London Borough of Haringey

Review of the Council's arrangements for securing financial resilience

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Executive summary

Introduction

Background

Haringey is a densely populated borough in north London with a population of over 227,000 people. The borough stretches from the prosperous neighbourhood of Highgate in the west to Tottenham in the east; one of the most deprived areas in the country. Overall Haringey is one of the most deprived boroughs in the country. It is also one of the most diverse, with a significant proportion of people from ethnic minority backgrounds and over 160 different languages are spoken in the borough.

Haringey retains a pattern of older "village" centres and open spaces alongside newer development. There are good rail and road links in and out of central London. Haringey is situated in the growth corridor, connecting London with Stanstead, Cambridge and Peterborough.

Context

The Chancellor of the Exchequer announced the 2010 Spending Review (SR10) to Parliament on 20 October 2010. This formed a central part of the Coalition Government's response to reducing the national deficit, with the intention to bring public finances back into balance during 2014/15.

The associated report published Government Departmental Expenditure Limits (DELs) for the four-year spending review period: 2011/12 to 2014/15. CLG funding was reduced by 26% over the period.

SR10 represented the largest reductions in public spending since the 1920's. Revenue funding to local government will 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 have been frontloaded, with 8% cash reductions in 2011/12.

The provisional Local Government Finance Settlement was announced on 13 December 2010. The final figures were announced on 31st January with the debate and approval by the House of Commons on 9th February. This represents a two year funding announcement, because the Government is delaying a decision on later years until after their review of local government finance.

This follows 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.

Our Approach

Value for Money Conclusion
As part of the work informing our 2010/11 Value for Money (VFM) conclusion we have undertaken 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.

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;
- It's approach to strategic financial planning;
- It's approach to financial governance; and
- It's approach to financial control.

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 faces significant risks and challenges in 2011/12 and beyond its current arrangements for achieving financial resilience are adequate.

This report needs to read in context that we are at the start of SR10 where some of the potential risks and challenges over the next four years have yet to materialise. Our assessment may change in future years, although we would note the Council has systems in place to address future challenges.

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

Green	**No cause for concern**. Adequate arrangements identified and key characteristics of good practice appear to be in place.
Amber	**Potential risks and / or weaknesses**. Adequate arrangements and characteristics are in place in some respects, but not all . Evidence that the Council is taking forward areas where arrangements need to be strengthened.
Red	**High risk**: The Council's arrangements are generally inadequate and not in line with good practice or may have a high risk of not succeeding

Our findings are detailed between pages 10 and 32 of this report.

Where areas have been assessed as amber or red we have discussed these with officers and, as appropriate, made recommendations on pages 8 and 9.

Overview of Arrangements

Area	Summary observations	Summary level risk assessment
Key Indicators of Performance	• Benchmarked key indicators of financial performance indicate that, in general terms, Haringey is following recent trends of the London Borough comparator group for most indicators. These trends, however, indicate reductions in liquidity, reducing DSG balances, and above average borrowing levels. • GF reserves have increased over the three year period to 31 March 2010, whilst the London Borough average is on a decreasing trend. The level of GF reserves at 31 March 2011 for Haringey (£10.5m) remains lower than the London borough average of £14.6m, although it should be noted that GF reserves represent only one source of funding for future years costs and the Council has access to further earmarked reserves albeit the redundancy programme has diminished them in year. • Overall, the Council's level of available reserves and contingencies provide adequate cover for known future financial risks. • The Council's 2010/11 revenue outturn provided a net general fund surplus of £51k. This represented a £1.6m improvement on the period 11 outturn forecast. • Haringey has not faired well compared to the rest of London in terms of spending power reductions, and has had to take significant steps to ensure financial balance. • The Council has been developing a robust approach to absence management, and it will be important to maintain this focus during the MTFP period.	Green
Strategic Financial Planning	• The Council strengthened its most recent financial planning process in light of the Government's deficit reduction programme. It is clear that the Council took account of its corporate priorities when setting what was a generationally challenging budget. The Council initially adopted a corporate approach to identifying savings, followed by the introduction of departmental targets, to ensure savings levels were achieved. Budgets and savings were agreed at a corporate level, by senior officers and Members. • In addition, like many councils, the lack of significant alternative savings scenarios in advance of SR10 and the finance settlement, resulted in some aspects of the planning process being understandably rushed, impacting on the ability of some services to finalise savings and budget assumptions prior to the start of the 2011/12 financial year. • This has been recognised by the Council, which is intending to conclude its review of the 2012/13 budget significantly earlier than the previous year, and by making provision of £1.8m in the MTFP for slippage in delivering savings. • Significant work is still required to meet the outstanding budget gap of £ 28.1m with the MTFP	Amber

Key:
- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

Overview of Arrangements

Area	Summary observations	Summary level risk assessment
Financial Governance	• The Council has a well established approach to financial governance that has delivered solid results in recent financial years. • Significant reductions to finance resource, allied to reductions in service manager posts and some operational challenges in relation to the use of some key financial systems raise risks in relation to the role and responsibilities of the "Haringey Manager". (These are set out in more detail on page 30 of this report.) The Council understands these risks and is progressing mitigating actions. However, as with many other local authorities, failure to embed the necessary cultural, system, and process changes could impact on the Council's financial governance effectiveness.	Green
Financial Control	• The Council's has a robust approach to financial and performance management, and has a largely good record in controlling spend in non demand led services. The Council also demonstrates appropriate deployment of internal and external assurance mechanisms. • Whilst key financial systems have historically been used to provide reliable financial monitoring information for the Council to manage financial risks in a timely way, the current procedures incorporate a number of labour intensive work around activities that may be challenging for the restructured organisation to deliver. As already noted, the Council understands the risks associated with this change and is progressing mitigating actions. We see achieving the financial management cultural change throughout the organisation as one of the Council's biggest barriers to delivering effective budgetary controls in the period beyond delivering the front ended savings of the SR 10.	Green

Key:
- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

Recommendations

Area of review	Recommendations	Responsibility	Timescale	Comment
Key Indicators of Performance	The Council should ensure profiles are appropriate across the life of the capital programme.	Head of Finance – Budgets, Accounting and Systems	January 2012	Profiles are normally used as part of the capital budget management process in the Council. However it is accepted that the process may benefit from a review and this will, therefore, be undertaken.
	The Council should continue to maintain appropriate levels of reserves and monitor the Council's liquidity to ensure financial resilience is maintained.	Chief Finance Officer	On-going	Agreed
Strategic Financial Planning	The Council should, where appropriate, utilise a greater level of scenario planning during the planning process and ensure that all savings assumptions are understood and agreed in a timescale that maximises their delivery.	N/A	N/A	The current level is considered appropriate given the reduced level of resources available for this work in the Council.
	The Council should adapt its MTFP to reflect the new corporate structures.	Deputy Chief Finance Officer	October 2011	The new MTFP will reflect the new corporate structure.
	The Council should consider adopting ,in an appropriate and controlled way ,aspects of Zero Based Budgeting to improve the strategic prioritisation during the financial planning cycle.	Deputy Chief Finance Officer	April 2012	Given the significantly reduced number of finance staff in the Council, resources may not be available to undertake this very time consuming technique. The Council may consider adopting some ZBB on a limited pilot basis.

Recommendations

Area of review	Recommendations	Responsibility	Timescale	Comment
Financial Governance	The Council should review and update its chart of accounts so that budgets and actuals are aligned to the new corporate structures.	N/A	N/A	The overall high level structure following Re-Thinking Haringey is now reflected in SAP
	The Council should ensure that services improve their understanding of the relationship between demand and expenditure, for example by utilising Activity Based Costing where appropriate, to better inform financial planning and financial monitoring discussions.	N/A	N/A	Key unit cost data is currently in use for example in Looked After Children. However, given the significantly reduced numbers of staff within the Council, resources have to be prioritised. Extending ABC across the Council is not seen as a key priority at this time.
	The Council should ensure that the new "Haringey Manager" financial management responsibilities are reflected in appropriate person specifications and that the associated performance appraisal targets are effectively set and monitored.	N/A	N/A	Budget management responsibilities are already incorporated within the revised Performance Appraisal documentation and is established as a key competency.
Financial Control	The Council should ensure that planned enhancements to SAP and other financial systems are delivered during 2011/12 and associated training is provided to service managers.	Deputy Chief Finance Officer	December 2012 (estimated)	This is linked to the current tendering exercise to appoint a new Managed Service Provider. The enhancements will result from the implementation of a new version of SAP which will not be in place until at least the end of 2012/13.
	The ability of the reorganised finance function to provide appropriate risk-based support to services will need to be regularly monitored, particularly during the period of transition embedding the new financial responsibilities within departments.	Deputy Chief Finance Officer	April 2012	Agreed – this already planned to take place.
	If the Council continues to use the HESP monitoring tool, it needs to be updated to ensure slippage is appropriately reflected in projections, and that the template is aligned to the new corporate structure.	N/A	N/A	Revisions have already been actioned.

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Section 2

Key Indicators

Introduction

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

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

The associated graphs and explanations of the ratios are included in Appendix 1.

We have used the Audit Commission's nearest neighbours benchmarking group, which is the following authorities.

Greenwich London Borough Council
Wandsworth Borough Council
Southwark Council
Merton Council
Hounslow London Borough Council
London Borough of Ealing
London Borough of Tower Hamlets
London Borough of Lambeth
London Borough of Waltham Forest
London Borough of Enfield
Haringey London Borough Council
Brent London Borough Council
London Borough of Lewisham
London Borough of Hackney
Islington London Borough Council
Newham London Borough Council

Key: ● High risk area ● Potential risks and/or weaknesses in this area ● No causes for concern

Overview of performance

Area of Focus	Summary observations	High level risk assessment
Liquidity	• Haringey's working capital ratio has reduced from 2.08 in 2007 to 1.10 in 2009. This has taken the Borough from above the industry standard range of 2:1. This indicates that the council's liquidity is decreasing. However, unlike some other authorities in this benchmark group, Haringey is, just, maintaining a positive working capital ratio. Working capital will come under increasing pressure during SR10 and will need to be carefully monitored. • The Council's collection rate for Council Tax for 2008/09 was 93.0% (against a the London average of 92.6%) , which dropped slightly to 92.6% during 2009/10, against a target of 93.25%. The local government average for the same period was 97%. Haringey was one of 11 London Boroughs which had a collection rate lower than 95% during 2009/10. We note that levels of deprivation in some parts of the borough, and the levels of transient population, are likely to impact on this collection rate. • The Council's collection rate for NNDR was 95.7% for 2008/09 and this rose to 97.5% during 2009/10, against a target of 98.5%.	Amber
Borrowing	• Haringey's long term borrowing to long term asset ratio of 0.35 shows that the Council's long term borrowing represents approximately one third of its long term assets - i.e. long term borrowing does not exceed its long term assets. In comparison to other authorities in its benchmarked group, Haringey has a higher than average long term borrowing to long term assets ratio. • Haringey's long term borrowing exceeds tax revenue by 2.53 times. Haringey has the third highest ratio in comparison to the benchmark group, although half of the authorities have a ratio greater than 2, indicating that Haringey is reasonably consistent with other benchmarked authorities.	Green
Workforce	• Sickness absence levels during 2009/10 was an average of 9.38 per FTE. This compares to the London average of 9.4 and the national average of 12.3 for the same period. • Haringey's sickness absence levels have fluctuated over the past three years, with an increase of an average 0.5 per FTE (5.6%) during 2009/10 and a reduction during 2010/11 of an average of 1.42 per FTE (15%). 2011/12 and beyond will represent a real challenge in terms of maintaining the downward momentum when budgets are squeezed and staff are under more pressure to delver "more for less" • The Council operates a highly regarded workforce management monitoring system, and outputs from this system are included in the finance and performance monitoring reports to CEMB and the Cabinet, where actions are agreed to manage related workforce issues. • Sickness absence levels have an appropriate profile with senior management and actions are agreed and minuted by CEMB. Given the significant organisational change that is taking place during 2011/12, it will be important for CEMB to continue to carefully manage workforce issues when they arise and maintain a robust approach to sickness absence monitoring for the recent downward trend to improve.	Green

Overview of performance

Area of Focus	Summary observations	High level risk assessment
Performance Against Budget	• The 2009/10 General Fund revenue budget overspent by £2.183m. The majority of departments overspent their approved revenue budget total, with Children and Young People (£4.3m) and Urban Environment (£1.7m) representing the largest overspends. • The 2010/11 General Fund was forecast to overspend by £2.4m in 2010/11, at period 10. However, following management actions, the final outturn position was a surplus of £51k.The Council has recognised an underlying budget pressures in Children's Services and a growth of £7.3m has been included in the 2011/12 budget. • The capital programme underspent by £27.8m during 2009/10 (14.1% of the approved budget). This was a net increase in underspend of £3.3m on the previous forecast reported to Cabinet. £21.4m capital programme spend was recommended as carry forwards. The capital programme was forecast to underspend by £17.7m during 2010/11, with £12.6m carry forward proposals. The provisional outturn for 2010/11 was a net underspend of £14.8m (8.7% of approved budget), which was £2.2m less than forecast at period 11. We note that, of this contingency, £5.6m related to BSF, which was part of a planned approach agreed by the BSF Project Board. Furthermore, rather than indicating slippage, the underspend primarily reflects changes to payment profiles. • The HRA recorded a surplus of £0.538m for 2009/10. A similar level of surplus is forecast for 2010/11.	Amber
Reserve Balances	• The MTFP notes the general reserves target for 2011/12 has been set at £10.5m which represents 4% of the Council's budget. This level is the same as 2010/11. There are also a number of earmarked and other reserves which are projected to be £48.6m at 31 March 2011, and £18m as at 31 March 2012. The main variance between these two projections is the use of reserves to fund redundancy costs during 2011/12. The General Purposes Committee (to be replaced by the Corporate Committee in 2011/12) will consider the actual reserves when approving the accounts, with the Cabinet to make the final decision on the Council's level of reserves. • Between 2007/08 and 2009/10 the Council reduced the value of its useable capital and revenue reserves, from 8% to 3%. This was in line with the general trend of its benchmark group of London Boroughs. • Haringey's General Fund reserves have increased over the three year period to 31 March 2010, whilst the London Borough average is on a decreasing trend. However, the level of forecast reserves at 31 March 2011 for Haringey (£10.5m) remains lower than the London borough average of £14.6m. • Haringey has not faired well compared to the rest of London, in terms of spending power reductions, and there is very limited ability from 2011/12 to rely on the use of GF reserves to meet short term government funding reductions. Whilst this is true for London as a whole, Haringey's General Fund Reserve's ability to fund the spending power reduction is less than the London average. However we would note that despite the use of earmarked reserves to fund redundancies the Council still has earmarked reserves available to cover future risks.	Green

Overview of performance

Area of Focus	Summary observations	High level risk assessment
Schools Balances	• Haringey's ratio has decreased by 1% each year over the thee years to 2009/10. This is in line with the broad trend of the benchmark group. Haringey has consistently remained one of the authorities with the one of the lowest ratios over this three-year period. It's 2009/10 ratio of 2% was the second lowest in the benchmark group. • This ratio indicates that DSG is drawing down on balances as result of budgetary pressures. The 2009/10 outturn noted a £2.2m overspend on schools DSG budgets and an underspend of £722k on non schools DSG budgets. • This needs to be carefully monitored to ensure DSG balances remain at an appropriate level and the reducing trend is effectively managed. • We recognise that managing schools balances is a fine judgement and that excessive balances are inappropriate and should be discouraged. • The Council will need to continue to consider the impact of Academies on the level of schools' balances, as part of its wider consideration of the wider issues relating to Academies.	Amber

Key:
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- Potential risks and/or weaknesses in this area
- No causes for concern

Section 3

Strategic Financial Planning

Key indicators of good Strategic Financial Planning	
	• Focus on achievement of corporate priorities is evident through the financial planning process. The MTFS focuses resources on priorities • Service and financial planning processes are integrated. • The MTFS 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 MTFS 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 SR10 • The MTFS 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 MTFS • Effective treasury management arrangements are in place. • The council operates within an appropriate level of reserves and balances

Medium Term Financial Strategy

Area of Focus	Summary observations	High level risk assessment
Focus of the MTFP	• The MTFP indicates that the Council is reviewing the outcomes and priorities for Haringey, and how these will be delivered. For example, linkages to the Rethinking Haringey paper. The Council agreed spending priorities and actions linked to these outcomes based on evidence of need and available resources for 2011/12. • The current MTFP covers the three year period 2011/12 to 2013/14. • The scale of the savings requirement meant that most services received a robust level of challenge and scrutiny. There were some exceptions to this, based on the Council's priorities, in particular in relation to looked after children and safeguarding services. • The Council initially took a corporate approach to identifying savings. This was followed by the allocation of targets to departments to support the identification of the level of savings required. Targets of 25% for front line services and 50% for support services were allocated, to ensure the impact on front-line services was mitigated. We note that confirmed savings that are cross council total £2.8m in 2011/12 , or 7% of the total for this financial year, and that all departmental savings were considered corporately by CEMB and the Cabinet. • The Council should consider adopting aspects of strategic Zero Based Budgeting (ZBB) approach to financial planning. ZBB is an approach to budgeting that starts from the premise that no costs or activities should be factored into the plans for the coming budget period, just because they figured in the costs or activities for the current or previous periods. Rather, everything that is to be included in the budget must be considered and justified. By adopting this approach the Council will be able to prioritise and rank services, so that all financial planning decisions can be made in a fully informed and transparent way. Effective implementation of such and approach needs to be controlled and focused and the continuation of incremental budgeting in key services needs to be effectively challenged and linked carefully to the Council's strategic objectives.	Amber

Key:
- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

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- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

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Medium Term Financial Strategy

Area of Focus	Summary observations	High level risk assessment

Adequacy of planning assumptions	• The December 2010 finance settlement confirmed a 13% funding reduction to the 2011/12 budget which was significantly higher than had been expected. In cash terms the settlement represented a funding reduction of £34m for 2011/12, with the final savings requirement of £41m for the year, when growth items were taken into account. The equivalent July 2010 forecast had been a budget gap of £22.8m, but as with the sector as a whole, the front loading of savings was not forecast. The Council did not consider in detail any alternative savings scenarios.
	• Given the scale of savings required, the pressure on the final stages of the planning cycle impacted on the timescales for 2011/12. For example:
	  • the £5m Supporting People saving, which is the largest single saving to be made during 2011/12, did not conclude a detailed analysis of the assumptions that underpin the realisation of this saving until mid May 2011.
	  • the proposed closures of children's centres did not finalise its assumptions until the start of 2011/12.
	• There is a risk to the achievability of the MTFP savings target if the Council does not agree to decommission services, such those relating to children's centres, following consultation.
	• The Council reviewed potential savings delays as part of the associated planning cycle, and a provision of £1.8m for slippage has been included in the 2011/12 budget, reflecting the fact that the Council recognised these risks and factored them into the budget. Nonetheless, it also reflects the difficulty the Council has had in some areas in finalising savings prior to the start of the new MTFP period.
	• Our discussions with officers indicated that, whilst individual services undertake modelling of demand to understand the impact on future spending levels, this information is not consolidated within the plan, limiting the potential of Members to understand in detail all the challenges the Council faces.
	• The MTFP, whilst covering a three-year financial horizon, retains an annualised approach to planning assumptions, with a particular focus on year one of the plan. For example, whilst £62m savings have been included for the three-year period, a balance of an additional £21m savings is required for years two and three of the plan.
	• The MTFP confirms that corporate priorities are being reviewed during 2011/12.
	• Approximately £25m redundancy payments are forecast during 2011/12. A £10m transition reserve is being used to contribute to this, with other reserves being used to fund the balance, with a small proportion to be capitalised, which reflects the Council's historically prudent level of reserves.
	• The impact of the civil disturbances experienced in Haringey, and other authority areas across England during August 2011, will take time to fully understand. This includes understanding if they create any risks to the MFTP.
		Amber

Medium Term Financial Strategy

Area of Focus	Summary observations	High level risk assessment
Adequacy of planning assumptions ***(Continued)***	• The MTFP assumes a Council Tax freeze in 2011/12 (to qualify for CLG £2.5m funding) and assumes a 2.5% increase in Council Tax from 2012/13 onwards, with a decision to be made on future Council Tax levels "when the medium term financial picture becomes clearer". • The MTFP includes provision of £4m on the assumption that the planned reduction in Council Tax Benefit from 2013/14 may be funded by the Council. This provides the option for Members to agree to fund this gap or, if not, can contribute to the outstanding savings requirement for the MTFP period, which appears reasonable. • A total provision for inflation of £19.8m is included in the MTFP over its three year period. Not all service budgets have received inflation allocations, and a process is in place for services to receive supplementary budgets for inflationary pressure where this is deemed necessary, which is good practice.	
Scope of the MTFP and links to annual planning	• The Council launched Rethinking Haringey in January 2011, which set out the current challenges facing the Council, and the plans for transforming service delivery. The related new management structure was a key driver in the financial planning process, particularly with regard to achieving staffing related savings. • During the most recent planning cycle Cabinet led forums were established to discuss budget planning. This formed part of the Leader of the Council's wider approach to build a critical mass of members who understood the financial issues facing the Council, in particular the context of taking difficult financial decisions. • It is generally accepted that the financial planning cycle needs to commence earlier during 2011/12 to ensure implementation planning for savings starts earlier than during the previous planning cycle. The 2012/13 financial planning cycle has now commenced – CEMB had an away day during May, and a Cabinet led forums took place during the Summer. • The Council is planning to agree indicative budgets and savings for 2012/13 during September 2011. Whilst delays during the previous cycle were clearly impacted by the timing of SR10 and the finance settlement, it is felt by some services that greater use of scenario planning could have mitigated elements of the financial planning process which appeared rushed, and impacted on some savings profiles for 2011/12.	Amber

Key:
- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

Medium Term Financial Strategy

Area	Summary observations	High level risk assessment
Review processes	• During the financial planning cycle, budget forecasts and savings options were developed by services and discussed at divisional management teams, and then by Departmental Management Teams. Proposals were then reviewed by CEMB and Cabinet. Portfolio holders were regularly engaged through Cabinet led forums, and there were weekly meetings of the Efficiency Board (the Chief Executive, the Leader, the Deputy Leader, the S151 Officer and the Assistant Chief Executive) which reviewed services on a risk basis. • A review of the MTFP, focussing on 2012/13 and 2013/14 has already commenced. • The Council has a Treasury Management strategy in place that is included in the MTFP that is approved by Cabinet and Council. The General Purposes committee receives quarterly reports on treasury management activity and performance including monitoring of prudential indicators. The Audit Committee is also responsible for the scrutiny of treasury management activities. From review of minutes, we have noted that monitoring reports have been provided to the General Purposes committee in 2010/11 and that there is scrutiny of these reports. A review of the arrangements in previous years has not identified any issues. • The General Purposes committee and Audit Committee are being merged into the Corporate Committee in 2011/12, which will meet quarterly. The Council will need to ensure that this new Committee has appropriate agenda time to review and scrutinise appropriate issues.	Green
Responsiveness of the Plan	• The Council adapted it's MTFP during the most recent financial planning cycle, in particular in response to SR10 and the finance settlement. • Future years will be reviewed during the lifetime of the plan, and this process has already commenced for 2012/13.	Green

Key:
- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

Section 4

Financial Governance

Key indicators of effective Financial Governance

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
- The CFO is a key member of the leadership team
- Officers and managers across the council understand the financial implications of current and alternative policies, programmes and activities
- The leadership ensure appropriate financial skills are in place across all levels of the organisation
- The leadership foster an open environment of open challenge to financial assumptions and performance

There is engagement with stakeholders including budget consultations

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)

Key:
- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

Understanding and engagement

Area of focus	Summary observations	High level risk assessment
Understanding the Financial Environment The controls assurance performance monitoring focuses on financial management, governance and risk management	• The Local Code of Corporate Governance (LCCG) has been largely effective in driving improvements and ownership of governance issues and arrangements across the Council. There are regular meetings and work programme for key officer groups to ensure that key statutory processes and good governance arrangements are completed and awareness raised. • As part of the finance reports to Cabinet, risks associated with achieving the MTFP are highlighted. Financial risks are also identified in the MTFP. • The Council's constitution describes the overall areas of financial responsibility for Members of the Cabinet and for Committees and Sub-Committees. • The S151 Officer is a member of the Chief Executive's Management Board, and the Deputy S151 Officer attends when required. • The staff suggestion box via the Council's intranet has received clarifications and challenges (for example, "did you know in my section the principles of spans of control are not being followed") indicating a willingness of staff to enter into dialogue on factors relating to the Plan. • Budget holders are supported by the finance team to manage their budgets. However with the changes to the finance function (40% reduction to staff), budget holders will need to ensure they fully understand how to manage and control their budgets, given more significant reliance being placed on them than in previous years. • The Council has developed the concept of "the Haringey Manager" in response to the centralisation of the finance function, and other support services, and the reduction in support service staff. This is because there will be greater responsibility for service managers to undertake a greater level of tasks previously provided by support services, including financial management and HR The Haringey Manger reflects the cultural change required and the associated responsibilities and accountabilities. The Council will need to ensure that these new financial management responsibilities are reflected in person specifications and associated performance appraisal targets are set and effectively monitored, for the required cultural changes to become embedded. The Council clearly recognises these risks. • There is general acceptance that there are currently mixed levels of financial management ability for non financial managers across the Council, For example, in relation to a detailed understanding of unit costs, cost drivers, and benchmarking data. The reduction in service manager posts and associated increases in spans of control for managers, and the reduction in finance and other central support services to these managers, allied to some weaknesses in the functionality and use of SAP (mentioned in more detail on page 30), is a significant risk for the Council. This is recognised, and finance support will be prioritised on the basis of risk based judgements, the provision of financial management and SAP related training, and the development of enhancements to SAP. • Services could improve their understanding of the relationship between demand and expenditure, for example by utilising Activity Based Costing, to better inform financial planning and financial monitoring discussions.	Amber

Understanding and engagement

Area of focus	Summary observations	High level risk assessment

Executive and Member Engagement
 	
Overview for controls over key cost categories
	• There is an appropriate level of senior management and member engagement in the financial management process.
	• The Council has undertaken significant work to engage with stakeholders in the budget setting process. The Council has used several methods of consultation for the 2010/11 budget including:
	  • the Haringey website
	  • 250 known residents who have previously agreed to take part in consultation and research were directly targeted
	  • HAVCO and economic regeneration networks
	  • the Council's Youth Space website
	  • through youth network contacts
	  • a questionnaire for the general public and voluntary, statutory and business organisations
	  • a questionnaire for young people.
	• The council has an on-going consultation called Shaping Our Future. Based on consultations, including savings proposals, the Council is reviewing its priorities. The MTFP notes the public consultation and includes evidence that issues raised have informed the budget setting for 2011/12.
	• The Council introduced changes to procurement authorisation during 2010/11 (ADs to authorise procurement spend over £500, and Directors authorise spend over) to control expenditure. This was a temporary measure during the year that formed part of the Council's planned response to the forecast revenue overspend.
	• The Council has also recently reviewed the use of agency staff and consultants to control this category of spend, and continues to keep this under review.
	• Finance have monthly control days to monitor balance sheet codes and to reconcile holding codes, to ensure there are no mis-codings or unknown balances.
		Green

Key:
- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

Monitoring and review

Area	Summary observations	High level risk assessment

Performance Management of Budgets
Overview of information reported at Cabinet in year and at year end. Commentary on in year variances against plan in addition to year end variances
	• The Cabinet reports include information on the overall financial outturn of the Council and financial performance for each of the services. It includes information on over and under spends for each of the directorates and actions being taken to ensure the budget is brought back in line and managing cost pressures. For example the September 2010 report to Cabinet forecast an overspend of £9.2m. As a result council wide mitigating actions were introduced which included :
	  • council wide recruitment freeze,
	  • limitations on spending authorisation,
	  • suspension of the use of purchase cards, and creation of directorate level contingencies created from top slicing supplies and services budgets.
	• The reports also included any budget virements as an appendix for Cabinet to approve. The reports also include information on treasury management and the performance against the capital programme.
	• Monthly meetings of the CEMB include a review of financial and performance monitoring reports. Actions arising are minuted.
	• As mentioned above the monitoring reports to Cabinet include information on the variances against the budget for the Council and is also reported at directorate level. The reports include forecast outturn for revenue and HRA. The appendix to the report includes information on the variation of each directorate against the approved budget. For example, the March 2011 report (for period 10) noted that Adult Services were forecasting a year-end underspend of £0.1m. This service had experience high demand during the year, but had been mitigating the cost pressures with a vacancy factor against all non-statutory positions. The same report estimated the outturn for Children and Young People as £7.7m above budget. The increase of costs were being mitigated by maximising grant income. The overall General Fund outturn for the year was forecast as on overspend of £2.4m, a reduction from £2.9m in the previous report. The capital programme was forecasting an underspend of £17.7m, an increase from the £11.4m forecast in the previous report.
	• The actual 2010/11 revenue outturn was a net general fund surplus of £51k. This represented an improvement of £1.6m on the period 11 forecast. This principally related to lower than anticipated costs (social care and NLWA), increased net savings on ABG, and the transfer of redundancy costs to the Transition Reserve.
	• The most significant revenue variance during 2010/11 related to a net overspend of £7.7m in Children and Young People (non DSG). The overspend related primarily to an increase in the numbers of looked after children. This has been an underlying budget pressure for the Council, and the 2011/14 MTFP reflected this by including a growth in this service budget of £7.4m, which represents 10.4% of the revised budget for 2011/12. The Council's ability to manage this service within this increased budget will be critical during the MTFP period.
		● Green

Key:
● High risk area
● Potential risks and/or weaknesses in this area
● No causes for concern

Monitoring and review

Area	Summary observations	High level risk assessment
Review of accuracy of Committee/Cabinet Reporting -e.g. reconciliation of Cabinet Reports to management accounts	• The monitoring report is presented to Cabinet. This includes both information on the performance management and financial performance of the Council. Commentary is on an exception basis. The Cabinet minutes provide evidence of the scrutiny of overspends against the budget by members. • The Council understands the need to review and update its chart of accounts so that that cost centres and associated budgets and actuals are aligned to the new corporate structure. The reduction in finance resource places a risk on the speed with which this will be completed. • The Council is also updating its process for budget monitoring, to reduce the level of documentation that services need to provide, to make the process more efficient under the new Council structures. This change will need to be monitored to ensure the robustness of financial information is not compromised.	● Amber

Key:
- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

Section 5

Financial Control

Key indicators of Effective Financial Control

Budget setting and budget monitoring

- Budgets are robust and prepared in a timely fashion and the council has a good track record of operating within its budget
- 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, including trend analysis, benchmarking of unit costs, risk and sensitivity analysis.
- There is particular focus on monitoring income related budgets

The capacity and capability of the Finance Department and Service Departments are fit for purpose

Financial Systems

- Key financial systems have received satisfactory reports from internal and external audit
- Financial systems are adequate for future needs, for example commitment accounting functionality is available

Internal Control

- Strength of internal control arrangements - 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 a an assurance framework in place which is used effectively by the Council and is how business risks are managed and controlled.
- The Annual Governance Statement gives a true reflection of the organisation.

Internal arrangements

Area of focus	Summary observations	High level risk assessment
Performance Management of Budgets **Budget setting and budget monitoring and forecasting including detail of frequency of forecasting**	• The Council has well established budget setting processes that encourages ownership from budget holders, and finance training is provided to officers and members. The Council has a good track record in managing budgets on a service by service basis. We have first hand evidence, from discussions at Audit Committee, General Purposes Committee and other forums, of Members challenging on finances (e.g. exploring and understanding the risks to the Council's finances of not submitting claims and returns on time and potentially not identifying potential funding streams) and, recently, understanding the scale of the financial management challenge ahead. • Monitoring reports are produced monthly for discussion by senior management and quarterly for Cabinet. The monitoring process clearly recognises the accountabilities of Directors for the financial management of their departments. • The Council uses an incremental budgeting approach, which focuses on historic baselines with adjustments for inflation, growth and savings pressures. The Council should consider a phased introduction of zero based budgeting to ensure the accuracy of service budgets in light of the recent corporate reorganisation and the new MTFP.	Green
Performance against Savings Plans	• A summary of the progress made against the savings plan are reported as part of the monitoring report to Cabinet. This is RAG rated. The most recent monitoring report provided to us forecast, of the £8,004k saving required for 2010/11, £7,380k rated as green, £469k amber and £155k red. • The savings programme has been identified as a significant risk for the Council and included in the Internal Audit plan for 2011/12 and Internal Audit will monitor monthly progress. • The Council has introduced a new approach to monitoring the Haringey Efficiency and Savings Programme (HESP) for 2011/12 to ensure that savings are monitored in addition to standard budget monitoring arrangements, which is good practice. The HESP spread sheet is updated in real time by savings owners and is monitored weekly by management. • The HESP monitoring form includes the profile of savings against plan for each of the three years and a RAG risk rating. This rating relates to the risk of not delivering a saving, rather than the consequences of non delivery. • The monitoring process currently allows for projections against plan to incorporate countervailing savings if the original savings target slips, or is not fully achievable. This is recognised by Finance and we understand that the process is being adapted to highlight where slippage occurs. • If the Council continues to use the HESP template, it needs to be amended to align to the new corporate structure.	Green

Key:
- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

Internal and external assurances

Area of focus	Summary observations	High level risk assessment

Summary of key financial accounting systems	• The Council has well established systems and procedures for producing reliable financial monitoring and forecasting information, which is used alongside related performance information to support decisions.
	• The process has enabled the Council to identify and manage financial risks in a timely way. However, the current procedures incorporate a number of labour intensive work around activities that will not be realistic as a result of the significant reductions to finance and service resource:
	  • The Council uses SAP as its enterprise resource planning system. It is generally accepted that SAP needs to be more user friendly for non-financial managers, and its forecasting functionality needs to be improved. A project team has been established to progress SAP optimisation. Initial improvements are forecast to be in place by the end of 2011. Funding for this is included in the capital programme.
	  • It is also generally accepted that there are weaknesses in the use of the commitment accounting system in terms of how some services use this functionality. Training is planned to support Haringey Managers in the use of SAP, including the use of commitment accounting, but this remains an area of risk for the council in terms of the accuracy of financial management reporting.
	  • The General Ledger is not effectively aligned to the HR modules in SAP, resulting in separate spread sheets being maintained for salary projections. Given the significant levels of savings based on staff reductions, it is essential that SAP is able to provide accurate salary costs and forecasts to ensure efficient budget monitoring.
	  • Framework-i is the care planning system used by the Council. The use of Framework-i data currently requires significant manual input in the provision of accurate monthly financial forecasts. The reduction to finance resource to support this process means that relevant services will have greater responsibility for the provision of accurate financial management information.
		Amber

Finance Department resourcing	• As at April 2011 there was a low turnover of staff in the finance department, with an establishment level of 135 staff. However as part of the department's restructuring 58 posts (43%) are being deleted, with a new centralised finance function to be in place from 1 July 2011. • At the time of our review, and as part of the accounts planning process, the finance department restructuring has been identified as a key risk the Council will need to manage. • Whilst future finance support to departments is to be prioritised on a risk management basis, the key risk relates to the success of the Haringey Manager cultural change, whereby non-financial managers will have greater financial management responsibilities. Not achieving these cultural changes is likely to have a significant impact on financial control, impacting on the financial resilience of the Council in the period beyond the initial savings driven by SR10.	Amber

Key:
- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

Internal and external assurances

Area of focus	Summary observations	High level risk assessment
Internal audit arrangements including compliance with CIPFA Code of Practice for Internal Audit	• The Council has adequate arrangements in place. Internal audit work is shared between in-house and external provision, and is fully compliant with the CIPFA Code of Practice, confirmed through an annual peer assessment exercise. Grant Thornton place full reliance on the work of internal audit. • As part of the wider reorganisation of support services, Internal Audit resource has reduced from 23 to 16 staff, including counter fraud and insurance resource. The Council has advised that within this reduction, Internal Audit resource has not reduced. Internal capacity is supplemented via a contract with Deloitte, which is up for renewal in 2012. • There is a perception in some service areas that the internal audit plan's alignment on the Council's risk register leads to reactive and not proactive assurance activity. Whilst the CIPFA Code of Practice requires a risk-based audit plan, the current Audit Plan will be more strategic, focussing on the impact of HESP, and the implications of the restructuring, on the control environment. • The Council has a robust process for preparing and reporting the Annual Governance Statement (AGS), to which departments contribute on an annual self-assessment basis, challenged by the Head of Internal Audit. The AGS is signed off by the Chief Executive and Leader, after it has been produced by a group of officers including the Head of Internal Audit, Head of Legal Services and the Director of Corporate Resources. The Head of Internal Audit has in recent years presented the AGS to the Audit Committee and responds to any questions. We note that the Director of Corporate Services presented the 2010/11 AGS, and this improved governance arrangement is something that should continue. • Audit Committee members recommended that where implementation of recommendations were not completed in accordance with agreed timescales, responsible Directors attend committee meetings. This has ensured that all high priority recommendations are implemented by the agreed deadline. • The Council has improved operational management of risk through the use of the Covalent performance management system, which as resulted in directorates taking ownership of risk and risk management and their responses to changing circumstances such as the recession. Internal audit also routinely test the controls in place within the Council to manage risk, and review a sample of risk register entries. • Following a governance review the Council has created a Corporate Committee, incorporating the Audit Committee, General Purposes Committee and the Pension Fund Committee. Its first meeting will be in June 2011. In addition, the Overview and Scrutiny Committee has been reorganised with its membership being drawn from the chairs of the new area committees.	Green

Key:
- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

Internal and external assurances

Area of focus	Summary observations	High level risk assessment
External audit arrangements and programme of activities	• The conclusions from the most recent Annual Audit Letter noted that the Council will need to ensure that: • the impact of the changes to local government funding are taken into account in all future financial plans - in doing this the Council will need to review the services it delivers and how it delivers them and where savings and changes can be made whilst minimising the impact on the standard of service delivery • the Medium Term Financial Strategy is reviewed in the light of the SR and is subject to robust stress testing and sensitivity analysis • it continues to emphasise the importance of data quality, including housing benefit information, to prevent any relaxation in compliance • there is a continued focus on the production of its first IFRS compliant accounts in 2010/11, including ensuring that there are sound arrangements for the valuation and accounting for property assets. • The Council has included responses to action raised in our reports in previous years and have made good progress in implementing recommendation in relation to the accounts findings.	Green

Key:
- High risk area
- Potential risks and/or weaknesses in this area
- No causes for concern

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Appendices

Key Indicators of Financial Performance

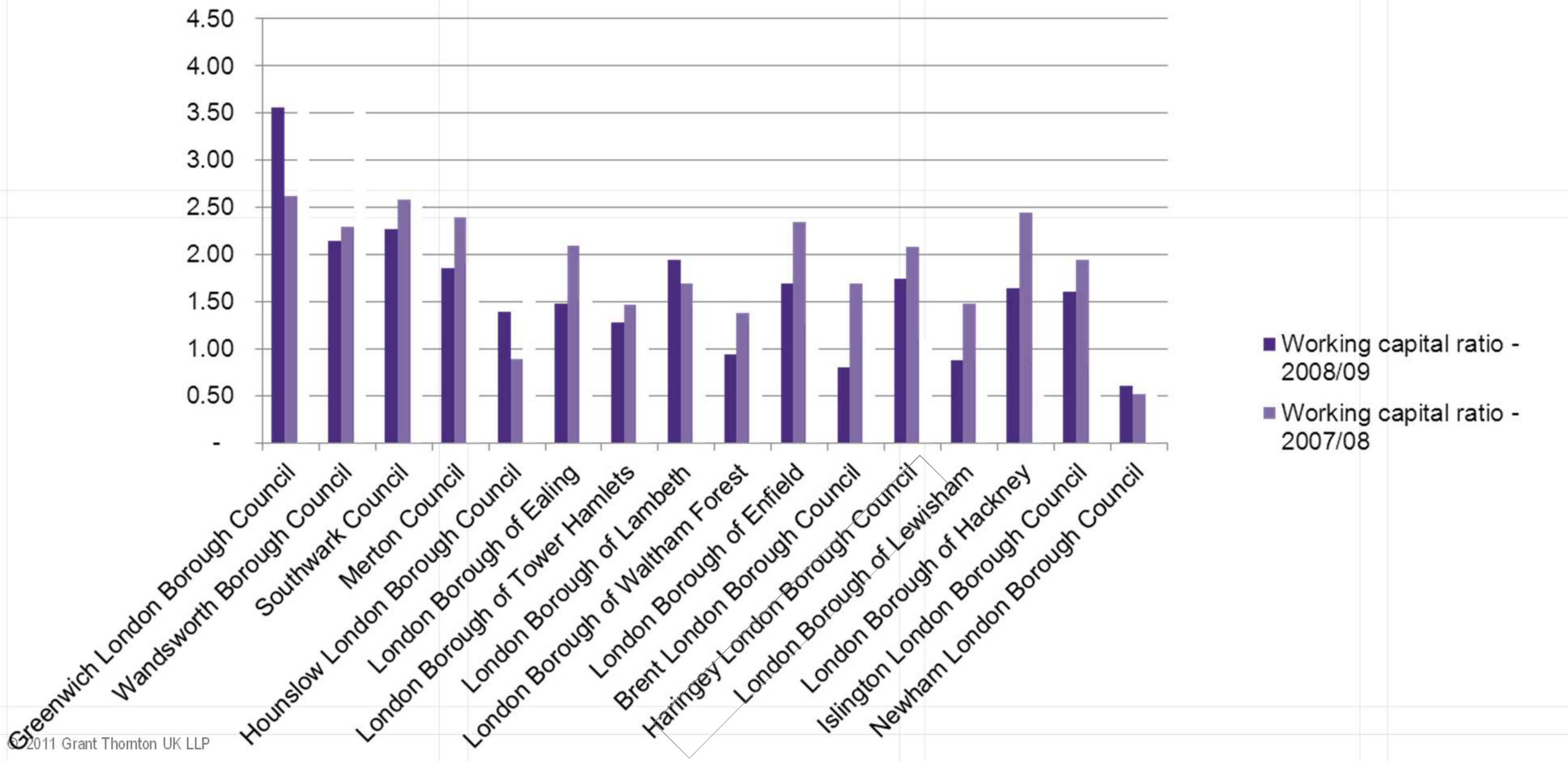
Working Capital

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

Haringey's working capital ratio has reduced from 2.08 in 2007 to 1.10 in 2009. This has taken the Borough from above the preferred range of 2:1. This indicates that the council's liquidity is decreasing. However, unlike some other authorities in this benchmark group, Haringey is, just, maintaining a positive working capital ratio. Working capital will come under increasing pressure during SR10 and will need to be carefully monitored.



Source: Audit Commission's Technical Directory

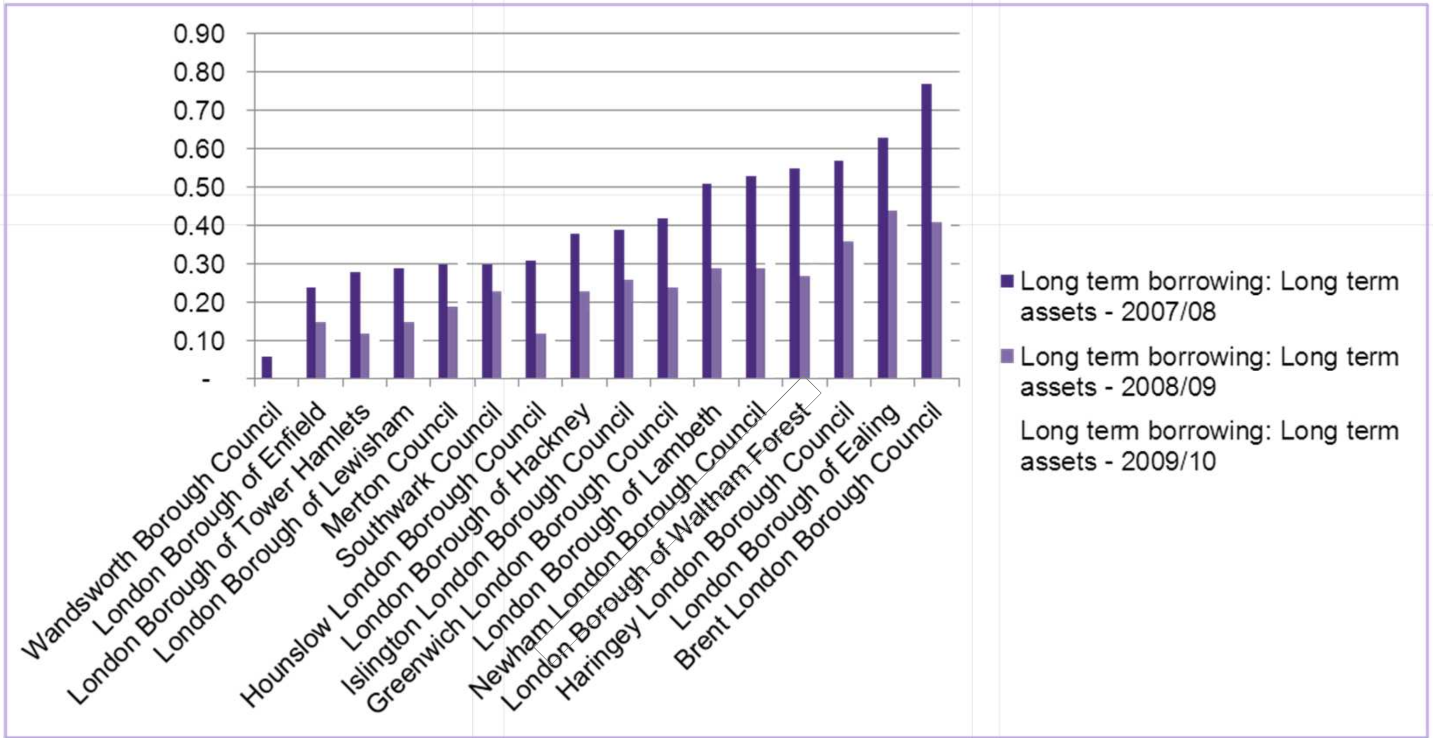
Long-term borrowing to Long-term assets

Definition

This ratio shows long tem 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

Haringey's most recent ratio of 0.35 shows that the Council's long term borrowing represents approximately one third of its long term assets - i.e. long term borrowing does not exceed its long term assets. In comparison to other authorities in this benchmarked group, Haringey has a higher than average long term borrowing to long term assets ratio. This is in the context of the Council, and the benchmarked group, having made long term investment decisions prior to current economic conditions and Spending Review 2010.



Source: Audit Commission's Technical Directory

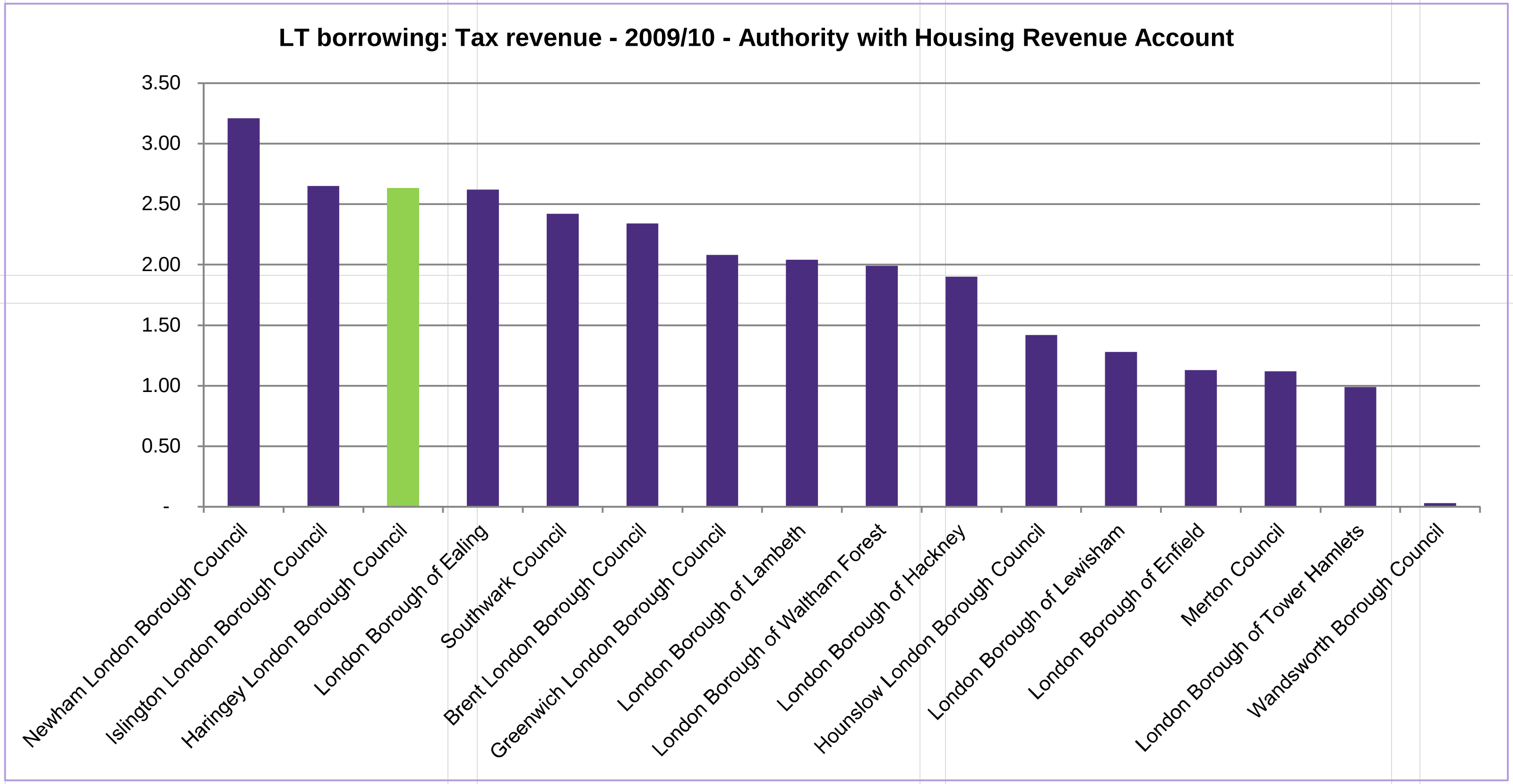
Long Term Borrowing to Tax Revenue

Definition

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

Findings

Haringey's ratio of 2.63 indicates that it has long term borrowing which exceeds tax revenue by almost three times. Haringey is third in comparison to the benchmark group, although half of the authorities have a ratio greater than 2, indicating that Haringey s reasonably consistent with other authorities.



Source: Audit Commission's Technical Directory

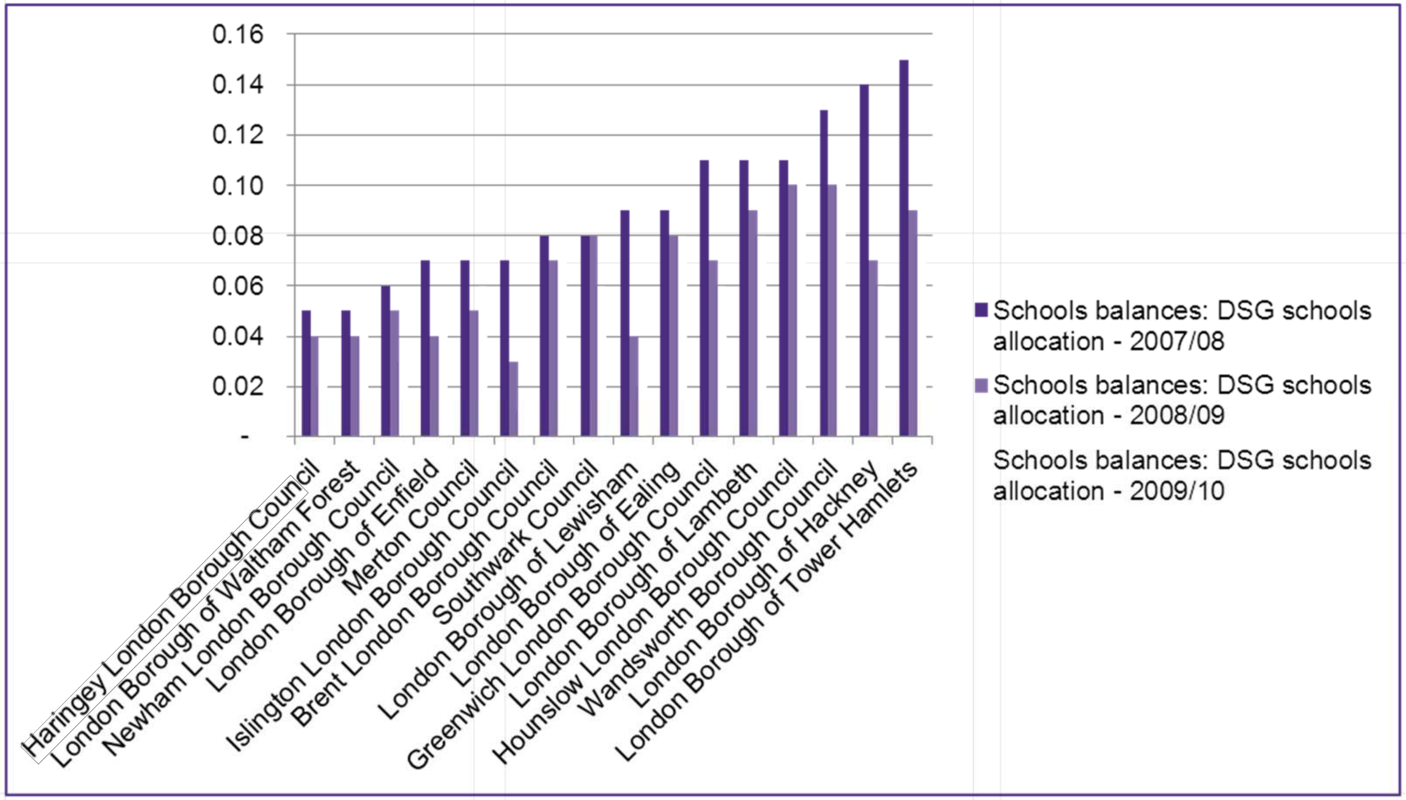
Schools balances to DSG allocation

Definition

This shows the share of schools balances in relation to the total DSG allocation received for the year. For example a ratio of 0.02 means that 2 per cent of the total DSG allocation remained unspent at the end of the year.

Findings

Haringey's ratio has decreased by 1% each year over the last thee years. This is in line with the broad trend of the benchmark group. Haringey has consistently remained one of the authorities with the one of the lowest ratios over this three-year period. Haringey's balance of 2% for 2009/10 was the second lowest in the benchmark group.



Source: Audit Commission's Technical Directory

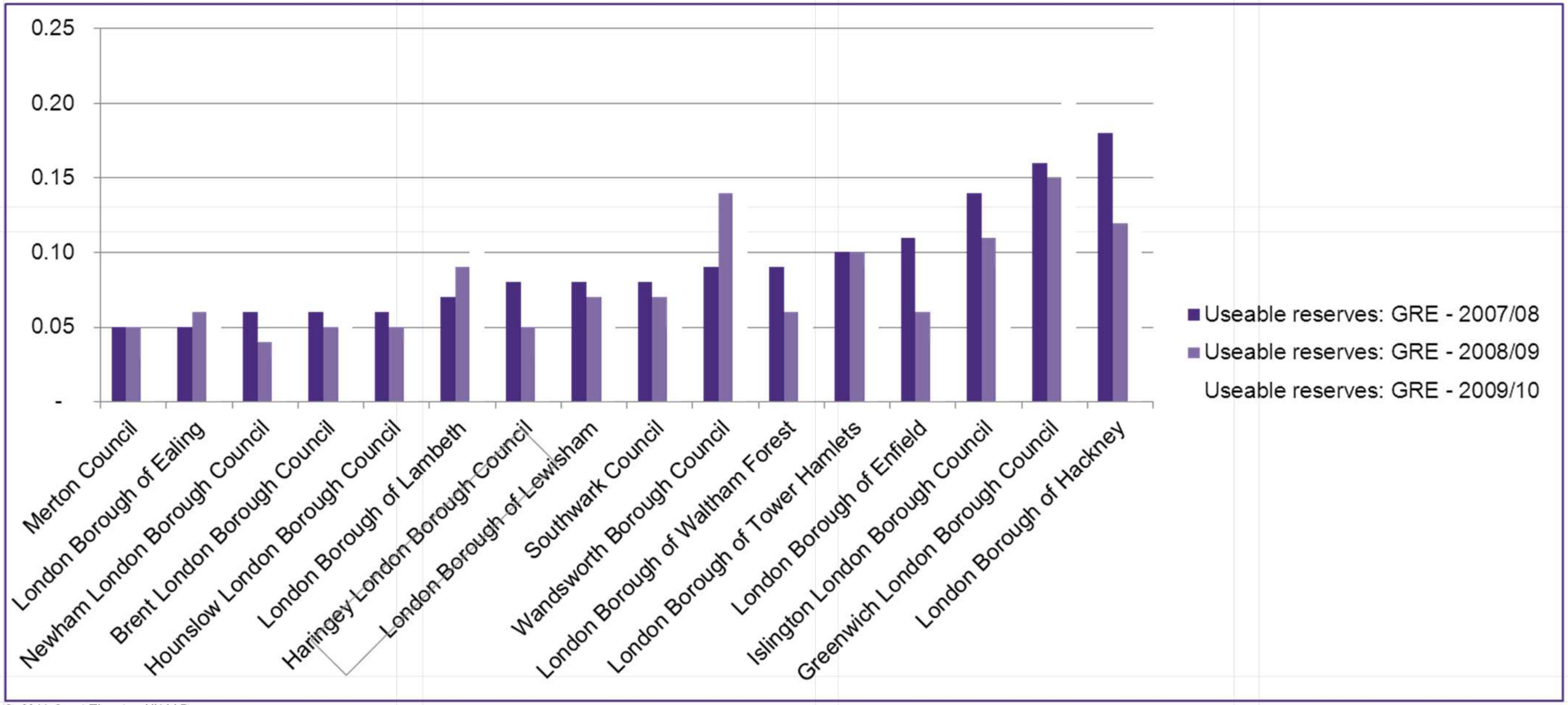
Useable Reserves

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.

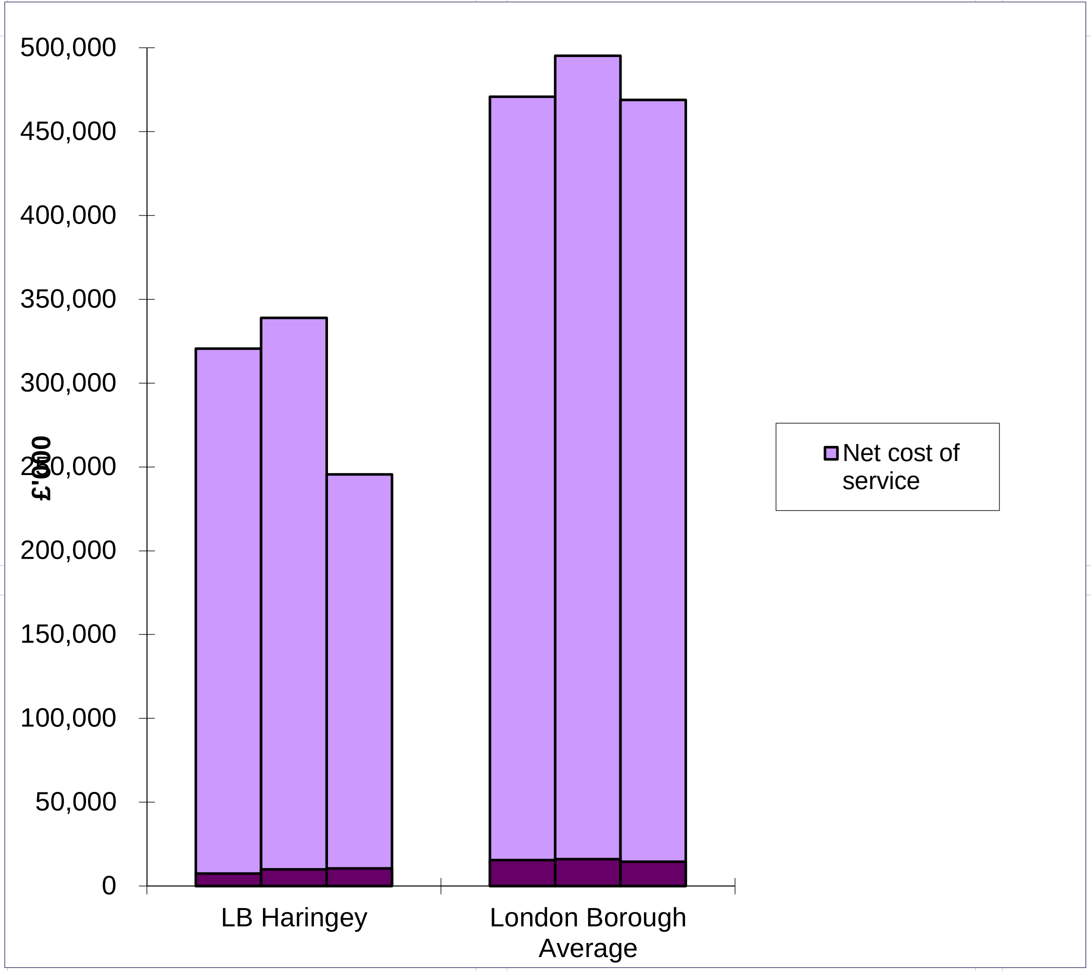
Findings

Between 2007 and 2009 LBH has reduced the value of its useable reserves, from 0.08 to 0.03. The majority of other councils have reduced their useable reserves over the three years, LBH is in line with these councils. Further analysis is set out on the following slides.



Source: Audit Commission's Technical Directory

Net Cost of Services 2008/09 to 2010/11 vs General Fund Reserves



Sources: data from 2009/10 audited accounts, Individual MTFPs as publicly available and CLG revenue account budget 2010/11.

Description

This shows the net cost of services for Haringey and the London Borough average for the years 2008/09 and 2009/10 and the forecast net cost of services for 2010/11.

The darker elements of each bar relate to the levels of unallocated reserves over the same period.

Findings

Haringey's General Fund reserves have increased year on year over the three year period, whilst the London Borough average is on a decreasing trend. However, the level of forecast reserves at 31 March 2011 for Haringey (£10.5m) remains lower than the London borough average of £14.6m.

Haringey's net cost of services is significantly lower than the London Borough average, and the reduction for 2010/11 (28%) is significantly greater than the London Borough average reduction for the same period (5%).

Spending Power Reduction 2011/12 vs. General Fund Reserves

Sources: data from individual LBC publicly available MTFPs, CLG revenue account budget 2010/11, and final settlement information from CLG in December 2010.

Description

This graphic compares Haringey's revenue spending power reduction during 2011/12 with the London Borough average. It also compares the forecast level of General Fund reserves and, all things being equal, the ability to utilise this reserve to fund the spending power reductions

Findings

Haringey has not faired well compared to the rest of London. in terms of spending power reductions, and there is very limited ability to rely on the use of reserves to meet short term government funding reductions. Whilst this is true for London as a whole, Haringey's GF reserves ability to fund the spending power reduction is less than the London average. However we would note that despite the use of earmarked reserves to fund redundancies the Council still has earmarked reserves available to cover future risks.

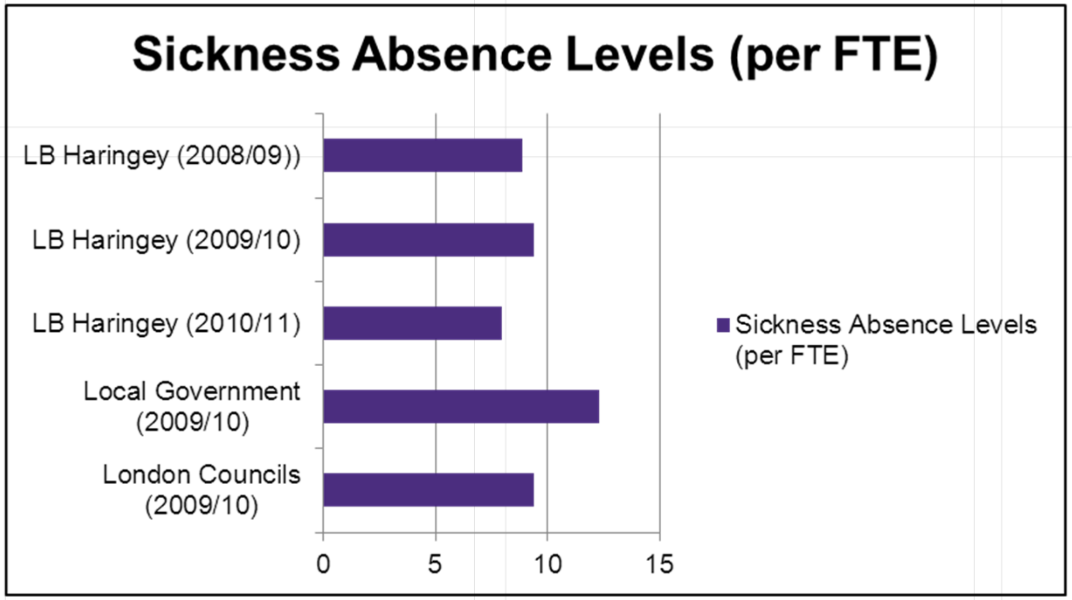
Sickness Absence Levels

Background

The average sickness absence level for the public sector is 9.6 days per FTE, whilst the private sector average is 6.6. 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 SR10, given the context of significant pressures on staff to deliver "more for less".



Findings

Haringey's sickness absence levels have fluctuated over the past three years, with an increase of 0.5 per FTE (5.6%) during 2009/10 and a reduction of 1.42 per FTE (15%) during 2010/11.

The Council's absence level during 2009/10 of 9.38 per FTE, whilst be low the Council's target of 8.5, was in line with the London average of 9.4, and significantly below the national local government average of 12.3.

The Council has a well regarded workforce management database, outputs of which form part of the finance and performance monitoring reports.

Sickness absence levels have an appropriate profile with senior management and actions are agreed and minuted by CEMB. Given the significant organisational change that is taking place during 2011/12, it will be important for CEMB to maintain a robust approach to sickness absence monitoring for the recent downward trend to improve.