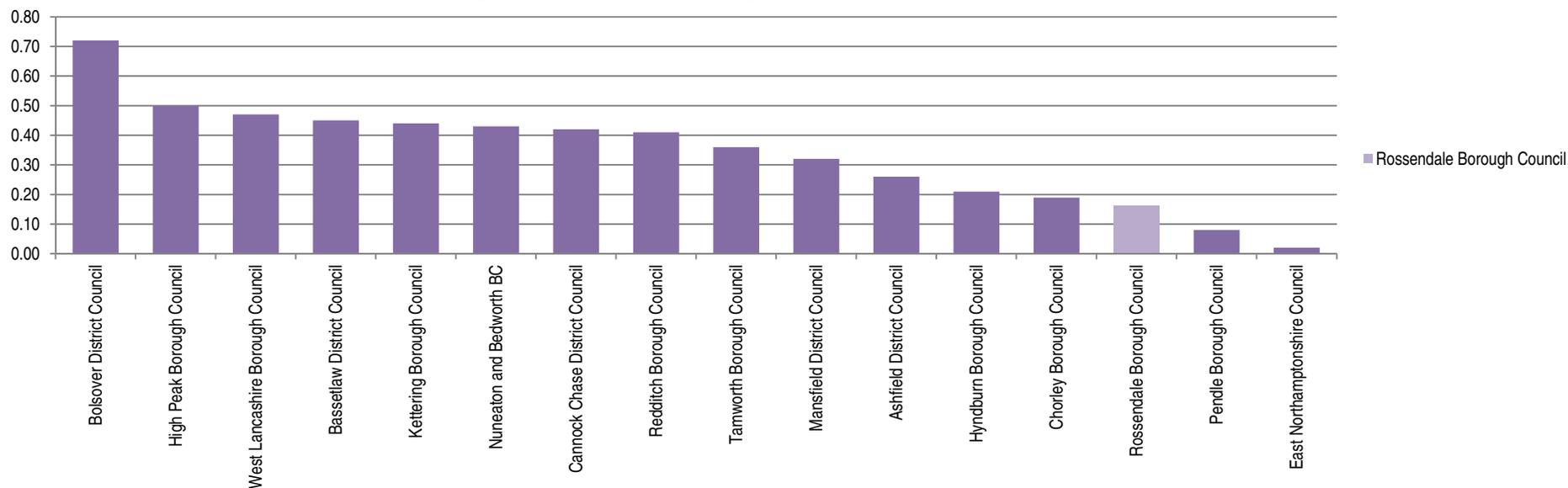
Key Indicators of Financial Performance

Long Term Debt to Long Term Assets - 2011/2012

Definition: Shows long term borrowing compared to long term assets. The lower the ratio the better the performance as it demonstrates that the Council has not had to over-borrow to fund its assets.

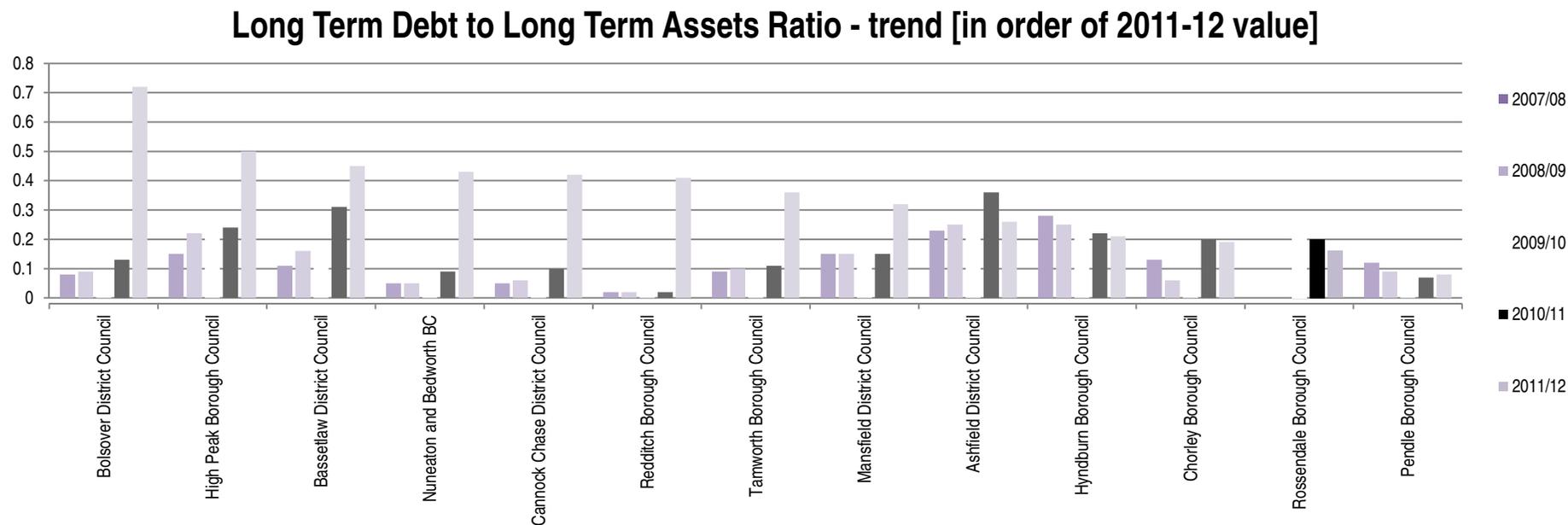
Findings Rossendale has relatively low levels of long term debt when compared to long term assets.

Long Term Debt to Long Term Assets ratio 2011-12



Key Indicators of Financial Performance

Long Term Debt to Long Term Assets - Trend



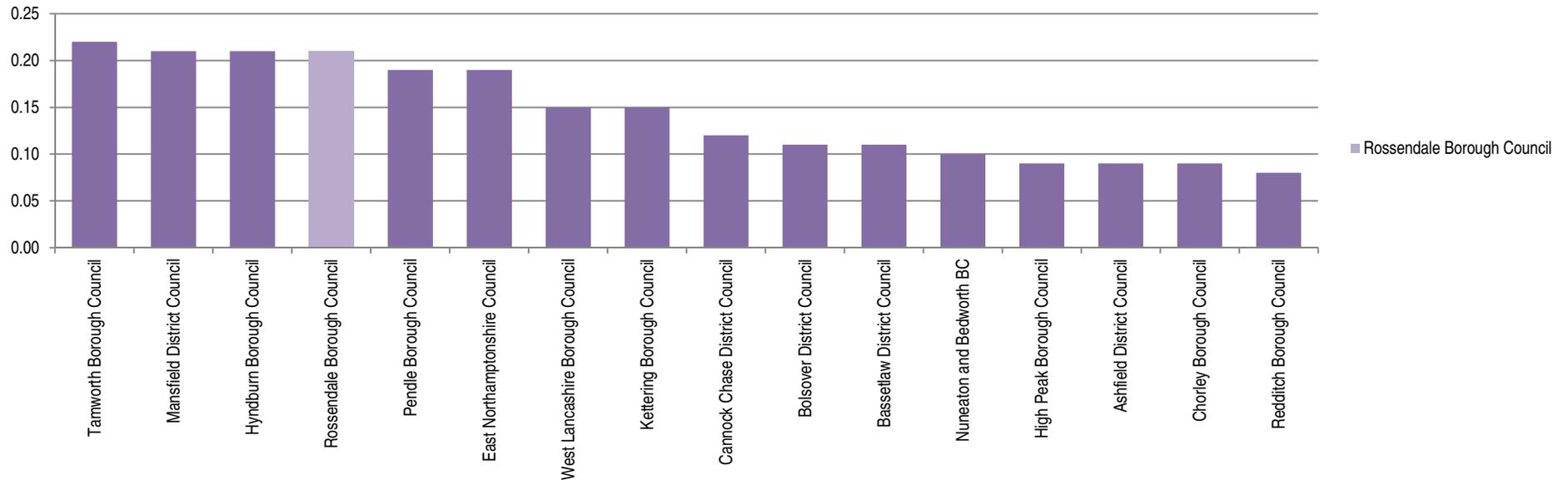
Key Indicators of Financial Performance

Usable Reserves to Gross Revenue Expenditure - 2011/2012

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.

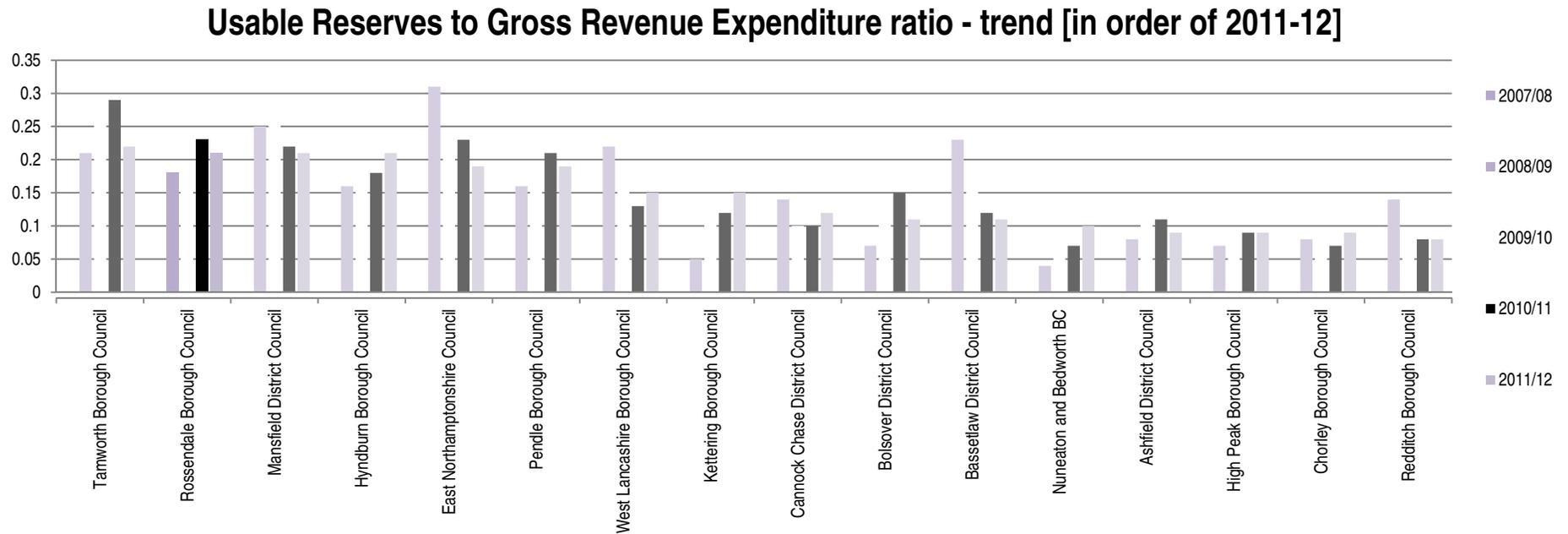
Findings: Rossendale has a ratio of 0.21, which is the fourth highest when compared to its group. This means that the reserves equate to approximately 11 weeks expenditure.

Usable Reserves to Gross Revenue Expenditure ratio 2011-12



Key Indicators of Financial Performance

Usable Reserves to Gross Revenue Expenditure - Trend



Key Indicators of Financial Performance

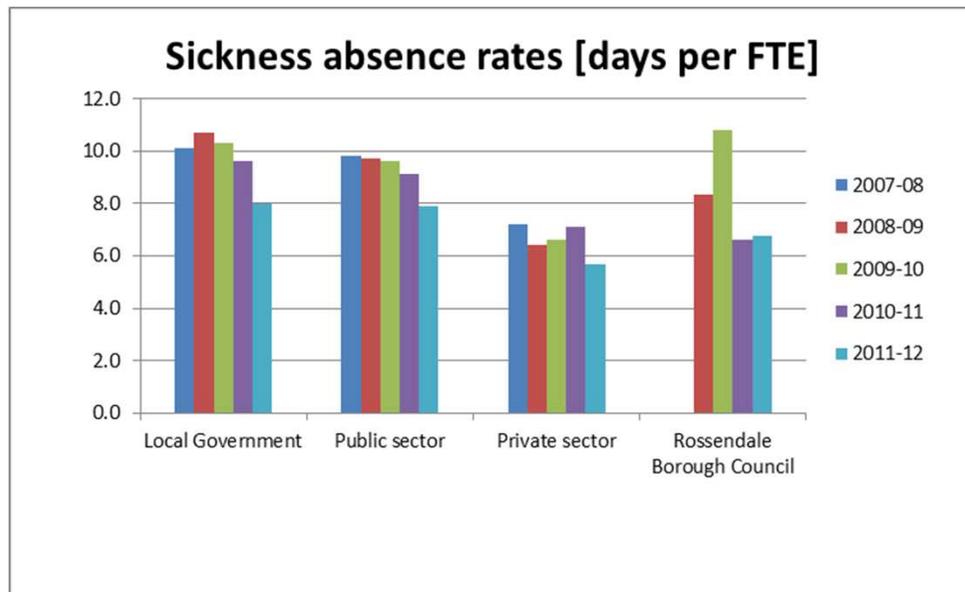
Sickness Absence Levels

Background

The average sickness absence level for the public sector is 7.9 days per FTE, whilst the private sector average is 5.7. Many councils have taken a proactive approach to reducing the number of days lost to sickness each year. For example:

- London Borough of Croydon reduced absence from 12.5 days to 6.4 days over two years due to a new tougher sickness absence management.
- Cambridgeshire County Council reduced sickness absence levels to 5 days per employee using an approach built on a relationship of trust with staff and empowering managers to take control of absence management.

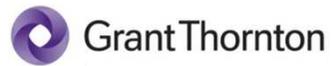
Costs that accrue from sickness absence relate to the hiring of agency staff to cover staff gaps, or from holding a larger workforce complement than is desirable. Absence also damages service levels either through staff shortage or lack of continuity. Reducing absenteeism saves money, improves productivity and can have a positive customer benefit. Absence management will be a particular challenge for all authorities during SR13, given the continued context of significant pressures on staff to deliver "more for less".



Findings

Rossendale's sickness absence levels have fluctuated over recent years. Recently-produced figures for 2012/13 show that the level of absence has increased to 8.47 days, an increase of 1.72 days per FTE on the previous year. In overall terms, the Council's performance has tended to be better than the average for local government bodies, however this may not be the case for 2012/13.

Source: CIPD Annual Survey Reports on Absence management and Rossendale Indicator information



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