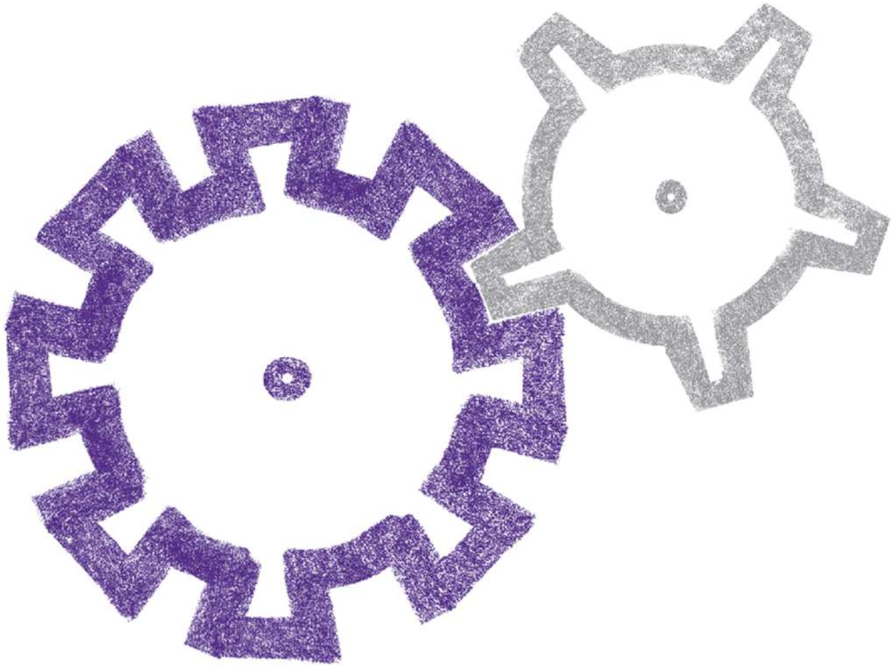
London Borough of Haringey

Review of the Council's Arrangements for Securing Financial Resilience

20 June 2012



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Our approach

Value for Money Conclusion

Our work supporting our Value for Money (VfM) conclusion, as part of the statutory external audit comprises 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.

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 some significant risks and challenges during 2012/13 and beyond, its current arrangements for achieving financial resilience are adequate.

This report needs to read in context that 2012/13 is the second year of the four-year SR10 period, where some of the potential risks and challenges over the medium term 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	**Arrangements meet or exceed adequate standards:** 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 or may have a high risk of not succeeding.

Executive Summary

National and Local Context

National Context

The Chancellor of the Exchequer announced the 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 were frontloaded, with 8% cash reductions in 2011-12.

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.

The Government's provisional Local Government Finance Settlement for 2012-13 was announced on 8 December 2011. These were confirmed on 31 January 2012.

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. Financial austerity will therefore continue until at least 2017.

Local Context

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.

Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Key Indicators of Performance	• Benchmarked key indicators of financial performance indicate that, in general terms, the Council is following recent trends of the London Borough comparator group for most indicators. These trends indicate reductions in liquidity, reserves, DSG balances and borrowing levels. • Overall, the Council's level of available reserves and contingencies provide adequate cover for known future financial risks. • The Council's 2011-12 net General Fund provisional revenue outturn underspent by £3.7m, during a year when £40.5m savings have been realised. Whilst improvements have been made in the profiling of the capital programme, it is forecast to underspend by £13.5m during 2011-12. • The Council has developed 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 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. • Savings identification and approval was achieved at a much earlier stage of the financial planning cycle than for the previous year, which provides a more effective pre-implementation timescale for the delivery of savings during 2012-13. There is still some scope to RAG rate and undertake sensitivity analysis during the development of savings options. • Further work is required to meet the outstanding budget gap of £ 6.1m within the MTFP (for 2013/14) and to provide greater certainty of the financial position for 2014-15. There are significant financial challenges, such as in respect of welfare reform and business rate retention.	Green
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 took place during 2011-12, and the concept of the Haringey Manager was rolled out. During our fieldwork there was a generally very positive response to these changes. However, behavioural change is still required and the Council continues to monitor the successful embedding of the changes. • The Council should consider if there is a need to better understand the skill and experience requirements for members with cabinet or governance roles. This is in the context of the generationally significant financial challenges facing the sector.	Green

Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
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 . The Council has introduced a new budget projection tool on SAP during 2011-12, but further system enhancements have been put on hold, pending the successful outcome of the current shared ERP platform procurement, which will see a new system go live in April 2014.	Green

Executive Summary

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Key Indicators of Performance	• The Council should ensure that schools balances, in particular agreed deficits and surpluses continue to be carefully monitored, to ensure DSG balances remain at an appropriate level and the trend is effectively managed.	Director of CYPS	Ongoing	The Council will work with and challenge schools, within the boundaries of delegated financial management, to ensure that balances are at an adequate level and that any deficits have robust recovery plans that are adhered to.
	• The Council should continue to maintain appropriate levels of reserves and monitor the Council's liquidity to ensure financial resilience is maintained.	Chief Financial Officer	Ongoing	Agreed
Strategic Financial Planning	• The Council should ensure there is appropriate resource for business analysis to support the annual service and financial (business) planning process, in particular within Children's Services.	Director of CYPS	September 2012	Agreed. The Directorate will, in consultation with Corporate Finance, ensure that the appropriate level of resource is allocated and utilised effectively.
	• In the context of the generationally significant financial challenges facing the sector, the Council should consider if there is a need to better understand the skill and experience requirements for members with cabinet or governance roles.	Chief Financial Officer	February 2013	The Council will ensure that key members receive training and development as requirements arise during the medium term financial planning process
	• The Council will need to ensure that the MTFP remains responsive, given the scale of the savings still required, and the financial uncertainty that remains within the timeframe of the Plan.	Chief Financial Officer	Ongoing	The MTFP will utilise scenario planning and sensitivity analysis to reflect the current level of uncertainty in the external environment.

Executive Summary

Next Steps

Area of review`	Key points for consideration	Responsibility	Timescale	Management response
Financial Governance	• The Council needs to continue to embed the Haringey Manager approach, monitor the effectiveness of behavioural changes required and continue to develop financial management skills in services, particularly in light of the agreed delay in further SAP enhancements.	Assistant Chief Executive and Chief Financial Officer	March 2013	The Council will monitor progress through performance appraisals and ensure that training needs are analysed and fulfilled.
	• The Council should ensure that key service unit costs are identified for external benchmarking, and where there are gaps in sources of benchmarking, work with other local authorities to establish new benchmarking groups.	Head of Corporate Finance and Head of Policy and Performance	March 2013	A basket of indicators has been identified and benchmarking methodology defined. This will be reported during 2012/13 and embedded with service business plans.
Financial Control	• The Council should ensure that the provision of MTFP supporting savings documentation is fully compliant, which was not the case for all departments during 2011-12.	Chief Financial Officer and Corporate Board	Autumn 2012	Budget planning documentation for the 2013/14 MTFP will be reviewed as part of the budget challenge process.
	• The Council should consider monitoring the inclusion of countervailing savings within agreed savings projects, particularly those related to key policy decisions, so that countervailing savings are clearly identified and their impact on service provision is better understood by CB and the Cabinet.	Chief Financial Officer and Corporate Board	Ongoing	Countervailing or compensating savings will be highlighted and challenged for robustness as part of the ongoing budget monitoring regime
	• The Council should continue to monitor the impact of the reduction in finance function resource and risk-assess planned future staff savings in finance following the 2011-12 closedown period.	Chief Financial Officer	Ongoing	Agreed.

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
- 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

We have used the Audit Commission's nearest neighbours benchmarking group comprising 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 Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Performance Against Budget	• The 2011-12 General Fund net revenue budget underspent by £3.7m (1.3%) based on the provisional outturn. The main contributing service department was Adults and Housing Services, with a forecast underspend of £2m. This is in the context of the Council realising £40.5m savings and, overall , indicates a very effective performance for the year. • The HRA is forecasting an underspend of £3.3m due to capital financing costs being less than the approved budget. • The capital programme planned for 2011-12 is forecast to underspend by £13.5m (13.7%), the primary cause being slippage on the Corporate ICT programme, BSF, and the schools managed service provider for ICT.	Green
Reserve Balances	• Between 2007-08 and 2010-11 the Council reduced the value of its useable reserves (as a percentage of expenditure) from 0.08 to 0.04. Reserves increased by 0.01 between 2009-10 and 2010-11. • The Council forecast £60.9 m reserves at 31 March 2012, with £10.5m representing the general fund balance. The MTFP forecasts a continued reduction to reserve levels during 2012-13, to £48.8m with the general fund balance remaining constant. • The general fund balance of £10.5 represents 4% of the Council's net budget requirement for 2012-13, and is based on the Section 151 officer's risk assessment, in line with CIPFA guidance. • The Council had the joint lowest level of reserves in 2010-11 of the benchmarking group of outer London boroughs. 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. • The Section 151 officer is likely to allocate the net revenue underspend for 2011-12 to General Fund balances. This is provisionally £3.7m.	Green

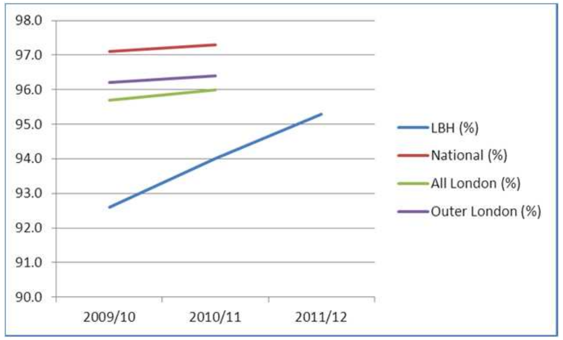
Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Schools Balances	• The Council's ratio (schools balances in relation to the total DSG allocation received for the year) has decreased by 60% from 2007-08 to 2010-11 with a steady year-on-year decrease over this period. • The Council has consistently remained one of the lowest ratios year-on-year, and has the lowest ratio of the benchmarked group for 2010-11. • Internal Audit reviewed schools balances as part of their 2011-12 audit programme. 32 schools have been reviewed during 2010-11 and 2011-12. Very few schools were in balance, with the majority allocated surpluses or licenced deficits, with the latter becoming more prevalent. A minority of schools have significant balances. • This ratio indicates that DSG continues to draw down on balances as result of budgetary pressures during the benchmarked period. However, we note that the 2011-12 revenue outturn for schools has a net underspend of £2.475m, which has increased cumulative school balances to £5.1m as at 31 March 2012 based on returns received from schools. • Corporate Finance, supported by Internal Audit, are facilitating training for school governors, head teachers, and staff with financial responsibilities to ensure key financial processes are appropriately managed. A former head teacher with substantial financial experience has been engaged to work with schools on deficit recovery plans. • We have been advised that for primary schools, 6 deficits have reduced, 2 have been fully or substantially removed, 3 have increased, and 3 have reported new deficits. All schools with deficits continue to progress their deficit recovery plans based on 2011-12 outturn and / or 2012-13 budgets. For secondary schools, 3 deficits have reduced very substantially, and 1 has increased substantially. Their deficit recovery plans are currently being evaluated by the Council. • We recognise that managing schools balances is a fine judgement and that excessive balances are inappropriate and should be discouraged. However, this needs to be carefully monitored to ensure DSG balances remain at an appropriate level and the reducing trend is effectively managed. • 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. • Corporate Finance provided a Schools Finance Manual in 2007, and provide regular guidance and information to all schools in relation to key financial and non-financial processes. The Council is not currently planning to update the Manual. • The Council has successfully lobbied the Government in relation to schools funding via the area cost adjustment. An additional £7.3m is expected to be added to the DSG from 2013-14 onward. This should be effective in reducing the level of deficits at those schools where recovery plans have not led to the removal of deficits by the time this additional funding is received.	Amber

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Liquidity	• The Council's working capital ratio has reduced from 2.08 in 2007-08 to 0.72 in 2010-11, with year on year decreases during this period. The Council's rate of decrease during this period (65%) is significantly greater than most of its nearest neighbours. • The Council has the second lowest working capital ratio in the benchmarking group for 2010-11. • Council officers have indicated that the working capital ratio reduction is a consequence of the Council's Treasury Management strategy, which has introduced a move from external investment to internal borrowing. The redundancy programme led to an increased use of reserve balances and provisions during 2011-12. • The Council is paying off longer term, high interest bearing debt, and focussing on shorter term loans with reduced rates. This policy has led to £3m reduction in borrowing costs, and a reduction in credit risk. The Strategy is based on the external advice of Arlingclose, the Council's treasury management advisors. • HRA self-financing reforms relating to the housing subsidy system will result in councils being allocated a share of the national housing debt. Most will see their level of debt increase but for a few, including the Council, a proportion of their debt will be repaid. The Council repaid £234m of debt on 28 March 2012. The Council is forecasting a surplus of £19.4m, which will be allocated to the capital programme or used to augment the HRA balance. • This planned reduction in liquidity will continue for 2012-13, but remains under review. • Working capital will come under increasing pressure during the full course of SR10 and will need to be carefully monitored. However, we note that the Council has significant borrowing headroom, should this be required to support liquidity. • The Council's collection rate for Council Tax in 2011-12 was 95.3% and the rate is demonstrating an upward trend. However, as the table below indicates, the Council's rate remains lower than the national, London, and outer London averages. 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.  	Green

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Borrowing	• The Council's long term borrowing ratio (as a percentage of tax revenue) has reduced by 47% (from 4.97% (2007-08) to 2.61% (2010-11)), and is in line with the Council's Treasury Management Strategy. This downward trend has brought the Council broadly in line with almost half of the benchmarked group (7 out of 16) that have a ratio of 2-3%. All of the nearest neighbour authorities have seen a similar downward trend of borrowing levels from 2007-08 to 2010-11 with an average decrease of 42 %. • The Council's Treasury Management Strategy forecasts year -on-year reductions in external borrowing, from £212.7m at 31 March 2012 to £166.3m at 31 March 2015. The impact of this debt repayment policy on these ratios will be analysed during future financial resilience reviews. • The Council's long term borrowing to assets ratio has decreased by 30% from 2007-08 (57%) to 2010-11 (40%), and is in line with the Council's Treasury Management Strategy. The majority of the benchmarked group (15 out of 16) have reduced their ratios during the same period, with an average decrease for the nearest neighbours group of 25%. The Council is consistent with this overall trend.	Green
Workforce	• The Council's sickness absence levels have fluctuated over the past four years, but there has been a decreasing trend over the last three years. • The Council's absence level during 2011-12 of 7.11 per FTE represented a 10% reduction on the previous year. Given the significant organisational change that took place during 2011-12 this indicates that the management of sickness absence continues to retain an appropriate profile with senior management. • The Council has a well regarded workforce management database, outputs of which form part of the finance and performance monitoring reports.	Green

Strategic Financial Planning

Key indicators 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 MTFS focuses resources on priorities.
- 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 CSR.
- 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.

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Focus of the MTFP	• The Council's revenue budget for 2012-13 was set in March 2012, along with an updated three-year medium term financial plan (MTFP) for the period 2012-13 to 2014-15. • As a consequence of SR10 the Council identified required reductions in revenue spending of £84m during 2011-12 to 2013-14. Savings of over £62m were agreed in February 2011 over the period of the plan, £41m of which were included in the 2011-12 revenue budget, leaving a shortfall of £21m. • During the 2012-13 financial planning cycle assumptions for 2012-13 to 2013-14 were revised and further savings identified and agreed. By February 2012 the savings shortfall for this period was £6.1m, which is to be identified during the next financial planning cycle. • The Council decided not to implement Zero Based Budgeting (ZBB) due to the reduced level of finance resources but will keep this consideration under review, once the restructuring undertaken during 2011-12 has been embedded. • Savings were prioritised as in previous years, and were approached strategically by CEMB. Initially directors were asked to identify savings opportunities. Indicative targets were then given, based on departmental proportion of the overall council base budget, to meet the savings shortfall. • Savings options and growth items were then considered corporately by CEMB and the Cabinet.	Green

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Scope of the MTFP and links to annual planning	• The identification and approval of the majority of savings was concluded three months earlier than during the previous financial planning cycle, with the Cabinet agreeing savings proposals in July, October and December 2011. This provides a more effective lead in time to ensure planning for implementing savings and is good practice. • Scenario planning was used as part of the risk assessment of high risk budgets, such as adult placements. It was not formally used as a tool by all services to support the budget setting process. From our Financial Resilience review for 2010-11 we are aware that the Council considers this level of scenario planning is appropriate given the level of available resource. • Our discussions with officers indicated that, whilst individual services undertake modelling of demand to understand the impact on future spending levels, this information is still not consolidated within the Plan, limiting the potential of Members to understand in detail all the challenges the Council faces. • There is further scope for RAG rating and undertaking sensitivity analysis from the outset of the identification of savings options. • The Council should ensure there is appropriate resource for business analysis to support the annual service and financial (business) planning process, in particular within Children's Social Care.	Amber

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment

Adequacy of planning assumptions	• The Council's focus remains on year one of the rolling MTFP - in this case 2012-13 . The Council decided not to revisit funding assumptions in 2013-14 due to continuing uncertainties relating to the Government's spending plans, and the Plan retained the assumptions made in the previous MTFP.
	• There remains significant uncertainty, in common across the sector, of the financial position for 2014-15. An indicative saving requirement of £19m was included in the MTFP. The Plan identifies potential material changes to Government funding that could impact on the 2014-15 financial position.
	• The MTFP:
	  • recognises the localisation of business rates from April 2013 as a material financial risk, but that the implications of this change could not be accurately forecast at the time of approving the Plan.
	  • reflects the Council's current understanding of the impact of the Government's policy on Academies.
	  • assumes no Council Tax increase in 2012-13
	  • retains a contingency budget of £1.8m to manage any slippage in the delivery of savings.
	• A general fund reserve balance of £10.5m was set for 2012-13, which represents 4% of the council's net budget requirement.
	• During 2011-12 the Council received approval to capitalise £5m of redundancy costs over two years. The contingency reserve has been reduced from £25m to £20m to reflect this approval.
	• Children's Services retain significant, inherent budget pressures, notwithstanding the £7m budget growth included in 2011012, in relation to social care. Children's social services is in the highest 10% of spend amongst its statistical nearest neighbours. For example, the looked after rate of 125 children per 10,000 of population compares with an inner London rate of 80, and an outer London rate of 60 and a national average of 43. The new Director of Children and Young People's Services, who joined the Council in November 2011, has set up a Strategic Improvement Plan to increase the focus of the service on early intervention, whilst maintaining the on-going focus on safeguarding. The 2012-13 to 2014-15 savings programme includes £2.5m savings in Children's Services and a reduction in the 2011-12 approved growth of £2.0m. Associated savings include the closure of children's residential homes and staff savings related to the planned reductions in the number of looked after children. Further savings totalling £700k are planned for 2013-14. The department's revenue budget underspent by £65k (0.07%) during 2011-12, indicating some improvement.
		Amber

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	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. • As already mentioned, the financial planning process commenced earlier than during the previous year, providing greater time for consultation and review. • At the time of our review the Leader of the Council was reviewing the impact of the changes to corporate governance arrangements introduced during 2011/12, in particular the adequacy of the Corporate Committee (frequency of meetings and sub-committee structures for specialist areas such as Treasury Management and Pensions). • In the context of the generationally significant financial challenges facing the sector, the Council should consider if there is a need to better understand the skill and experience requirements for members with cabinet or governance roles.	Green
Responsiveness of the Plan	• The Council refreshed its MTFP during the most recent financial planning cycle. • Future years will be reviewed during the lifetime of the plan, and this process has already commenced for 2013-14. • The Council will need to ensure that the Plan remains responsive, given the scale of the savings still required, and the financial uncertainty that remains within the timeframe of the Plan. In the short term this should include retention of business rates, changes to universal benefits, effective debtor management, and the impact of the 10% funding reduction in Council Tax benefit. The predominantly annualised approach to financial planning, with use of contingencies and reserves, and achieving budget targets has served the Council well historically. Whilst medium term financial uncertainties provides some challenges to medium term financial planning, the current approach needs to be subject to further consideration.	Green

Financial Governance

Key indicators 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	• During 2011/12, the Haringey Manager concept was introduced and, to support its embedding, manager profiles and job descriptions were adapted to align to Haringey Manager responsibilities. The Council has not changed the financial management process, rather it has passed greater responsibility from Finance to services. • The Chief Executive held sessions with manager groups (over 400 members of staff) during the year. • Considerable training to Haringey Managers was provided, including on the new forecasting and monitoring module in SAP • Training was not mandatory, so there is a risk that those officers who are not positive about their Haringey Manager role, may have decided not to attend. • As with any initiative requiring behavioural change, it will take time to fully embed, and there will be different reactions from the staff concerned: some may see the change as an opportunity whilst others may see the change as threat or challenge. Our fieldwork provided evidence for both, but the overall perspective provided was one of a positive progression towards services self-sufficiency in financial management. • Haringey Manager principles have not yet been fully applied to budget holders in children's social care • Our view is that financial literacy across the Council is improving and a positive direction of travel has been set. However, the changes required are not yet fully embedded across the Council, with mixed levels of financial management ability. A more systematic understanding of issues such as unit costs still need to improve. • The Finance Department hosts regular Finance Forums for all finance staff to provide updates in technical accounting matters.	Amber
Executive and Member Engagement	• There remains an appropriate level of senior management and member level engagement in the financial management process. • In the context of the generationally significant financial challenges facing the sector, the Council should consider if there is a need to better understand the skill and experience requirements for members with cabinet or governance roles.	Green

Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
Overview for controls over key cost categories	• The update to the Chart of Accounts during 2011-12 resulted in uncertainty from some budget holders during the transition to new structures, particularly where they became responsible for new service areas, as to which budgets they could formally manage. This risk is not a factor for 2012-13 because budgets have been formally assigned. • An understanding of unit costs by services remains mixed. Where there is effective monitoring and understanding of unit costs, we identified concern with the lack of available external benchmarking data from officers. The Council should ensure that key service unit costs are identified for external benchmarking and, where there are gaps in sources of benchmarking, the Council works with other local authorities to establish new benchmarking groups.	Amber

Financial Governance

Monitoring and review

Area of focus	Summary observations	Assessment
Review of accuracy of Committee/ Cabinet Reporting	• 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 members. • The frequency of reporting to Cabinet has reduced from monthly to quarterly during 2011-12 as a consequence of significant reductions to Finance staff. Monthly monitoring still takes places at CEMB and within Directorates, and Directors discuss the monthly reports with their Cabinet leads as appropriate. Whilst this has not hindered delivery of the savings required in 2011-12 there is a risk that such an approach could result in either a silo approach to monitoring savings, or a slower collective response by members in addressing significant budget delivery risk. • The chart of accounts was reviewed and updated in June 2011 to reflect the new Council structures. This was undertaken during the year, which resulted in budgets relating to reconfigured services not being available to the officer with the new budget management responsibility. The updating of the chart of accounts means this budget management risk should not become an issue during 2012-13.	Green
Performance Management of Budgets	• The 2011-12 net General Fund revenue budget is forecast to underspend by £3.7m. • The financial performance for 2011-12 includes a reduced revenue budget of £42.8m reflecting the savings requirement for the year. During the year 1,000 posts were deleted (800 of which resulted in redundancies) and the Council was restructured in line with Rethinking Haringey. • Whilst the Council has taken steps to more effectively profile capital projects, the 2011-12 capital programme is forecast to underspend by £13.5m, which relates to slippage rather than cash underspends. The main areas of underspends relate to IT replacement and BSF. • The reduction in Finance staff and the introduction of the Haringey Manager has lead to a risk-based approach to the provision of Finance support, with high risk areas such as children and adult social care receiving higher levels of Finance support than services identified as low risk. • The Council successfully lobbied the Government in relation to schools funding via the area cost adjustment. An additional £7.3m is expected to be added to the DSG from 2013-14 onwards.	Green

Financial Control

Key indicators 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.

Finance Department

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

Financial Systems

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

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.

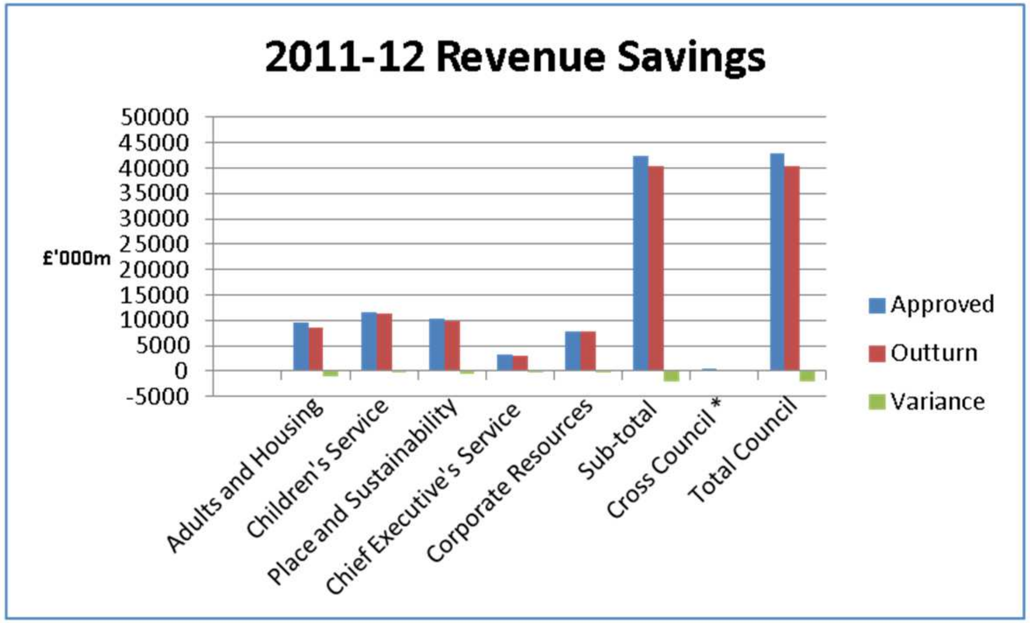
Financial Control

Internal arrangements

Area of focus	Summary observations	Assessment
Performance Management of Budgets	• 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 the Corporate Committee and other forums, of Members challenging on finances and understanding the scale of the financial management challenge facing the Council. • CEMB (the Chief Executive, the four Corporate Directors, the Assistant Chief Executive, the Head of Finance and the Head of Legal) meets weekly and is the primary interface with Cabinet members. The Chief Executive continues to place a high degree of priority on budget management, with performance reports discussed at CEMB on a monthly basis. Directors also discuss performance reports with their senior management teams on a monthly basis. • 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 has decided against a phased introduction of zero based budgeting. • A wider group of senior officers (CEMB plus Deputy Directors) is being established, to meet every four weeks. This group will also focus on budget management. • The importance of budget management is also re-affirmed via the Council's Senior Manager Forum. • As part of the introduction of new staff competencies, based on the Haringey Manager, relevant officers received performance targets relating to financial management of budgets during their most recent annual appraisals. The first full year of this new appraisal period was not completed at the time of this review.	Green

Financial Control

Internal arrangements

Area of focus	Summary observations	Assessment
Performance against Savings Plans	• The 2011-12 provisional outturn for net the revenue General Fund budget forecasts an underspend of £3.7m. • The council continued to use the Haringey Efficiency and Savings Programme (HESP) tool to monitor savings during the year. • Of the planned revenue savings of £42.8m, £40.4m were confirmed as having been achieved at the time of our review. The 1 March 2012 HESP report indicated that 83% of savings were rated green, 12% amber, and 5% red. The forecast year end position is set out in the table below.  • It was decided not pursue the cross-council savings (£490k) during 2011-12, with countervailing savings to be identified. • The £1.8m contingency for non-achieved savings was not utilised during the year.	Green

Financial Control

Internal arrangements

Area of focus	Summary observations	Assessment
Performance against Savings Plans (Continued)	• Internal Audit reviewed HESP, reporting in February 2012, and provided substantive assurance on the process for identification of , and reporting on, savings and the controls and risks in achieving the savings were being effectively managed. This review focussed on Children's Services and Adults and Housing Services, the two directorates identified as the highest risk due to the demand-led nature of service provision. • An audit of the Council's savings programme is included in their 2011-12 audit plan, and the review will be undertaken during 2012-13. • At the time of our review, 2012-13 savings monitoring had not commenced. The approach to monitoring savings during 2012-13 will be a focus on the high value and high risk savings, which will continue to be RAG-rated. The Council should ensure that the provision of supporting savings documentation is fully compliant (with the need to provide this documentation to Finance) which was not the case for all departments during 2011-12. • During the course of our review we confirmed that the identification of countervailing savings were not always identified during the monitoring process. The Council should consider monitoring the achievement of savings, particularly those related to key policy decisions, so that countervailing savings are clearly identified and their impact on service provision is better understood.	
Finance Department resourcing	• The finance function was centralised on 1 July 2011 and 43% of posts were deleted. There is now an establishment of 80 posts. • Finance support to services has, as a result, been more strategic and risk based. Our fieldwork indicates a high degree of satisfaction from services for the new arrangements, particularly where the centralised approach has impacted the greatest. There remains, however, concern in some areas of the ability of services to take full financial management responsibility required. • We note that a full year under the reduced resource arrangements had not been completed at the time of our review, and a critical stage will be the effective performance of the finance team during the 2011-12 closedown and final accounts period. • A further £400k savings are planned (£230k in 2013-14 and £170k in 2014-15) which could lead to further headcount reduction. The Interim Chief Finance Officer will review the options for achieving this level of saving during 2012-13.	Amber

Financial Control

Internal and external assurances

Area of focus	Summary observations	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 Council has recognised that current procedures incorporate a number of labour intensive work around activities that are not realistic as a result of the significant reductions to finance and service resource. • During 2011-12 a new module within SAP was introduced for budget forecasting. Budget holders were provided with training and we have been advised that use of the new tool has been good (the Council has introduced a report that identifies SAP usage by individual officers). • The Council is currently in the process of procuring a new Enterprise Resource Planning (ERP) platform to replace the current version of SAP. Further SAP developments have been suspended because of this procurement. The new ERP is expected to go live in April 2014. This means that some work around activity relating to financial management will be undertaken until the new system goes live. • The use of SAP to place orders has seen an improvement, but full compliance has not yet been achieved, with 80% of orders being placed via SAP. • The majority of departments now use commitment accounting in SAP. • Framework-i is the care planning system used by Adults and Children and Families. Commitments raised in Framework-i do not feed into the SAP general ledger. A working group has been set up to review the controls in place in Framework-i, and improvements to the controls have been implemented during 2011-12. In particular, the system has been integrated with SAP so that payments can only be made via SAP if the care package has been appropriately set up in Framework-i. • Commitments raised in Framework-i is manually identified in budget management reports. The Council has reviewed and decided on the appropriateness of this approach, which is based on the nature of social care commitments, which have no definite end date and are subject to a high level of variation due to changing client needs and circumstances. Commitment information is taken monthly from SAP and analysed by budget holders and Finance staff to produce a year-end forecast. The forecast is then entered onto SAP as part of the monthly monitoring process.	Amber

Financial Control

Internal and external assurances

Area of focus	Summary observations	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 reliance on the work of internal audit. • Internal Audit took over the housing benefit fraud team function during 2011-12. • During the year there was an overall reduction in funded posts, but some resource was used to establish a corporate anti-fraud team. There has been more proactive investigations into areas such as tenancy fraud and blue badge fraud. • The housing benefit investigation team has refocused its work to become more risk-based. The team has an annual target of 50 prosecution cases. During 2011-12 45 cases were submitted for prosecution of which 33 cases had been heard, with all decisions made in favour of the Council. During 2010-11 21 prosecutions were achieved. The total amount of housing benefit fraud identified totalled £783k, of which £266k in overpaid benefits had been recovered at the time of this review and plans are in place to recover the remaining amounts. The amount recovered exceeds the target for the year of £250k. • The focus on targeted criminality has seen a reduction in the number of cases for housing benefit overpayment. • During 2011-12 there was a significant reduction in priority 1 internal audit reports. Officers are now held accountable for any delays in implementing actions agreed in relation to internal audit reports.	Green
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: •it continues to monitor its MTFP during delivery, in particular in relation to changes to key assumptions, such as the impact of demographic change and price inflation in the medium term, and the outcome of the Government's funding settlement for the final two years of the plan. • it continues to plan for future changes to financial reporting, particularly in relation to the accounting treatment of schools and of heritage assets. • it continues to work closely with Alexandra Park and Palace to ensure that accounts closedown timetables are aligned. • it effectively continues to address the many changes that it faces in 2011/12 including those brought about by the Localism Act, the distribution of Business Rates, localisation of Council tax benefits and major changes to the funding of the Housing Revenue Account. • it continues to assess the impact of the Olympics on the borough • 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

Appendix - Key indicators of financial performance

Key Indicators of Financial Performance

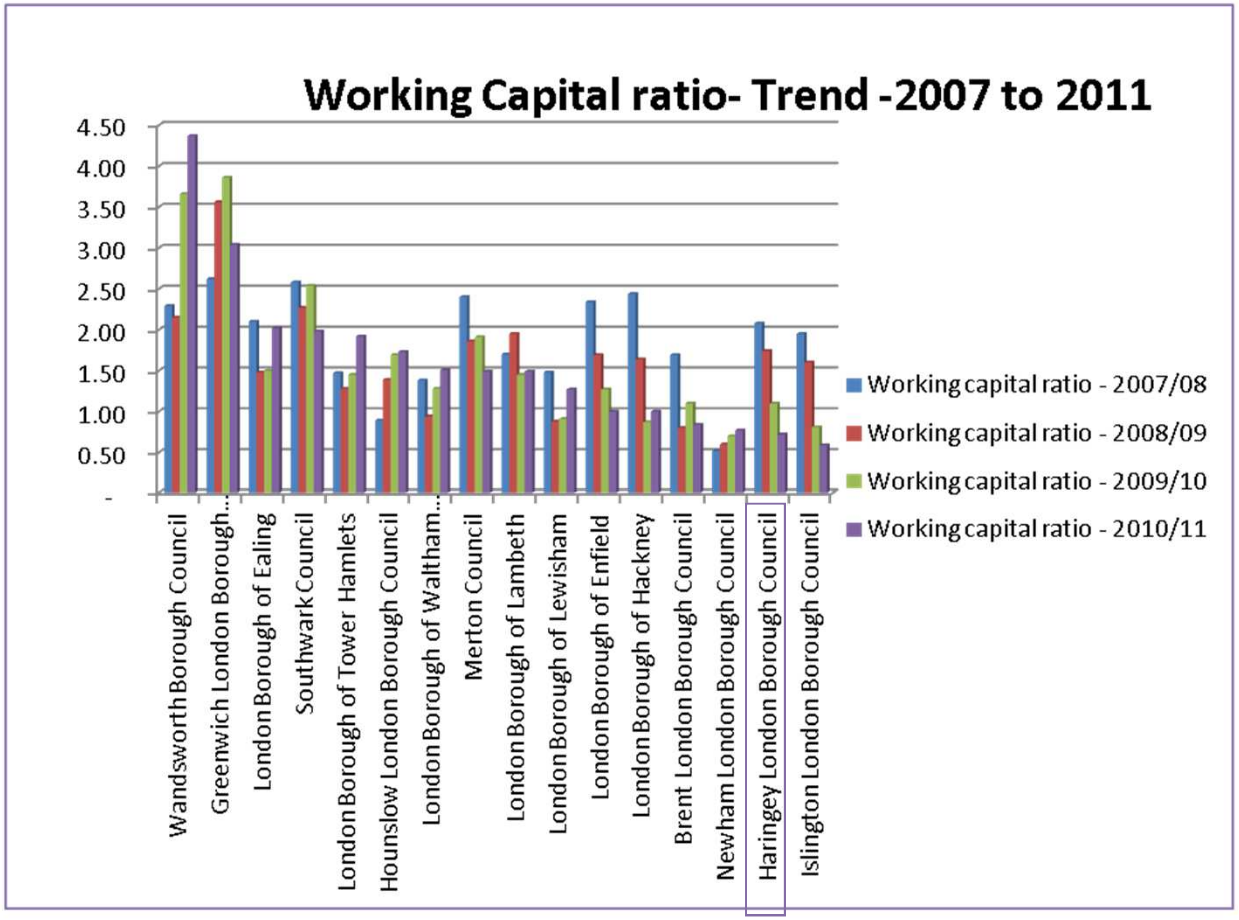
Working Capital - Benchmarked

Definition

The working capital ratio indicates if an authority has enough current assets, or resources, to cover its immediate liabilities - i.e. those liabilities to be met over the next twelve month period. A ratio of 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

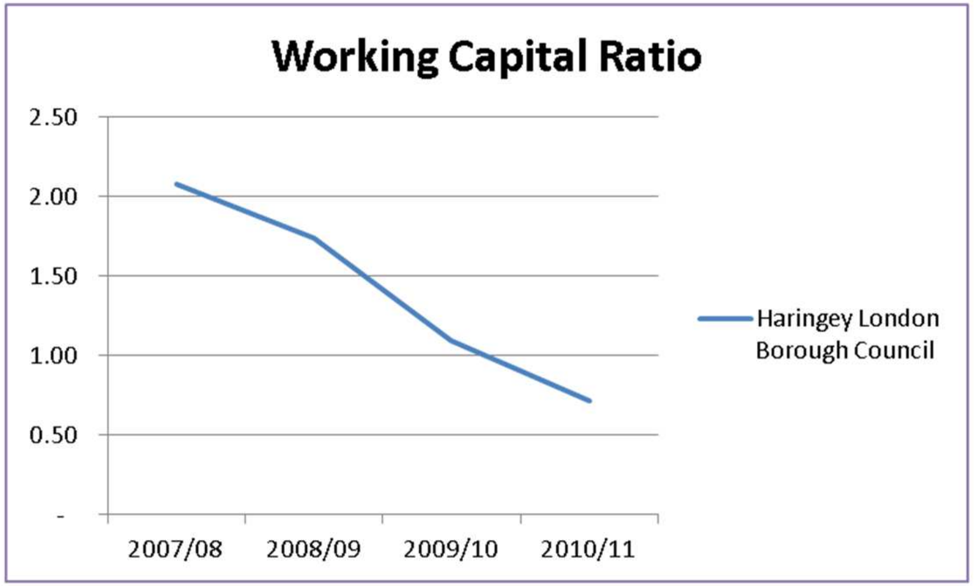
There is a mixed picture in terms of the movement in working capital ratios across the nearest neighbours. 6 out of the 16 boroughs have increased their working capital ratio from 2007-08 to 2010-11, whilst 10 out of the 16 boroughs have seen a decrease over the same period. Of those boroughs with a decreasing working capital ratio the average decrease is around 39%. The Council has seen a decrease of more than 65% (2007-08 (2.08) to 2010-11 (0.72) indicating that the Council's rate of decrease is significantly greater than most of it's nearest neighbours. The Council has the second lowest working capital ratio in the benchmarking group for 2010-11. Further comment on this is included in the next slide.



Source: Audit Commission's Technical Directory

Key Indicators of Financial Performance

Working Capital - Trend



Source: Audit Commission's Technical Directory

Findings

The Council's working capital ratio has reduced from 2.08 in 2007-08 to 0.72 in 2010-11, with year on year decreases during this period.

Council officers have indicated that the working capital ratio reductions are a consequence of the Council's Treasury Management strategy, which has introduced a move from external investment to internal borrowing. The redundancy programme led to an increased use of reserve balances and provisions during 2011-12.

The Council is paying off longer term, high interest bearing debt, and focussing on shorter term loans with reduced rates. This policy has led to £3m reduction in borrowing costs, and a reduction in credit risk. The Strategy is based on the external advice of Arlingclose, the Council's treasury management advisors.

This planned reduction in liquidity will continue for 2012-13, but remains under review.

Working capital will come under increasing pressure during SR10 and will need to be carefully monitored. However, we note that the Council has significant borrowing headroom, should this be required to support liquidity.

Key Indicators of Financial Performance

Useable Reserves - Benchmarked

Definition

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

Findings

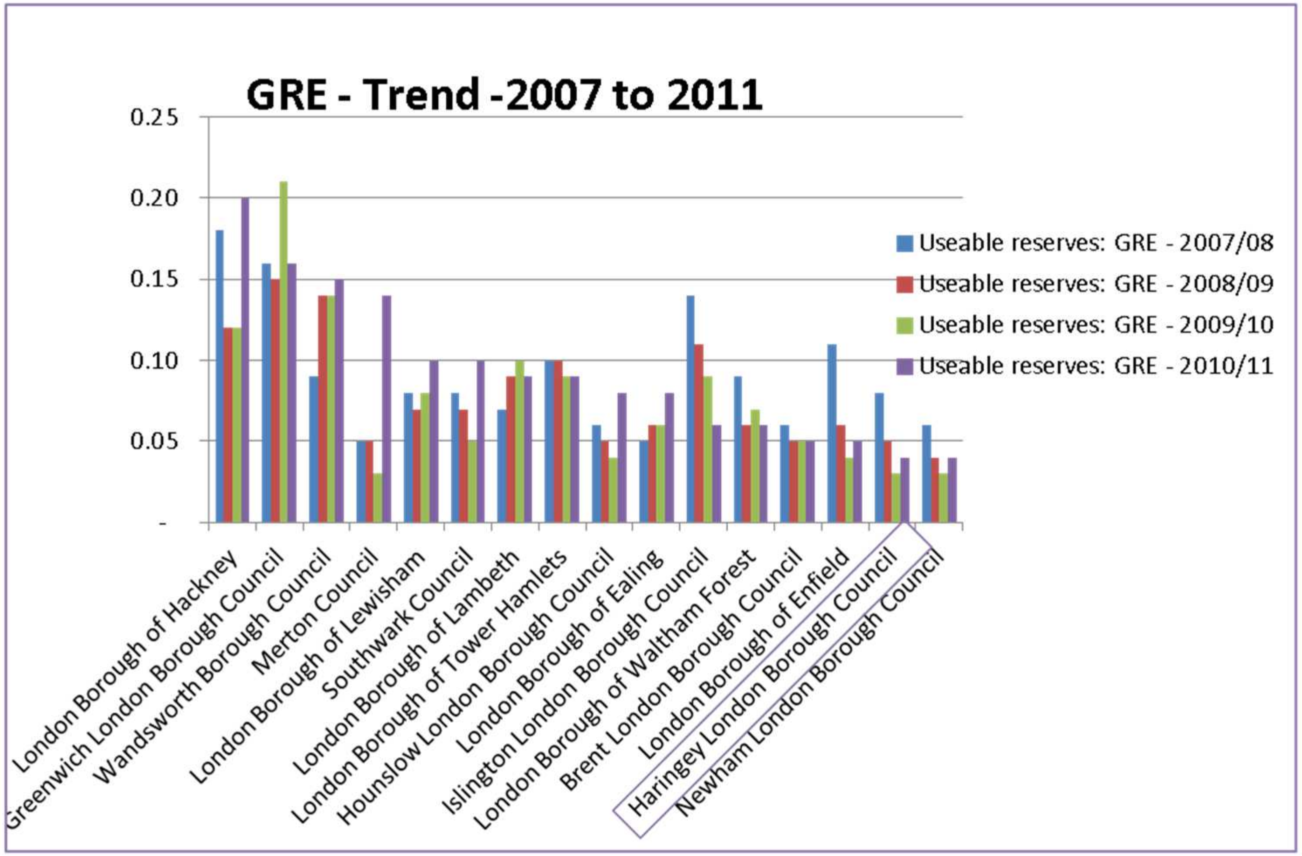
Between 2007-08 and 2010-11 the Council reduced the value of its useable reserves (as a percentage of expenditure) from 0.08 to 0.04. Reserves increased by 0.01 between 2009-10 and 2010-11.

There is no clear trend in the nearest neighbours group, with some authorities increasing their reserves (as a percentage of expenditure) and others decreasing their reserve levels. However, the Council has the joint lowest level of reserves in 2010-11 of the benchmarking group.

CIPFA's guidance on reserves is that the level should follow the S151 officer's advice to the Council, which should be based on local circumstances.

The Council forecast £60.9 m reserves at 31 March 2012, with £10.5m representing the general fund balance. The MTFP forecasts a continued reduction to reserve levels during 2012-13, to £48.8m with the general fund balance remaining constant.

The general fund balance of £10.5 represents 4% of the Council's net budget requirement for 2012-13, and is based on the S151 officer's risk assessment.



Source: Audit Commission's Technical Directory

Key Indicators of Financial Performance

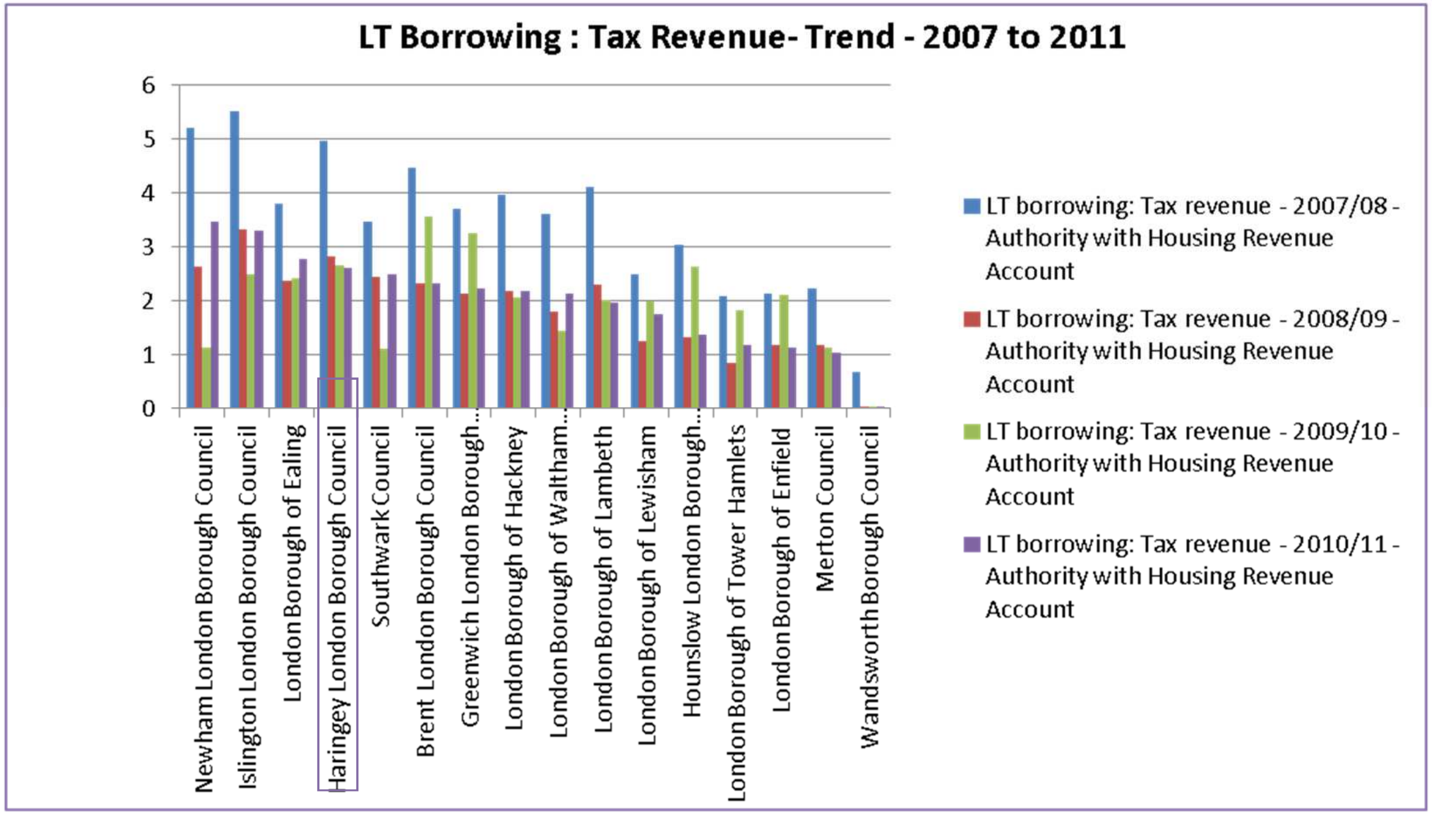
Long Term Borrowing to Tax Revenue - Benchmarked

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

The Council's long term borrowing ratio (as a percentage of tax revenue) has reduced by 47% (from 4.97% (2007-08) to 2.61% (2010-11)), and is in line with the Council's Treasury Management Strategy. This downward trend has brought the Council broadly in line with almost half of the benchmarked group (7 out of 16) that have a ratio of 2-3%. All of the nearest neighbour authorities have seen a similar downward trend of borrowing levels from 2007-08 to 2010-11 with an average decrease of 42 %.



Source: Audit Commission's Technical Directory

Key Indicators of Financial Performance

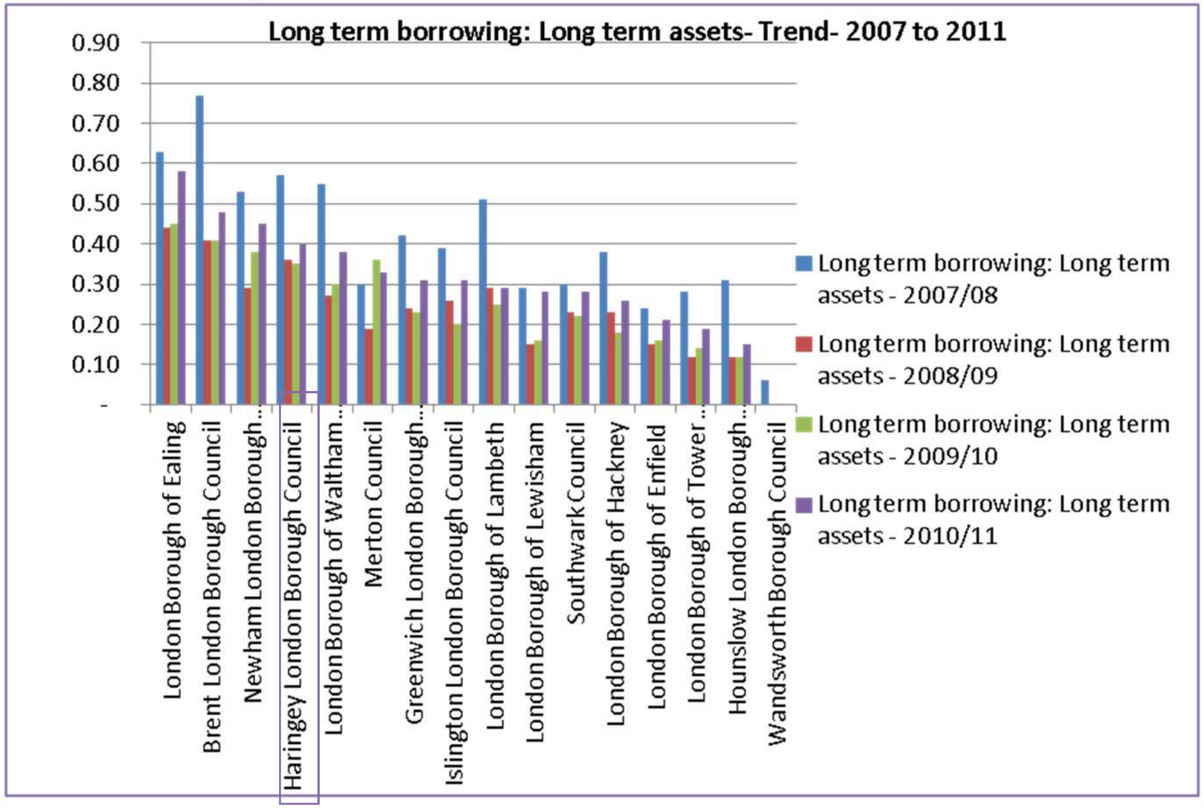
Long-term borrowing to Long-term assets - Benchmarked

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

The Council's long term borrowing to assets ratio has decreased by 30% from 2007-08 (57%) to 2010-11 (40%), and is in line with the Council's Treasury Management Strategy. The majority of the benchmarked group (15 out of 16) have reduced their ratios during the same period, with an average decrease for the nearest neighbours group of 25%. The Council is consistent with this overall trend, as councils reduce their exposure to long-term borrowing.



Source: Audit Commission's Technical Directory

Key Indicators of Financial Performance

Schools balances to DSG allocation - Benchmarked

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.

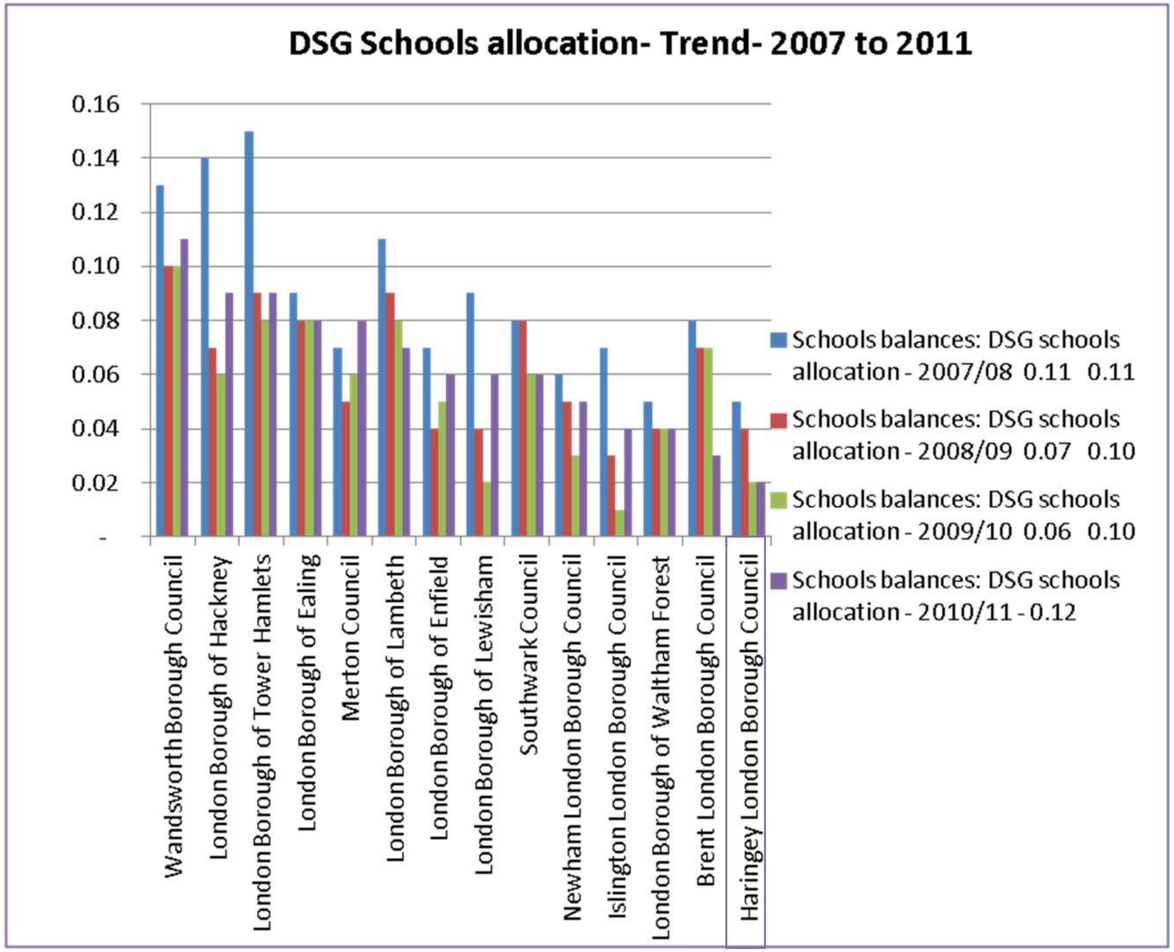
Findings

The Council's ratio has decreased by 60% from 2007-08 to 2010-11 with a steady year-on-year decrease over this period.

The majority of authorities have decreasing ratios from 2007-08 to 2010-11 with an average decrease of 32%. The Council has consistently remained one of the lowest ratios year-on-year, and has the lowest ratio of the benchmarked group for 2010-11. However, we note that the 2011-12 revenue outturn for schools has a net underspend of £2.475m, which has increased cumulative school balances to £5.1m as at 31 March 2012 based on returns received from schools

Internal Audit reviewed schools balances as part of their 2011-12 audit programme. 32 schools have been reviewed during 2010-11 and 2011-12. Very few schools were in balance, with the majority allocated surpluses or licenced deficits, with the latter becoming more prevalent. A minority of schools have significant balances.

Internal Audit are facilitating training for school governors, head teachers, and staff with financial responsibilities to ensure key financial processes are appropriately managed. A former head teacher with substantial financial experience has been engaged to work with schools on deficit recovery plans.



Source: Audit Commission's Technical Directory

Key Indicators of Financial Performance

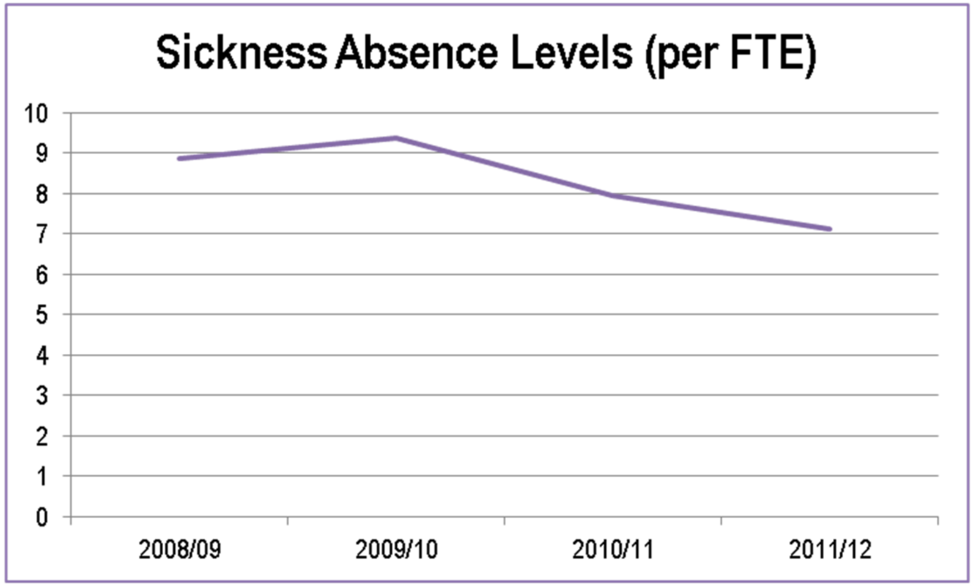
Sickness Absence Levels

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".



Source: LB Haringey

Findings

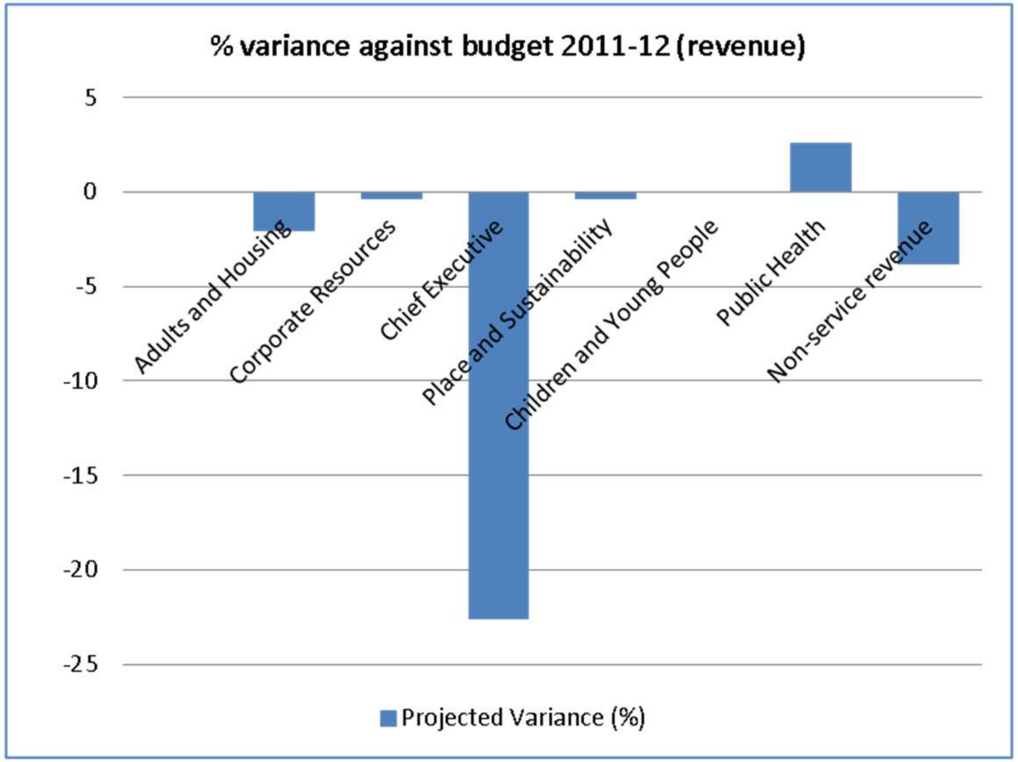
The Council's sickness absence levels have fluctuated over the past four years, but there has been a decreasing trend over the last three years.

The Council's absence level during 2011-12 of 7.11 days per FTE represented a 10% reduction on the previous year. Given the significant organisational change that took place during 2011-12 this indicates that the management of sickness absence continues to retain an appropriate profile with senior management.

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

Key Indicators of Financial Performance

Performance Against Budget: Revenue



Source: Financial Outturn 2011-12 Report to Cabinet, June 2012

Findings

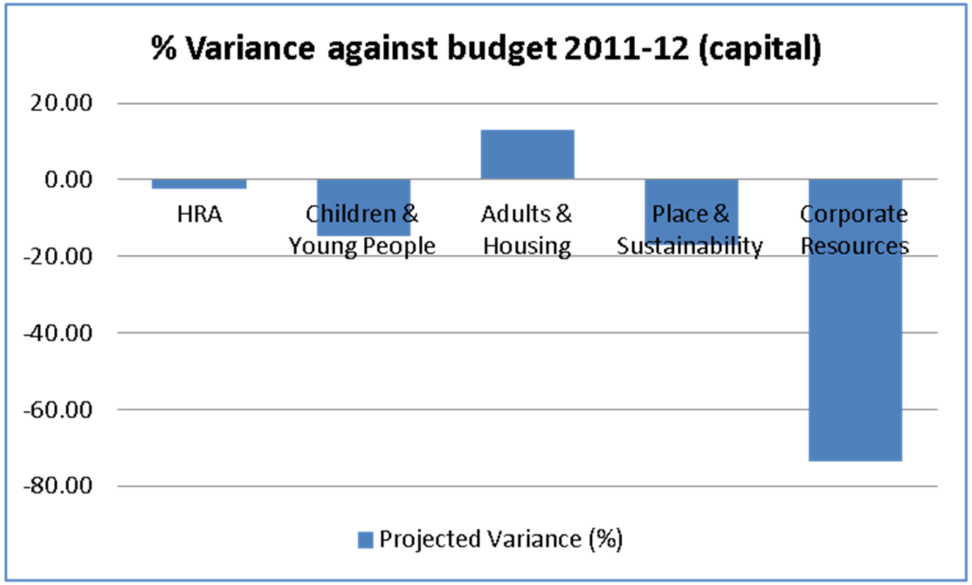
The overall revenue outturn position is a forecast underspend of £3.7m. In cash terms, the directorate with the best performance is Adults and Housing, with a forecast underspend of £2.03m (2%). Non-service revenue, which largely consists of revenue budgets related to capital financing costs, levies and contingencies, is forecast to underspend by £1.2m (3.8%).

The Chief Executive's department is forecast to realise the largest underspend in percentage terms (22% or £0.2m).

The only forecast overspend related to Pubic Health, which was £24k (2.6%).

Key Indicators of Financial Performance

Performance Against Budget: Capital Programme



Source: Financial Outturn 2011-12 Report to Cabinet, June 2012

Findings

There was a forecast underspend on the overall programme of £13.5m (13.7%).

The main contributors, in percentage terms, are Corporate Resources (73% of planned spend in year or £4.9m), Place and Sustainability Services(17% or £3.1m) and Children's (17% or £2.9m).

The variances substantially relate to:

- Corporate IT and infrastructure programmes of £4.5m, due to slippage in 2011-12;
- the BSF Schools Capital Programme of £3.3m, based on anticipated underspends and some carried forward expenditure;
- Accommodation strategy of £1m, due to slippage in 2011-12; and
- Re-provision of household waste recycling centre of £900k which is now expected to be undertaken by the North London Waste Authority.

Adults and Housing Services is forecast to overspend by £514k (12.9%).

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