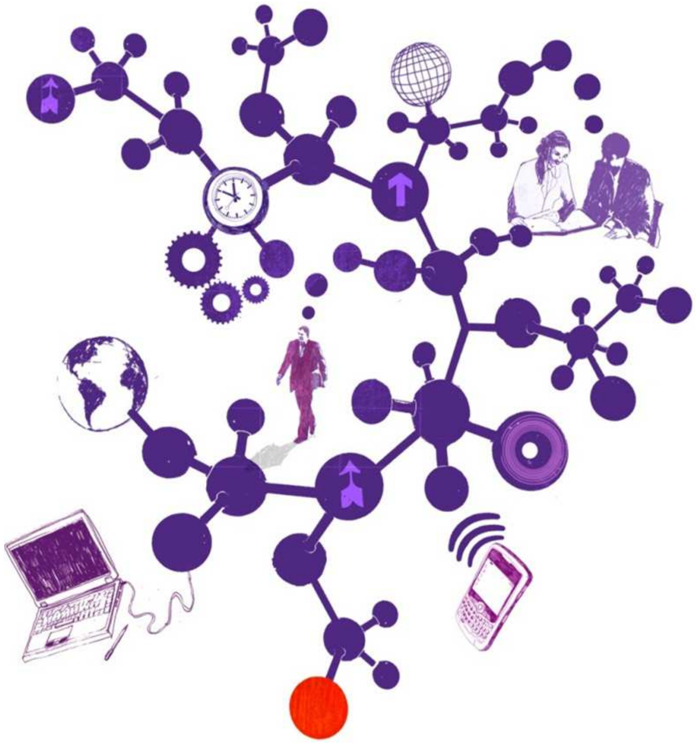
Review of the Council's Arrangements for Securing Financial Resilience (Follow-up)

London Borough of Haringey

Year ended 31 March 2013

September 2013



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Executive Summary

Our approach

Value for Money Conclusion

Our work supporting our Value for Money (VfM) conclusion, as part of the statutory external audit, includes a review to determine if the Council has proper arrangements in place for securing financial resilience.

In so doing we have considered whether the Council has robust financial systems and processes in place to manage its financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. We have carried out our work in discussion and agreement with officers and completed it in such a way as to minimise disruption to them.

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

We have reviewed the financial resilience of the Council by looking at:

- Key indicators of financial performance;
- Its approach to strategic financial planning;
- Its approach to financial governance; and
- Its approach to financial control.

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 2013/14 and beyond, its current arrangements for achieving financial resilience are adequate. Good progress has been made in addressing the matters we raised in last years report.

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 current Spending Review (SR10) to Parliament on 20 October 2010. SR10 represented the largest reductions in public spending since the 1920s. Revenue funding to local government was to reduce by 19% by 2014-15 (excluding schools, fire and police). After allowing for inflation, this equates to a 28% reduction in real terms with local government facing some of the largest cuts in the public sector. In addition, local government funding reductions were frontloaded, with 8% cash reductions in 2011-12. This followed a period of sustained growth in local government spending, which increased by 45% during the period 1997 to 2007.

The Chancellor of the Exchequer, in his Autumn Statement in November 2011, announced further public spending reductions of 0.9% in real terms in both 2015-16 and 2016-17. In his Autumn Statement on 5 December 2012, the Chancellor reinforced austerity measures announcing a further £6.6bn of savings during 2013-14 and 2014-15. Whilst health and schools will be continue to be protected in line with the Government's policy set out in SR10, local government will continue to face significant funding reductions. The Department for Communities and Local Government will contribute £470m of these additional savings, £445m of which will come from local authority funding during 2014-15, with local authorities being exempt from additional savings in 2013-14. In his March 2013 Budget the Chancellor announced further departmental 1% savings during each of 2013-14 and 2014-15. The NHS and schools remain protected, but police and local government will need to find an additional 0.5% over both years.

As part of the public Spending Round on 26 June 2013, the Chancellor announced control totals at a National Level for 2015/16 and reduced national spending by £11.5bn. This included reductions for local government of approximately 10%. The full details will not be published until December 2013.

These 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.

Financial austerity is expected to 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 nearly160 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 Stansted, Cambridge and Peterborough.

Like most Councils with similar demographics, Haringey faces significant challenges in regard to reducing central government funding, and in managing the social and financial implications of new government policies on welfare and local taxation. The Council has had a number of success stories in 2012/13, not least in regard to the positive Ofsted findings in regard to the quality of schools in the borough.

Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Key Indicators of Performance	The Council continues to demonstrate robust financial performance, particularly in regard to performance against budget. The Council's liquidity ratio (reflecting the availability of cash to pay short term creditors), is low in comparison to other similar councils although this is carefully managed through the treasury management policy. Reserve levels also remain low in comparison to other similar councils, although we noted this had improved since 2011/12 for both general reserves and schools reserves. Notably, the management of schools with budgeted deficits has improved over the last year. Reserve levels are an indication of the Council's ability to absorb financial shocks in the future.	Green
Strategic Financial Planning	This has been an area of focus during the year, in order to equip the Council to address the financial challenges over the next few years. The Director of Corporate Resources is temporarily working with a reduced portfolio to focus on financial challenges, control and efficiency. There have been notable improvements such as early financial close for the year end accounts and the development of detailed savings schemes to cover the funding requirement up to 2014/15. The Council has clearly communicated the key financial assumptions in the medium term financial plan and has analysed the key areas of uncertainty. The planning process is robust but does identify some financial risks in the medium to long term, particularly around the scale of savings required up to 2015-16, the impact of inflation over this period, and the reliance on significant service re-configuration to render the savings required . The impact of welfare reform and changes to local taxation are also identified as areas of risk and uncertainty in the Council's plans, as with many other councils.	Green
Financial Governance	The Council's governance processes and the level of engagement from members remains adequate. However, there is scope to strengthen the impact of the Corporate Committee in terms of managing the agenda and focusing on key governance matters. There is also scope to further equip members with the financial skills and awareness they will increasingly need to provide governance in an environment of increasing financial challenge for the Council.	Green
Financial Control	The Council continues to demonstrate a robust financial control environment and has sound assurance processes in place. The Council had significant issues with financial closedown and the production of the 2011/12 accounts, primarily as a result of issues with the allocation, training and skills of staff and review processes. This falls into the scope of this review as the process was undertaken during 2012/13. However we do note that significant action has been taken to address these issues in time for the 2012/13 accounts process. The audit has provided evidence that discernible improvements have been made resulting in earlier completion of the 2012/13 audit.	Green Amber

Executive Summary

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Key Indicators of Performance	The Council should continue to maintain its useable reserves at an appropriate level, within the constraints of the current financial challenges. Pressure on schools to deliver to budget should also be maintained.	Chief Financial Officer	On-going	Agreed
Financial Governance	The agenda and scope of the Corporate Committee is currently very broad and it will be increasingly difficult to provide the level of focus on financial governance matters that will be needed in future. Members of the Corporate Committee should consider how the agenda could be managed to allow a greater focus on financial governance matters, including risk management and the adequacy of controls.	Chief Executive	June 2014	A review of the Corporate Committee's structure and performance took place within 18 months of its inception and the Council made consequent adjustments. The Council does not plan to make any further changes to its committee structure or arrangements until after the next Council election in May 2014. However, in light of this recommendation, a further review of the Corporate Committee's functions and performance will take place and a subsequent report back to the Corporate Committee will be made setting out the findings and any new recommendations for improvement.
Financial Governance	Members across all governing committees should take steps to ensure they are equipped to provide appropriate levels of challenge and governance on financial plans, performance and reporting. The finance team should continue to provide finance training opportunities and support for Members. This should in turn present the opportunity to develop further the financial information provided to members in order to meet their needs (e.g. dashboard format, greater use of financial KPIs and analysis of savings plans).	Chief Executive and Assistant Director – Finance	March 2014	A review of member training will be undertaken, which will involve a needs assessment, that will include a specific emphasis upon the need and methodology to appropriately challenge financial plans, performance and reporting. The finance team will look to enhance its training of members role and, additionally, review its presentation of financial information in reports to Committees.

Other matters that members should focus on in 2013/14

Area of review	Key points for consideration
Strategic Financial Planning	Central Government's reform of local government finance presents a major challenge for all Councils and is set to continue for the foreseeable future. The MTFP will need to be regularly revisited to ensure that the impact of these reforms is planned for as early as possible. The current MTFP is being revised as a result of the SR13 announcement, which is likely to require further savings to be found in 2015/16 and beyond.
Financial Governance	The positive outcomes for 2012/13 budget delivery indicate that embedding cultural change in regard to financial management in the services, is being successful, although the process of embedding this is still underway. This directly impacts on the level of corporate finance support that is needed. Progress in embedding the financial culture in the services, should be closely monitored to ensure that key projects and risks arising can be sufficiently resourced, while maintaining 'business as usual' activities.
Financial Control	The Council has made a significant achievement in identifying savings schemes, a year in advance (2014/15). In order to build on this success, the Council should ensure that the detailed proposals are developed on a timely basis, are robust and have a strong likelihood of success, as part of the planning process for 2014/15.
Financial Control	The Council should continue to review its risk assurance arrangements as part of the on-going management restructuring process, particularly to optimise the benefit to services from the process and to ensure that Members are fully engaged in the management of risk and are equipped to challenge the assurances given.

1. Key Indicators

Introduction

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

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

Note that the available benchmarking data relates to 2011/12, but we have also included 2012/13 figures for Haringey to enable comparison.

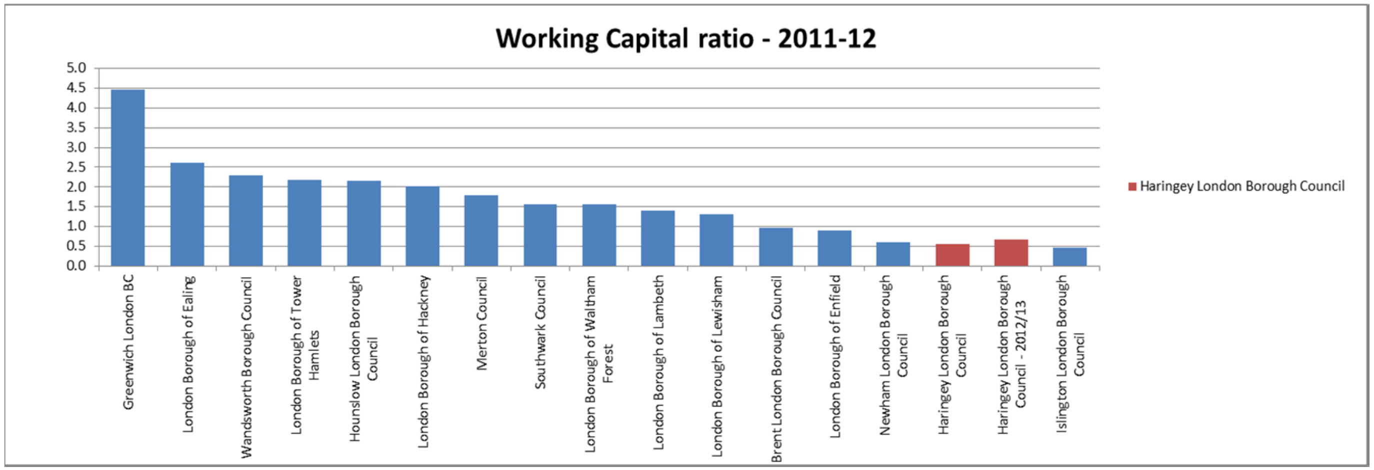
We have used the Audit Commission's nearest neighbours benchmarking group comprising the following authorities:

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

1. Key Indicators

Overview of performance

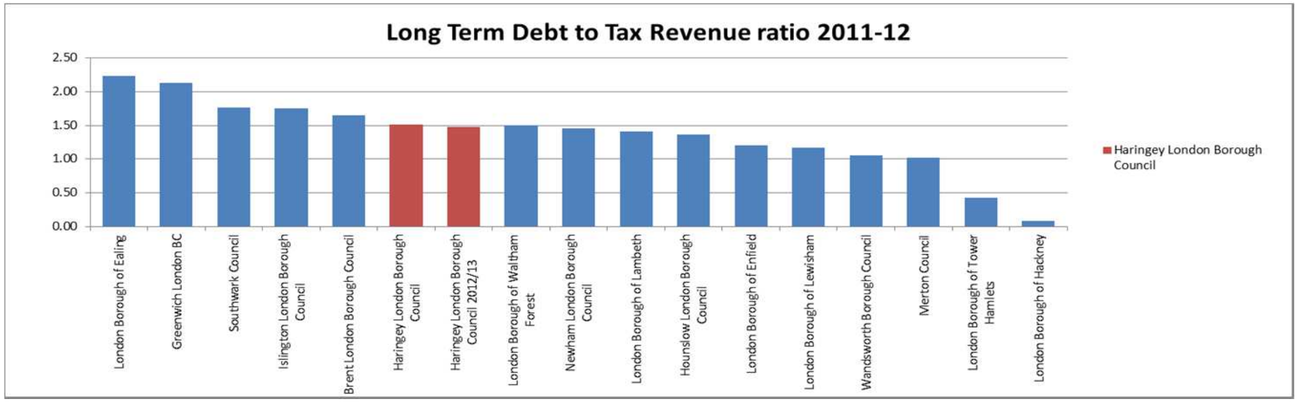
Area of focus	Summary observations	Assessment
1.1 Liquidity	• The Council continues to have a comparatively low ratio of current assets (cash and assets readily convertible to cash) in relation to current liabilities (debts payable in the short term). The ratio in 2012/13 was 0.68 which means that the value of current liabilities was greater than the value for current assets. A ratio of less than 1 can be an indicator of financial risk. • However, we established in the prior year that the risk was mitigated by a focused treasury management policy that reduced long term borrowing and replaced it with more flexible short term borrowing at competitive interest rates, which reduced the overall financial risk. Furthermore, borrowing from the private market was limited in favour of internal borrowing. The policy also ensured that working capital (overdraft) facilities were in place to mitigate the risk of unexpected calls on cash. Treasury management reports presented to Cabinet and financial reporting for 2012/13, indicate that the policy has been effective in mitigating risk. • Although the Council's collection rate for debtors continues to be good, the Council should continue to monitor this area closely as there will be increasing pressures on the cash position, in the context of the Council's increasing reliance on income from local taxation, as grant funding reduces over the medium term.	Green



1. Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
1.2 Borrowing	The Council's borrowing levels are in line with other similar Councils and are closely controlled by the treasury management policy and monitored by the Corporate Committee. The Council kept within its prudential borrowing limits during 2012/13.	Green



Area of focus	Summary observations	Assessment
1.3 Workforce	• Staff sickness for Haringey Council (excluding school staff) reduced from 7.77 days per FTE in April 2012 to 7.14 days per FTE in March 2013. The Council points out that this puts Haringey just outside the top quartile based on data for 24 London boroughs at Q3 2012/13. There has been a decreasing trend over the last four years and this indicates that the management of sickness absence continues to retain an appropriate profile with senior management. • The council makes use of agency and temporary staff as part of a workforce management approach, that provides flexibility in a period of organisational change. When needing to engage an agency worker a service manager has to obtain the approval of a business case by their business unit head and Director before approaching the agency resource centre which coordinates the supply of agency staff to the council. That business case needs to set out the reasons for the engagement (work volume, sickness or leave cover, vacancy cover). Before a worker is engaged, alternatives of rearranging duties or using staff in the redeployment pool are explored. There is monthly reporting of agency data to senior managers and directors. • The Council has a well regarded workforce management database, outputs of which form part of the finance and performance monitoring reports.	Green

1. Key Indicators

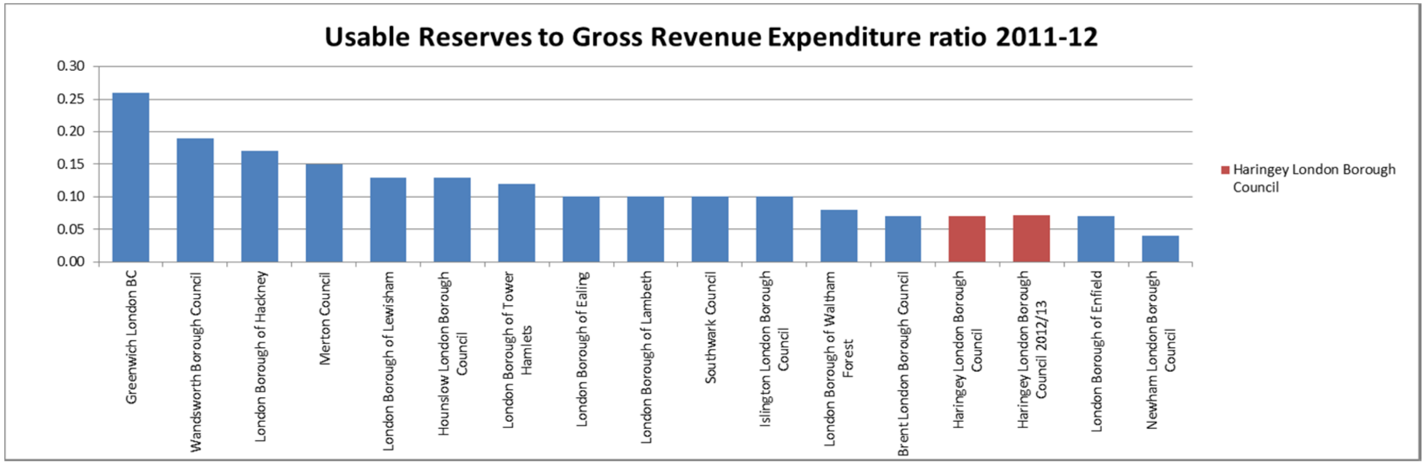
Overview of performance

Area of focus	Summary observations	Assessment
1.4 Performance Against Budgets: revenue & capital	• The Council has a strong track record of effective revenue budget management, which has been particularly strong in 2012/13 with no significant adverse budget variances reported across the services. In 2012-13 the General Fund net revenue budget underspent by £6.1 million (2% of budget) following a £4.7 million underspend in 2011/12. The 2012/13 underspend is primarily attributable to Corporate Resources, treasury management activities and contingencies provided within the budget that did not need to be drawn on. This has allowed for a net increase in useable reserves. • In 2012/13 the HRA produced a net surplus of £7.4 million in line with the budget, following a net surplus of £3.6 million in 2011/12. • In 2012/13 the Capital budget was underspent by £5.9 million (6% of the capital budget). In 2011/12 the capital programme underspent by £13.6m (14% of the capital budget) indicating a significant improvement in the progress being made on capital schemes. Unlike revenue underspends, capital budget underspends can be seen as an indication that the budget profile has not been correctly set or that capital schemes are not progressing to plan, which may impact on future services. Although there is room for improvement, the underspend is not of a scale that would indicate significant problems with the management of capital schemes.	Green

1. Key Indicators

Overview of performance

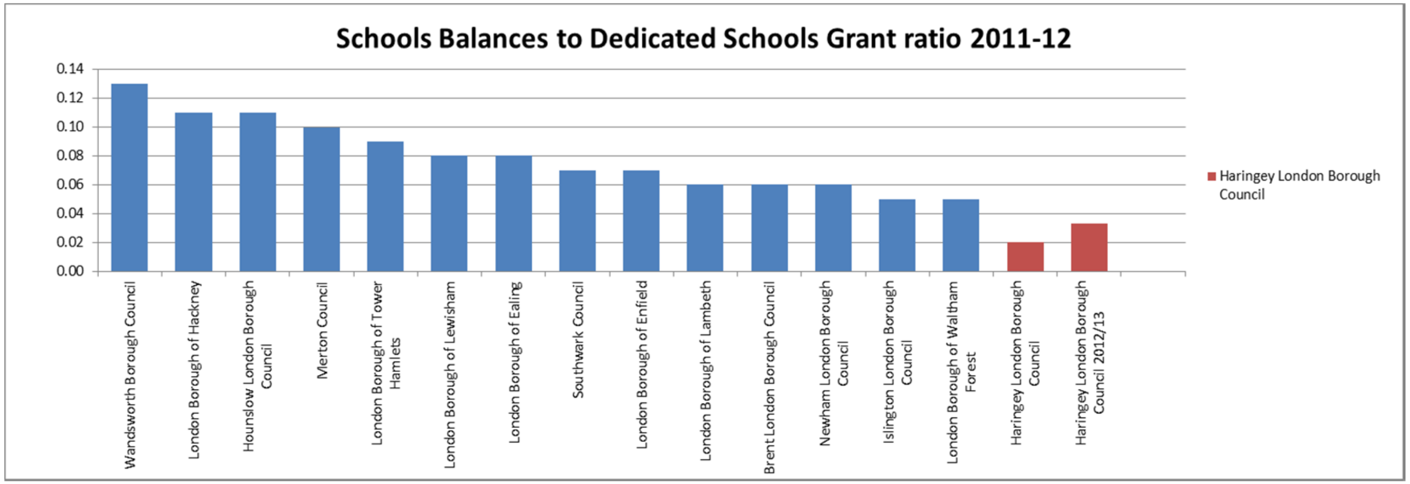
Area of focus	Summary observations	Assessment
1.5 Reserve Balances	• The Council continues to hold a relatively low level of reserves (as a proportion of gross expenditure) in comparison to other similar councils, although a number of them are in a comparable position. The Council has been able to marginally improve its levels of reserves in 2012/13. Reserves are important as they are a key safety net to enable the Council to withstand financial shocks and mange risk (e.g. through earmarked reserves). However, the Council recognises that any increase in reserve levels must also be balanced against the prioritisation of spending on services and the level of local taxation. • The Council's use of reserves in the next few years will have to be carefully controlled as there is limited scope to absorb any future planned or unplanned deficits in the revenue budget, without exposing the Council to significant risk in later years.	Green



1. Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
1.6 Schools Balances	• Haringey has the lowest level of schools reserves as a proportion of DSG in comparison to similar councils (reflecting the size of the schools portfolio). In the Council's view, outer London areas such as Haringey have derived less benefit from the central government funding methodology than inner London areas, and this may be a factor in the current position. • Despite this the schools have been able to deliver a significant improvement in their aggregate level of reserves in 2012/13. From the Council's point of view, the risk is crystallised where schools with deficits transfer to Academy status as has been the case in 2012/13. • The Council has made good progress in encouraging stronger financial management in schools, through training of governors and other means, and Internal Audit have been active in tracking progress. The Council recognises that there remains scope for further improvement and continues to drive this agenda. • The Council has successfully lobbied the Government in relation to schools funding via the area cost adjustment. An additional £7.3m has been 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



2. Strategic Financial Planning

Key characteristics of good strategic financial planning

In conducting our review of strategic financial planning we have assessed the Council's performance against the following indicators:

- Focus on achievement of corporate priorities is evident through the financial planning process. The MTFP focuses resources on priorities.
- The MTFP includes outcome measures, scenario planning, benchmarking, resource planning and details on partnership working. Targets have been set for future periods in respect of reserve balances, prudential indicators etc.
- Annual financial plans follow the longer term financial strategy.
- There is regular review of the MTFP and the assumptions made within it. The Council responds to changing circumstances and manages its financial risks.
- The Council has performed stress testing on its model using a range of economic assumptions including CSR.
- The MTFP is linked to and is consistent with other key strategies, including workforce.
- KPIs can be derived for future periods from the information included within the MTFP.

2. Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
2.1 Focus of the MTFP	• The Council's revenue budget for 2012-13 was set in February 2012 . The 2013/14 budget was presented to Cabinet in February 2013 along with an updated three-year medium term financial plan (MTFP) for the period 2013-16. • The Council faces a number of major economic and demographic challenges in the context of recent reforms to welfare and Council funding. These are explored in 2.2 below. • In 2011/12 we noted that the MTFP projected a savings shortfall at the start of the 2013/14 period of £6.1 million, which was to be closed during the 2013/14 planning cycle. This was successfully achieved and a balanced budget was set for 2013/14 that included a £7.1 million additional savings for 2013/14. • The shortfall for 2014/15 is £20.7 million and closing this gap is the central objective of the revised MTFP. The Council's MTFP goes on to look ahead to 2015/16 emphasising the significant challenge and estimating a further funding shortfall of £22.5 million, leaving a projected gap of £43.2 million. This estimate was made prior to the Government's announcements for its spending round in June 2013 (SR13) which is likely to widen the gap. The Council's MTFP acknowledges the significant challenge and the need to consider alternatives to the current way in which services are delivered as well as driving efficiency. • The Council is developing a bottom up approach to service delivery, concerned with prioritising future service provision in order to address the medium term funding gap while focusing on those areas most valued by residents. The Council has invested time in understanding the unit cost of services during 2012/13 which will help support this process This will ultimately lead to a fundamental review of service budgets. • The savings development process has been reviewed and revised for 2013-14. A new officer budget savings group was set up to help action the development of the 2014/15 savings plans. Savings were prioritised and reviewed by this group. Initially directors were asked to identify savings opportunities. Savings were then considered corporately by Directors Group and then Cabinet in June 2013. • We also note that for 2013/14, the Council has implemented a training and communications initiative around achieving value for money, aimed at budget holders. This is part of a suite of initiatives under the Improving Haringey Programme to help improve the finance culture across all parts of the organisation. The previous phase of the programme was called 'Getting the Basics Right'. Each of these initiatives has a champion at Assistant Director level.	Green

2. Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
2.2 Adequacy of planning assumptions	• The MTFP has been subject to significant review during the 2012/13 planning cycle and has been updated to reflect the projected position up to 2015/16. Detailed planning for 2015/16 will need to take place following the SR13 announcement, however the Council has already made assumptions about the potential impact of this announcement. Early indications are that the £22.5 million funding shortfall of 2015/16 initially projected in the MTFP may increase. However, as the Council had already anticipated further significant cuts, the level of adjustment required to the MTFP and to stakeholder expectation has been minimised and options for major changes to service delivery are already being explored as the primary solution in the medium to long term. • The Council's MTFP demonstrates a good grasp of key developments in local government financing. The key assumptions discussed in the MTFP include consideration of changes to local government funding and the impact of council tax and NNDR reform. The Council has analysed the implications of the government settlement on areas such as grant funding in the MTFP in some depth. The MTFP sets out the Councils key demographic assumptions and has used these to challenge some of the central government assumptions used to reach the Revenue Support Grant levels in 2013/14, for example, in regard to population. • The Council tax collection rate estimate has been reduced to 94% in setting the 2013/14 budget. This was done to reflect the volume of discounts, exemptions and charges due to the localisation of council tax benefit. In regard to NNDR, the MTFP sets out the implications of the reforms that include the potential benefit from an increasing base, but also the downside risk should the base decline. The NNDR base is largely made up of small businesses and the assumption is that the base will remain static. The MTFP recognises that the assumptions for year three of the plan 2015/16 are subject to uncertainty. It also addresses some of the longer term challenges and future uncertainties, and the need to address this through transformation of service delivery. This includes the impact of the benefit cap and other welfare reforms that will put significant further pressure on finances in future. • We also noted that following the uptake of public health responsibilities the Council is working to embed knowledge and information in this area. • We noted that inflation provision had been deducted from the forward budget for 2014/15 (reducing the savings by £3.5 million) and that services will need to negotiate on price so that inflation is effectively absorbed as indirect savings within the services. The Council acknowledges that there is a degree of risk attached to this assumption. • The Council has a good recent track record of delivering savings and budget and has already identified £20 million of savings for 2014/15 which is a significant achievement. However, total savings approaching £50 million now need to be delivered up to 2015/16 and this represents a significant challenge over the next two years, with future financial viability dependent on the delivery of substantial reconfiguration of the way that services are delivered.	Amber

2. Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
2.2 Adequacy of planning assumptions (continued)	• The Council faces increasing pressure on the availability and cost of temporary accommodation in the borough, which is an essential part of the strategy for implementing the central government benefits cap. The Councils own capacity for directly supporting residents through discretionary housing payments is highly limited and the Council is therefore exploring a range of options to mitigate this risk. These risks will put significant pressure on finances if not mitigated, from 2014/15 onwards. • In 2011/12 we noted that Children's Services were in the highest 10% of spend amongst its statistical nearest neighbours. The 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. This has resulted in spend in this area reducing toward the average among the statistical nearest neighbours in 2012/13. This was achieved while maintaining service levels and without the budget overspends seen in previous years.	
2.3 Scope of the MTFP and links to annual planning	• We noted that the Council's Business Strategy & Intelligence team ensure that corporate strategies, the MTFP and service plans directly support the new Corporate plan. • The Council has continued to improve in regard to the timeliness of savings plan development, and has now developed savings schemes to support the MTFP in excess of £25 million for 2013/14 and 2014/15 (£20m for 2014/15 alone) which is a significant achievement. The Council is currently developing the detail of these savings plans. • The Council continues its policy of using scenario planning, sensitivity analysis and modelling of demand, for high risk areas within service plans but does not roll it out for all areas. It considers this proportionate within its available finance resource. • In 2011/12 we noted that the Council needed to ensure that services were supported by an appropriate resource for business analysis to support the business planning process, specifically in Children & Young People's Services. In 2012/13, the Director of Children & Young People's Services commissioned a service transformation project (Haringey 54,000) which aims to shift the focus from expensive intervention to prevention. The business case for this is being developed but resource has been allocated to analyse the service from first principles and building up the budget from a zero base. Additional support is provided by the Council's Business Strategy & Intelligence team. The main benefits of this are projected to impact from 2014/15. The service has also made use of the Councils business planning framework to strengthen the process. Progress has been made in making plans to reconfigure Children's services, although the transformation carries risks and has yet to be fully implemented and embedded.	Amber

2. Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
2.4 Review processes	• As in prior years the Councils MTFP is reviewed and updated at least annually and a three year planning horizon is maintained on a rolling basis. • In 2011/12 we raised the point that the Council should support Members in developing the financial skills needed to provide robust challenge. In 2012/13 the Council was able to provide examples of training and engagement offered to Members during the year, including on budget challenge. • The MTFP will need to be revisited following the Government's SR13 announcement to assess the impact, as it is likely to require further savings to be found in 2015/16 and beyond. The Council plans to report on this in the Autumn. A review was undertaken by officers immediately the SR13 was announced and no major changes were required to the MTFP for 2014/15.	Green
2.5 Responsiveness of the Plan	• Financial planning been an area of focus in order to equip the Council to address the financial challenges over the next few years. The Director of Corporate Resources is temporarily working with a reduced portfolio to focus on financial challenges, control and efficiency. There have been some further positive developments such as early financial close for the year end accounts to allow more time for scrutiny and the development of detailed savings schemes to cover the funding requirement up to 2014/15. • As in 2011/12 the Council has demonstrated that its financial planning process is responsive to changing circumstances. As previously noted, the MTFP will need to be reviewed to accommodate the impact of SR13 on 2015/16. • Also as discussed above, scenario planning, sensitivity analysis, benchmarking and modelling of demand are used to support the planning process and to develop the assumptions, and this is discussed in some depth in the MTFP. • Although the Council has comparatively low levels of useable reserves overall, it has established earmarked reserves to mitigate key identified financial risks providing some scope to absorb financial shocks. The Council also makes prudent use of budgeted contingencies, which can then be released as a surplus if not used at year end (as was the case in 2012/13). The Council has been able to achieve a surplus in 2012/13, increasing the General Fund and the MTFP does not propose to use reserves to fund on-going budget deficits.	Green

3. Financial Governance

Key characteristics of effective financial governance

In conducting our review of financial governance we have assessed the Council's performance against the following indicators:

Understanding

- There is a clear understanding of the financial environment the Council is operating within:
  - Regular reporting to Members. Reports include detail of action planning and variance analysis etc.
  - Actions have been taken to address key risk areas.
  - Officers and managers understand the financial implications of current and alternative policies, programmes and activities.

Engagement

- There is engagement with stakeholders including budget consultations.

Monitoring and review

- There are comprehensive policies and procedures in place for Members, Officers and budget holders which clearly outline responsibilities.
- Number of internal and external recommendations overdue for implementation.
- Committees and Cabinet regularly review performance and it is subject to appropriate levels of scrutiny.
- There are effective recovery plans in place (if required).

3. Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
3.1 Understanding the Financial Environment	• During 2011/12, the Haringey Manager concept was introduced, which included training and changes to job descriptions to allow greater responsibility for financial management to pass from finance to the services. This process is now embedding. Anecdotally, the system is working although with service teams also incurring staff reductions, it has increased the workload on these teams. The Council retains a monthly management information process reported to Directors Group, alongside the formal quarterly reporting process to Cabinet, and the amount of time that can be given to the process can sometimes affect the completeness and detailed analysis of the information. The positive outcomes for 2012/13 budget delivery indicate that embedding cultural change in regard to financial management in the services has been broadly successful, although there remains some work to do and financial effectiveness across the services should continue to be reviewed. • Finance managers are allocated to each of the services, primarily inputting into the quarterly cycle. Discussion with staff indicates that the level of support provided to services was generally good in this regard. • The Finance department hosts regular Finance Forums and 'Learning Lunches' for all finance staff to provide updates in local government finance including technical accounting matters.	Green
3.2 Executive and Member Engagement	• There remains an appropriate level of senior management and Member level engagement in the financial management process, as we established in 2010/11 and 2011/12. We confirmed this though review of minutes and papers submitted to members during the year (e.g. to Cabinet). • The level of engagement and challenge from members on financial issues is similar to what we see in many other Councils, in that it is good in parts, but often reliant on a limited number of individuals and would benefit from further development. In 2011/12 we challenged that 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. In 2011/12 the Council has provided training for Members on budget scrutiny as part of an on-going training programme. The Council should continue to provide finance training opportunities for Members at convenient intervals to ensure that they are fully equipped to provide challenge. • The Corporate Committee operate a broad agenda, that does not always allow financial assurance matters to be discussed with the optimum depth and focus. There is scope to strengthen the impact of the Corporate Committee in terms of managing the agenda and focusing on key governance matters.	Amber

3. Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
3.3 Overview for controls over key cost categories	• In 2011/12 we noted uncertainty from some budget holders over their budget responsibilities during the transition to new structures but this risk is not a factor for 2012/13 because budgets have been formally assigned. • As we established in 2011/12 the understanding of unit costs by services is developing in the services. Where there was effective monitoring and understanding of unit costs, we identified concern with the lack of available external benchmarking data from officers. Since then, the Council's finance team has done significant work on financial benchmarking in 2013/14 to better understand costs and to support the development and to support savings plan development in the services. • In 2012/13, we found that benchmarking and working with partners on information was taking place in at least some service areas and that corporate support in this area was available from both Finance and the Business Strategy and Intelligence team. The finance department continue to challenge services to 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. • The Council's Corporate Committee is responsible for gaining assurance that controls over key cost categories are functioning, via monitoring progress on the Internal Audit plan and ensuring that the risk assurance framework is functioning correctly. The annual internal auditors report to the Committee indicates that the control framework is functioning well in general, and has highlighted areas where improvement is needed.	Green
3.4 Budget reporting: revenue and capital	• A quarterly monitoring report is presented to Cabinet with a year end summary at quarter 4. This includes information on financial performance of the Council for both revenue and capital, with commentary 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 which was one of the enablers for the reduction to Finance staff levels in 2011/12. Monthly monitoring still takes places at Directors Group and within directorates via the monthly budget management meetings with the Chief Executive and other key corporate managers. Directors also discuss the monthly reports with their Cabinet leads as appropriate. • This arrangement has successfully supported the delivery of savings plans in 2011/12 and 2012/13 which indicates that the process has embedded and is effective.	Green

3. Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
3.5 Adequacy of other Committee/ Cabinet Reporting	• In regard to the information provided to Members in the Cabinet budget monitoring report, the basic content makes use of both actual performance and forecast outturn against service budgets (for capital and revenue). The report also tracks virements between budgets. • Although the financial reporting to Cabinet is considered adequate, member engagement and challenge might be aided by further consideration of the content and presentation of information. This could be done in consultation with members to ensure that their preferences are considered. As noted above, the finance team should continue to provide finance training opportunities and support for Members. This should in turn present the opportunity to develop further the financial information provided to members in order to meet their needs (e.g. dashboard format, greater use of financial KPIs and analysis of savings plans). • The Council's corporate Business Strategy and Intelligence team provide a quarterly report to Cabinet on performance against the service performance targets set out in the Corporate plan. The Corporate plan was revised in July 2013 and again includes measurable performance indicators.	Green

Executive Summary

1 Key Indicators

2 Strategic Financial Planning

3 Financial Governance

4 Financial Control

4. Financial Control

Key characteristics of effective financial control

In conducting our review of financial control we have assessed the Council's performance against the following indicators:

Budget setting and budget monitoring

- Budgets are robust and prepared in a timely fashion.
- Budgets are monitored at an officer, member and Cabinet level and officers are held accountable for budgetary performance.
- Financial forecasting is well-developed and forecasts are subject to regular review.

Savings Plans

- Processes for identifying, delivering and monitoring savings plan schemes are robust, well thought through and effective.

Financial Systems

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

Finance Department

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

Internal Control

- There is an effective internal audit which has the proper profile within the organisation. Agreed Internal Audit recommendations are routinely implemented in a timely manner.
- There is a an assurance framework in place which is used effectively by the Council and business risks are managed and controlled.

4. Financial Control

Internal arrangements

Area of focus	Summary observations	Assessment
4.1 Budget setting and monitoring - revenue and capital	• As noted in 2011/12 the Council has a 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 which has continued in 2012/13. • We also noted that the Chief Executive has required that in addition to savings for the current year 2013/14, the £20.7 million of savings required by 2014/15 were also supported by specific proposals. This has been achieved and was set out in the Cabinet budget paper in June 2013. This is a significant positive development in helping the Council to establish its financial resilience in the medium term. • We have some 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. However, this could be further improved through member training and briefing on the governance role. • The Directors Group (the Chief Executive, the four corporate directors, the Assistant Chief Executive and the Head of Legal) meets bi-weekly and covers budget monitoring. The primary interface with Cabinet members is via meetings between directors and portfolio holders and at Cabinet meetings. The Chief Executive places a high degree of priority on budget management. • Directors also discuss financial 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 currently uses an incremental budgeting approach, which focuses on historic baselines with adjustments for inflation, growth and savings pressures. • As part of the introduction of new staff competencies, based on the Haringey Manager concept, relevant officers received performance targets relating to financial management of budgets during their most recent annual appraisals.	Green

4. Financial Control

Internal arrangements

Area of focus	Summary observations	Assessment
4.2 Performance against Savings Plans	• As identified in 2011/12, the Council has an effective process for identifying and assessing savings plans, which has continued in 2012/13. The 2012/13 budget had the value of savings schemes removed from the outset, and therefore the successful delivery of the budget broadly equates to successful delivery of savings. In addition to the overall budget position, the Council also demonstrated delivery to budget across each of the services. • The budget monitoring report for Q1, as presented at Directors Group, indicates that the budget for 2013/14 is on plan overall. However, we did note that there as a significant overspend in the housing service (£2.1m) attributed to a higher than expected cost of temporary accommodation as well as an overspend in Place and Sustainability (£0.85m), mainly in Leisure. The position has seen been updated in the report to the 10th September cabinet meeting which shows the overall forecast outturn position for the General Fund as projected by budget holders as at 31 July 2013 is an overspend of £1.6m. The overspend is being managed by the allocation of contingency sums in the budget, should these be required.	Green
4.3 Key Financial Accounting Systems	• Internal Audit reviewed the Councils strategic financial management and budgetary control processes during the year and considered the process to provide substantial assurance, indicating a robust process. • Internal Audit have also provided an overview of key financial systems during the year, summarised in their annual report and Head of Internal Audit opinion. The overall opinion was that the system of internal control for 2012/13 accords with proper practice and is fundamentally sound. There were no limited assurance reports being issued on key financial systems. This indicated that there were no material concerns with key financial systems. • The Council had significant issues with financial closedown and the production of the 2011/12 accounts, primarily as a result of issues with the allocation, training and skills of staff and review processes. This falls into the scope of this review as the process was undertaken during 2012/13. However, we do note that significant action has been taken to address these issues in time for the 2012/13 accounts process and the audit has provided evidence that discernible improvements have been made resulting in earlier completion of the 2012/13 audit. • No significant financial systems issues have been reported in the Council's Annual Governance Statement.	Green Amber

4. Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
4.4 Finance Department Resourcing	• In 2011/12 we noted that the finance function had been centralised with 43% of posts deleted and therefore financial support to services had reduced to have a more strategic and risk based focus. Our fieldwork indicated a high degree of satisfaction from services for the new arrangements, but had some concern that in some areas of the ability of services to take full financial management responsibility posed a risk for financial management. The Council has demonstrated that the new configuration is fit for purpose and there have been no material issues arising in the year, in regard to financial planning, management and control. • A degree of risk remains in regard to the financial team's ability to provide business as usual, while dealing with increasing levels of financial risk in future, for example, the increasing challenge of planning and delivering savings over the next few years. There are no indications of significant issues at this stage, but any further reductions in the finance team will need to be carefully managed. The level of corporate finance support that is needed, should be closely monitored to ensure that key projects and risks arising can be sufficiently resourced, while maintaining 'business as usual' activities.	Green
4.5 Internal audit arrangements	• In 2011/12 we established that the Council has adequate internal audit arrangements in place. Internal audit work is shared between in-house and external provision, and is fully compliant with the CIPFA Code of Practice. This continues to be the case in 2012/13. • Internal Audit took over the housing benefit fraud team function during 2011-12 and during this period, there was an overall reduction in funded posts, but some resource was used to establish a corporate anti-fraud team. • The 2012/13 Annual Internal Audit Report indicates an reduction in limited assurance internal audit reports, indicating a culture of openness to improvement is embedded in the services. Officers are held accountable for any delays in implementing actions agreed in relation to internal audit reports.	Green

4. Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
4.6 External audit arrangements	• The External Audit of the 2012/13 Accounts did not raise any significant matters in regard to financial control with only minor recommendations being made. The Accounts opinion was unqualified. • As noted previously, there were significant issues with the 2011/12 accounts process, that fall within the scope of this report. A report taken to the Corporate Committee in March 2013, highlighted key actions that the Council has implemented. • Management had made good progress in implementing the external audit recommendations arising from the 2011/12 process.	Green
4.7 Assurance framework/risk management	• The Council has an established risk assurance process and this is reviewed by the Corporate Committee on an annual basis. Service directors prepare directorate risk registers which are compiled into a corporate register. The process includes the management of risk within major projects. • The corporate risk register is regularly reviewed by Directors Group. The review of risk has also recently been augmented by additional scrutiny from the Chief Executive's Risk and Governance Group. • The Risk Assurance Process is overseen by the Head of Audit & Risk Management under the current arrangements who works closely with colleagues in the finance department and the Business Strategy & Intelligence team. • The Internal Audit plan is risk based, focusing on providing assurance that key areas of risk are appropriately managed • The Council should continue to review its risk assurance arrangements as part of the on-going management restructuring process, particularly in order to optimise the benefit to services from undertaking the process and to ensure that members are fully engaged in the management of risk and are equipped to challenge the assurances given.	Green

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