

DRAFT



This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

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Stevenage Borough Council

Review of the Council's arrangements for securing financial resilience

October 2011

Consultation Draft

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Section 1

Executive summary

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2.	Key Indicators
3.	Strategic Financial Planning
4.	Financial Governance
5.	Financial Control

Introduction

Context

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

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

SR10 represented the largest reductions in public spending since the 1920's. Revenue funding to local government will reduce by 19% by 2014/15 (excluding schools, fire and police). After allowing for inflation, this equates to a 28% reduction in real terms with local government facing some of the largest cuts in the public sector. In addition, local government funding reductions have been frontloaded, with 8% cash reductions in 2011/12.

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

This follows a period of sustained growth in local government spending, which increased by 45% (including schools and social services) during the period 1997 to 2007. The funding reductions come at a time when demographic and recession based factors are increasing demand for some services, and there is a decreasing demand for some services, such as car parking, where customers pay a fee or charge.

Our Approach

Value for Money Conclusion

As part of the work informing our 2010/11 Value for Money (VFM) conclusion we have undertaken a review to determine if the Council has proper arrangements in place for securing financial resilience.

In so doing we have considered whether the Council has robust financial systems and processes in place to manage its financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

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

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

- Key indicators of financial performance;
- It's approach to strategic financial planning;
- It's approach to financial governance; and
- It's approach to financial control.

Further detail on each of these areas is provided in the sections of the report that follow. In overall terms the conclusion from this report is that the Council has adequate arrangements in place for achieving financial resilience.

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

Green

No cause for concern. Adequate arrangements identified and key characteristics of good practice appear to be in place.

Amber

Potential risks and / or weaknesses. Adequate arrangements and characteristics are in place in some respects, but not all . Evidence that the Council is taking forward areas where arrangements need to be strengthened.



Red

High risk: The Council's arrangements are generally inadequate and not in line with good practice.

Our findings are detailed between pages 6 and 45 of this report.

All findings and recommendations have been discussed with senior officers. Details of the recommendations can be found on pages 8 and 9.



Overview of Arrangements

Area	Summary observations	Summary level risk assessment
Key Indicators of Performance	<ul style="list-style-type: none"> The Council has seen a significant drop in the level of usable reserves over the past three years. This is primarily due to the reduction in the level of the capital receipts reserve. Discussions with senior officers identified that the management of capital is a key area of focus for the Council. They have recognised that there is a significant gap between what the Council will need to spend on its assets over the next five years and what they are able to afford. Whilst a level of borrowing may be acceptable in the short term, it is not plausible as a long term solution. As a result of these issues, the Council has prepared an updated Asset Management Strategy. This is an attempt to make their management of assets more strategically focussed and enable the management of the estate in such a way as to be true to the Council's wider ambitions whilst being both financially and environmentally sustainable. This is a major project for the Council and it is vital that it is managed correctly with clear plans and timelines in place, in addition to senior officer support and monitoring. Reserve levels in general are an area of focus for the Council and it is positive to note that during 2010/11, the Council was able to deliver a net contribution back into balances for the first time in over ten years. The Council have achieved significant improvement on the levels of sickness absence and are now performing better than the public sector average. 	 Amber
Strategic Financial Planning	<ul style="list-style-type: none"> The Council was able to undertake the most recent MTFS process with an effective lead in time and it is clear that the process had a high level of stakeholder involvement. They made good progress with putting in place clear savings targets and packages to support them. The creation of the Challenge Board also highlights the Council's commitment to dealing with the financial challenges that they are facing. The Council will need to continue to monitor the MTFS during its delivery, in particular in relation to the impact of price inflation in the medium term, and the outcome of the Government's funding settlement for the final two years of the plan. In addition, work is still required to ensure savings assumptions in the latter years of the plan are effectively developed and the savings realised. 	 Green




Key:

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

Overview of Arrangements

Area	Summary observations	Summary level risk assessment
Financial Governance	<ul style="list-style-type: none"> The Council has good Executive and member engagement in the financial management process. The Council has a well established approach and appropriate processes in place in relation to financial governance and has delivered good results in recent financial years. The finance reports provided for the Executive provide a detailed narrative regarding the performance of the Council. The reports include a detailed breakdown of variances to budget, including comments against each. The Council have recognised the importance of a clear understanding of financial information. Review of all reports presented to Committee identifies that financial implications must be considered in all cases. 	 Green
Financial Control	<ul style="list-style-type: none"> The Council has a robust approach to financial and performance management and associated financial controls. In addition, they have a good record in controlling spend and achieving efficiencies and savings. It is anticipated that the Shared Internal Audit Service (SIAS) will increase resilience and give a greater economy of scale to allow access to specialist audit skills. However, to all members of the shared service, it is vital that quality is high and that each member is provided with sufficient levels of IA work and assurance. The Council must ensure that suitable monitoring arrangements are put in place to maintain a high standard of internal audit support. 	 Green

Key:

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

Recommendations

Area of review	Recommendations	Responsibility	Timescale	Comment
Key Indicators of Performance	The Council should continue to maintain appropriate levels of reserves and monitor the Council's liquidity and other key financial ratios to ensure financial resilience is maintained.	Strategic Director (Resources)/ Head of Finance	On-going through the MTFS and budget cycle	Officers review the level of balances through regular updates of the MTFS/KPI's (reported to SMB monthly) Quarterly monitoring reports which report on balances and level of reserves. Levels of reserves are also risk assessed as part of the budget setting process and in the delegation given to Executive.
	The Council should ensure that the necessary resources are made available to the implementation of the new Asset Management Strategy. A detailed and clearly documented project plan should be put in place, including timelines, milestones and responsibilities. This should be closely monitored and reported to ensure that the maximum benefits are achieved.	SMB	31 December 2011	A special SMB has been scheduled for the 29 November to consider the output from the re-basing exercise undertaken for the Council's capital strategy. As part of that, the AMS project plan will be considered, including delivery timelines for each of the work streams in order to support the resource requirements of the capital strategy.

Recommendations

Area of review	Recommendations	Responsibility	Timescale	Comment
Strategic Financial Planning	The Council should continue to monitor the MTFS during it's delivery, in particular in relation to changes to key assumptions, such as the impact of price inflation in the medium term, and the outcome of the Government's funding settlement for the final two years of the plan. In addition, work must be performed to ensure savings assumptions in the latter years of the plan are effectively developed and the savings realised.	Strategic Director (Resources)/ Head of Finance	On-going through the MTFS and budget cycle	The MTFS is regularly updated and has been scrutinized by Challenge Board (officer group) and LSPG (all party group). Changes to assumptions have been made to inflation as part of the November update. The MTFS assumes a 35% reduction in government support and Challenge Board meet regularly to review savings and identify future years savings. The majority of 2012/13 savings had already been identified by Challenge Board in advance of the annual savings process.
	The Council should consider adopting Zero Based Budgeting to better understand Member's priorities and improve the financial planning and budget setting process. This should be in a controlled context linked to priorities and where the nature of services allows for effective implementation.	Strategic Director (Resources)/ Head of Finance		Zero based budgeting requires significant resourcing which could not be completed within existing resources. However the finance team identifies key budgets which are zero based, e.g. rents, interest, significant income streams. There is a robust monitoring process in place which identifies underutilization/pressures on budgets.
Financial Governance	The Council should ensure that suitable monitoring arrangements are put in place to maintain a high standard of Internal Audit support following the creation of the Shared Internal Audit Service (SIAS).	Head of Finance	On-going	Meetings are held between the SIAS partnership Audit Manager and the Head of Finance. The Strategic Director (Resources) is a member of the officer board which meets with the other partnership councils in terms of governance.



Section 2

Key Indicators

1.	Executive summary
2.	Key Indicators
3.	Strategic Financial Planning
4.	Financial Governance
5.	Financial Control

Introduction

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

- Out-turn against budget
- Working capital ratio
- Useable Reserves levels
- Long term borrowing levels
- Sickness absence levels

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

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

- Basildon District Council
- Cannock Chase District Council
- City of Lincoln Council
- Dartford Borough Council
- Gloucester City Council
- Gravesham Borough Council
- Harlow District Council
- Ipswich Borough Council
- North Hertfordshire District Council
- Redditch Borough Council
- Rushmoor Borough Council
- Stevenage Borough Council
- Tamworth Borough Council
- Wellingborough Borough Council
- Welwyn Hatfield Borough Council
- Worcester City Council

Overview of performance

Area of Focus	Summary observations	High level risk assessment								
Performance Against Budget	<ul style="list-style-type: none"> The Council has a reasonable record in managing expenditure against budget, achieving net underspends in each of the past two years and a slight overspend in the year before that. This is highlighted in the graph below: <div data-bbox="515 582 1467 1165"> <table border="1"> <caption>General Fund - Underspend on net expenditure</caption> <thead> <tr> <th>Year</th> <th>Underspend on net expenditure</th> </tr> </thead> <tbody> <tr> <td>2008-09</td> <td>150</td> </tr> <tr> <td>2009-10</td> <td>(900)</td> </tr> <tr> <td>2010-11</td> <td>(700)</td> </tr> </tbody> </table> </div> <ul style="list-style-type: none"> This reflects good performance in challenging financial times. The Council have also achieved an underspend of £260k in 10/11 on their Housing Revenue Account. 	Year	Underspend on net expenditure	2008-09	150	2009-10	(900)	2010-11	(700)	<p style="text-align: center;">● Green</p>
Year	Underspend on net expenditure									
2008-09	150									
2009-10	(900)									
2010-11	(700)									

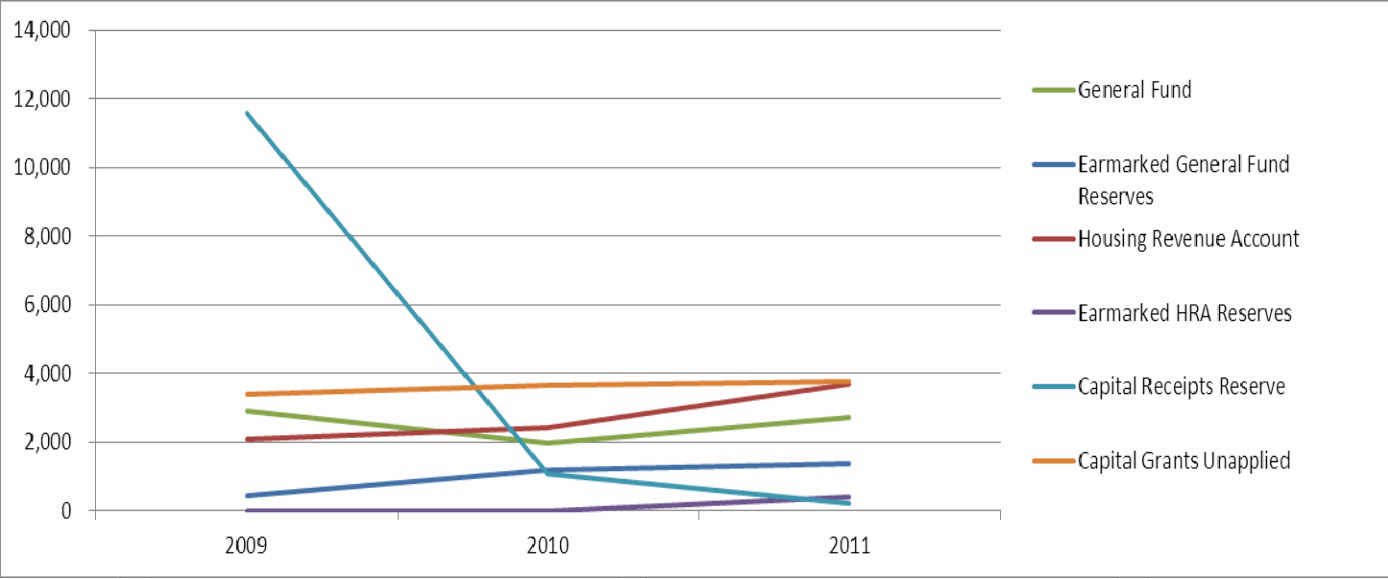
Overview of performance

Area of Focus	Summary observations	High level risk assessment								
<p>Performance Against Budget (continued)</p>	<ul style="list-style-type: none"> Review of the 4th quarter monitoring report has highlighted that the Council recognise the importance of analysing performance against budget, As the report notes, this is particularly important given the "level of savings the Council has had to make over the last few years and still has to identify for 2012/13 onwards." To support this, the Council summarised the net underspend on the General Fund as per the chart below: <div data-bbox="512 639 1473 1225" data-label="Figure"> <p>Underspend (2010/11)</p> <table border="1"> <thead> <tr> <th>Category</th> <th>Amount (£)</th> </tr> </thead> <tbody> <tr> <td>One off savings</td> <td>£306,603</td> </tr> <tr> <td>Carry forwards</td> <td>£244,870</td> </tr> <tr> <td>On-going savings</td> <td>£160,105</td> </tr> </tbody> </table> </div> <ul style="list-style-type: none"> Clearly, the more on-going savings that can be generated by the Council, the greater the reduction in pressure on their future financial targets. 	Category	Amount (£)	One off savings	£306,603	Carry forwards	£244,870	On-going savings	£160,105	
Category	Amount (£)									
One off savings	£306,603									
Carry forwards	£244,870									
On-going savings	£160,105									

Overview of performance

Area of Focus	Summary observations	High level risk assessment								
Reserve Balances	<ul style="list-style-type: none">The Council's usable reserves have reduced from £20,410k to £12,158k over the three most recent years. However, as the graph below shows, there has been an increase of nearly £2m between 09/10 and 10/11. <div data-bbox="517 584 1671 1129"><table border="1"><caption>Total Usable Reserves</caption><thead><tr><th>Year</th><th>Total Usable Reserves (k)</th></tr></thead><tbody><tr><td>2009</td><td>20,410</td></tr><tr><td>2010</td><td>10,000</td></tr><tr><td>2011</td><td>12,158</td></tr></tbody></table></div> <ul style="list-style-type: none">This contribution to balances in 10/11 was highlighted by the Strategic Director in their foreword to the financial statements, where it was noted that the Council had identified in excess of £5.8m in savings over the previous four years to address the underlying budget gap. This meant that the Council was able to deliver a net contribution back into balances for the first time in over ten years.	Year	Total Usable Reserves (k)	2009	20,410	2010	10,000	2011	12,158	<p>Amber</p>
Year	Total Usable Reserves (k)									
2009	20,410									
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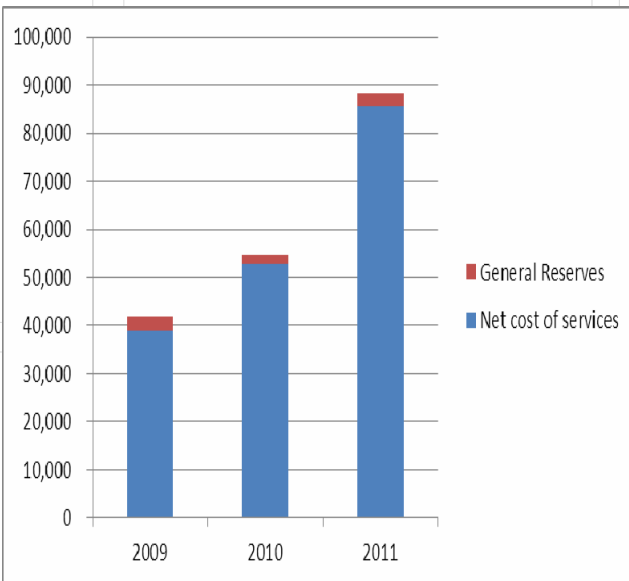
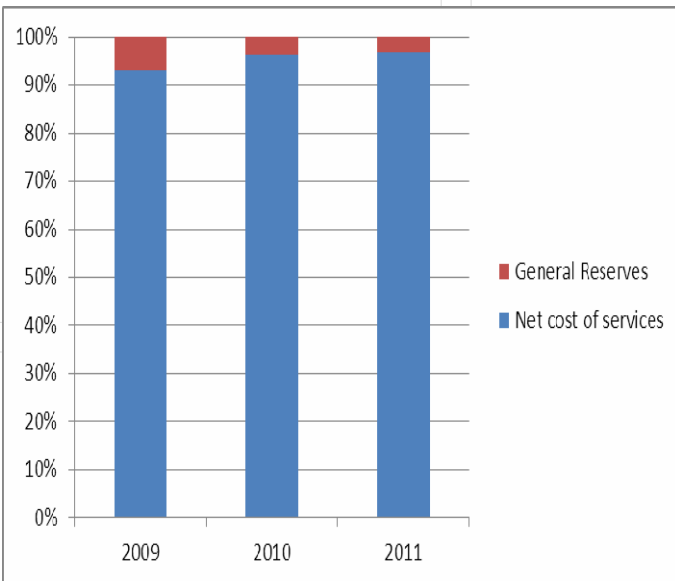
Overview of performance

Area of Focus	Summary observations	High level risk assessment																												
Reserve Balances (continued)	<ul style="list-style-type: none"> Having identified that usable reserves have reduced significantly over the prior three years, the graph below highlights that the key driver for this reduction is the level of the capital receipts reserve:  <table border="1" data-bbox="488 571 1872 1152"> <caption>Reserve Balances (Estimated Values)</caption> <thead> <tr> <th>Reserve Category</th> <th>2009</th> <th>2010</th> <th>2011</th> </tr> </thead> <tbody> <tr> <td>General Fund</td> <td>3,000</td> <td>2,000</td> <td>2,800</td> </tr> <tr> <td>Earmarked General Fund Reserves</td> <td>500</td> <td>1,000</td> <td>1,200</td> </tr> <tr> <td>Housing Revenue Account</td> <td>2,000</td> <td>2,500</td> <td>3,800</td> </tr> <tr> <td>Earmarked HRA Reserves</td> <td>100</td> <td>100</td> <td>200</td> </tr> <tr> <td>Capital Receipts Reserve</td> <td>11,566</td> <td>1,000</td> <td>202</td> </tr> <tr> <td>Capital Grants Unapplied</td> <td>3,500</td> <td>3,800</td> <td>4,000</td> </tr> </tbody> </table> <ul style="list-style-type: none"> The balance of the capital receipts reserve has fallen from £11,566k in 09/10 to £202k in 10/11, a drop of 98%. 	Reserve Category	2009	2010	2011	General Fund	3,000	2,000	2,800	Earmarked General Fund Reserves	500	1,000	1,200	Housing Revenue Account	2,000	2,500	3,800	Earmarked HRA Reserves	100	100	200	Capital Receipts Reserve	11,566	1,000	202	Capital Grants Unapplied	3,500	3,800	4,000	
Reserve Category	2009	2010	2011																											
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Overview of performance

Area of Focus	Summary observations	High level risk assessment												
<p>Reserve Balances (continued)</p>	<ul style="list-style-type: none"> The ability to fund capital expenditure is a key risk for the Council. In 2010/11, the Council spent £23.4m on capital projects. Of this, just £2,464k was available to be funded from capital receipts. The overall split of expenditure is shown in the graph below: <div data-bbox="517 584 1395 1117" data-label="Figure"> <table border="1"> <caption>Capital expenditure funding (10/11)</caption> <thead> <tr> <th>Funding Source</th> <th>Amount (k)</th> </tr> </thead> <tbody> <tr> <td>Useable capital receipts</td> <td>~2,500</td> </tr> <tr> <td>MRA</td> <td>~6,000</td> </tr> <tr> <td>Section 106 receipts</td> <td>~1,000</td> </tr> <tr> <td>Borrowing</td> <td>~11,000</td> </tr> <tr> <td>Grants and other ...</td> <td>~3,500</td> </tr> </tbody> </table> </div> <ul style="list-style-type: none"> This funding pressure has been identified by the Council and was reported to the Executive in their July meeting. It was noted that the current level of capital receipts is the lowest that has been held by the Council and "is as a combination of recessionary factors, the inability to sell surplus assets and the inability to get the estimated sale price to fund the capital programme." As a result of this, the Council has estimated a need to borrow £2.8m in 11/12 and a further £2m for each of the years 12/13 to 14/15. This is expected to be costing the General Fund £800k per year by 14/15. 	Funding Source	Amount (k)	Useable capital receipts	~2,500	MRA	~6,000	Section 106 receipts	~1,000	Borrowing	~11,000	Grants and other ...	~3,500	
Funding Source	Amount (k)													
Useable capital receipts	~2,500													
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Section 106 receipts	~1,000													
Borrowing	~11,000													
Grants and other ...	~3,500													

Overview of performance

Area of Focus	Summary observations	High level risk assessment
Reserve Balances (continued)	<ul style="list-style-type: none"> The graphs below show the level of general reserves against the net cost of services balance. The first graph shows this in actual terms, the second in percentage terms: <div style="display: flex; justify-content: space-around;">   </div> <ul style="list-style-type: none"> This highlights a falling level of reserves against net cost of services over the previous three years. The pressure on reserves is clearly significant and it is positive to note that the Council delivered a net contribution back into balances during 10/11. 	

Overview of performance

Area of Focus	Summary observations	High level risk assessment																																		
<p>Reserve Balances (continued)</p>	<ul style="list-style-type: none"> The Audit Commission made comparative data available for 2009/10. This has been used to generate the graph below showing the ratio of usable reserves to gross revenue expenditure with a comparison against those authorities the Audit Commission considers to be 'nearest neighbours'. <div data-bbox="495 587 1848 1225" data-label="Figure"> <p>Useable reserves to gross revenue expenditure (2009/10)</p> <table border="1"> <thead> <tr> <th>Authority</th> <th>Ratio (2009/10)</th> </tr> </thead> <tbody> <tr><td>Rushmoor BC</td><td>0.53</td></tr> <tr><td>Wellingborough BC</td><td>0.45</td></tr> <tr><td>Welwyn Hatfield BC</td><td>0.25</td></tr> <tr><td>Dartford BC</td><td>0.21</td></tr> <tr><td>Tamworth BC</td><td>0.18</td></tr> <tr><td>City of Lincoln</td><td>0.15</td></tr> <tr><td>Ipswich BC</td><td>0.13</td></tr> <tr><td>North...</td><td>0.11</td></tr> <tr><td>Basildon DC</td><td>0.10</td></tr> <tr><td>Cannock Chase DC</td><td>0.09</td></tr> <tr><td>Gravesham BC</td><td>0.08</td></tr> <tr><td>Worcester City</td><td>0.07</td></tr> <tr><td>Redditch BC</td><td>0.06</td></tr> <tr><td>Harlow DC</td><td>0.05</td></tr> <tr><td>Gloucester City</td><td>0.04</td></tr> <tr><td>Stevenage BC</td><td>0.02</td></tr> </tbody> </table> </div> <ul style="list-style-type: none"> This shows the Council holds a low level of reserves when compared to their 'nearest neighbours'. Useable reserves as shown above, is made up of general fund, earmarked reserves and useable capital receipts. The inclusion of capital receipts has a significant impact on the Stevenage position, given the low levels of capital receipts already identified within the review of reserves. 	Authority	Ratio (2009/10)	Rushmoor BC	0.53	Wellingborough BC	0.45	Welwyn Hatfield BC	0.25	Dartford BC	0.21	Tamworth BC	0.18	City of Lincoln	0.15	Ipswich BC	0.13	North...	0.11	Basildon DC	0.10	Cannock Chase DC	0.09	Gravesham BC	0.08	Worcester City	0.07	Redditch BC	0.06	Harlow DC	0.05	Gloucester City	0.04	Stevenage BC	0.02	
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Overview of performance

Area of Focus	Summary observations	High level risk assessment
Reserve Balances (continued)	<ul style="list-style-type: none"> • It remains important, and is perhaps even more critical, to maintain appropriate levels of General Fund reserves during this period of fiscal constraint. Failure to do so may create cash flow pressures and may cause adverse publicity for the Council. • Reserve levels are a key area of focus for the Council and their adequacy is regularly assessed by the Strategic Director (Resources). The minimum level is set after considering the following factors: <ul style="list-style-type: none"> • an amount necessary to cover a 1.5% overrun in gross expenditure • an amount necessary to cover a 1.5% shortfall in expected gross income • an amount necessary to cover specific risk items identified in the Strategic Risk Register • Based on the reviews completed, the minimum general balances level has been set at £2.5m for each of the next 3 years. • The MTFS recognises the importance of maintaining sufficient balances to deal with unforeseen events and to cover the potential risk of not achieving required savings levels. 	

Overview of performance

Area of Focus	Summary observations	High level risk assessment								
Liquidity	<ul style="list-style-type: none">The working capital ratio indicates if an authority has enough current assets, or resources, to cover its immediate liabilities - i.e. those over the next twelve month period. As the graph below shows, the Council's working capital ratio has improved slightly from 09/10, whilst being fairly stable over the three years 08/09 to 10/11. <div data-bbox="517 568 1872 1177"><table border="1"><caption>Working capital ratio</caption><thead><tr><th>Year</th><th>Working capital ratio</th></tr></thead><tbody><tr><td>2009</td><td>1.95</td></tr><tr><td>2010</td><td>1.55</td></tr><tr><td>2011</td><td>1.80</td></tr></tbody></table></div> <ul style="list-style-type: none">This indicates that the Council's liquidity is relatively stable. A ratio of assets to liabilities of 2:1 is usually considered to be acceptable, whilst a ratio of less than one (i.e. current liabilities exceed current assets) indicates potential liquidity problems.	Year	Working capital ratio	2009	1.95	2010	1.55	2011	1.80	<p>Green</p>
Year	Working capital ratio									
2009	1.95									
2010	1.55									
2011	1.80									

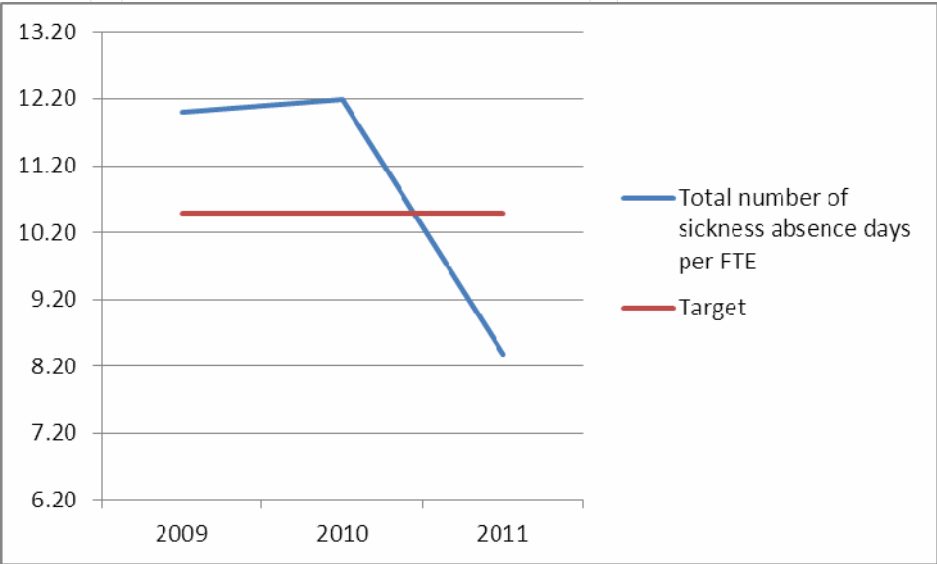
Overview of performance

Area of Focus	Summary observations	High level risk assessment																																		
<p>Liquidity (continued)</p>	<ul style="list-style-type: none"> As with usable reserves, the Audit Commission made comparative data available for 2009/10. This has been used to generate the graph below showing the working capital ratio with a comparison against those authorities the Audit Commission considers to be 'nearest neighbours'. <div data-bbox="488 568 1856 1150" data-label="Figure"> <p>Working capital ratio (2009/10)</p> <table border="1"> <thead> <tr> <th>Authority</th> <th>Working capital ratio (2009/10)</th> </tr> </thead> <tbody> <tr><td>Wellingborough BC</td><td>6.1</td></tr> <tr><td>North Hertfordshire DC</td><td>5.4</td></tr> <tr><td>Rushmoor BC</td><td>3.0</td></tr> <tr><td>Welwyn Hatfield BC</td><td>2.8</td></tr> <tr><td>Tamworth BC</td><td>2.5</td></tr> <tr><td>City of Lincoln</td><td>2.2</td></tr> <tr><td>Gravesham BC</td><td>2.1</td></tr> <tr><td>Dartford BC</td><td>2.1</td></tr> <tr><td>Stevenage BC</td><td>1.7</td></tr> <tr><td>Worcester City</td><td>1.5</td></tr> <tr><td>Harlow DC</td><td>1.2</td></tr> <tr><td>Ipswich BC</td><td>1.1</td></tr> <tr><td>Cannock Chase DC</td><td>1.0</td></tr> <tr><td>Redditch BC</td><td>0.8</td></tr> <tr><td>Basildon DC</td><td>0.7</td></tr> <tr><td>Gloucester City</td><td>0.6</td></tr> </tbody> </table> </div> <ul style="list-style-type: none"> The Council is maintaining a positive working capital ratio and looks to be in a relatively strong position, as evidenced by the comparison above. However, it is clear that working capital will come under increasing pressure as a result of the Spending Review and will need to be carefully monitored. 	Authority	Working capital ratio (2009/10)	Wellingborough BC	6.1	North Hertfordshire DC	5.4	Rushmoor BC	3.0	Welwyn Hatfield BC	2.8	Tamworth BC	2.5	City of Lincoln	2.2	Gravesham BC	2.1	Dartford BC	2.1	Stevenage BC	1.7	Worcester City	1.5	Harlow DC	1.2	Ipswich BC	1.1	Cannock Chase DC	1.0	Redditch BC	0.8	Basildon DC	0.7	Gloucester City	0.6	
Authority	Working capital ratio (2009/10)																																			
Wellingborough BC	6.1																																			
North Hertfordshire DC	5.4																																			
Rushmoor BC	3.0																																			
Welwyn Hatfield BC	2.8																																			
Tamworth BC	2.5																																			
City of Lincoln	2.2																																			
Gravesham BC	2.1																																			
Dartford BC	2.1																																			
Stevenage BC	1.7																																			
Worcester City	1.5																																			
Harlow DC	1.2																																			
Ipswich BC	1.1																																			
Cannock Chase DC	1.0																																			
Redditch BC	0.8																																			
Basildon DC	0.7																																			
Gloucester City	0.6																																			

Overview of performance

Area of Focus	Summary observations	High level risk assessment								
Borrowing	<ul style="list-style-type: none">Current borrowing at the Council stands at just over £17m. This represents around 3% of long term assets, as shown in the graph below: <div data-bbox="512 539 1473 1120"><table border="1"><caption>Borrowing to assets</caption><thead><tr><th>Year</th><th>Borrowing to assets (%)</th></tr></thead><tbody><tr><td>2009</td><td>0.5%</td></tr><tr><td>2010</td><td>1.5%</td></tr><tr><td>2011</td><td>3.0%</td></tr></tbody></table></div> <ul style="list-style-type: none">The Council has loans of £17m with the Public Works Loan Board. This borrowing is to fund the Decent Homes Programme, of which the majority of costs are charged to the HRA and refunded via the housing subsidy system.Borrowing is an area that the Council will need to monitor going forward, particularly to fund the on-going capital programme. This was highlighted in the review of reserves and significant additional borrowing is anticipated over the coming years.	Year	Borrowing to assets (%)	2009	0.5%	2010	1.5%	2011	3.0%	<p>● Green</p>
Year	Borrowing to assets (%)									
2009	0.5%									
2010	1.5%									
2011	3.0%									

Overview of performance

Area of Focus	Summary observations	High level risk assessment												
<p>Workforce</p>	<ul style="list-style-type: none"> The Council's sickness absence levels show a significant improvement in performance in 10/11, with the balance down to under 8.5 days. As the graph below shows, this improved performance has also meant that the Council have beaten their target for the year for the first time.  <table border="1" data-bbox="517 568 1451 1134"> <caption>Sickness Absence Data (Estimated from Graph)</caption> <thead> <tr> <th>Year</th> <th>Total number of sickness absence days per FTE</th> <th>Target</th> </tr> </thead> <tbody> <tr> <td>2009</td> <td>11.8</td> <td>10.3</td> </tr> <tr> <td>2010</td> <td>12.0</td> <td>10.3</td> </tr> <tr> <td>2011</td> <td>8.2</td> <td>10.3</td> </tr> </tbody> </table> <ul style="list-style-type: none"> The Council reviews absence levels as part of its regular performance monitoring activity, and it is important that they continue to carefully manage workforce issues when they arise and maintain a robust approach to sickness absence monitoring to maintain the improving trend. It is recognised that the Council have invested significantly into improving their performance on sickness absence. The Council's Strategic Management Board (SMB) instructed a review to be completed and performance against the Sickness Absence Action Plan is now regularly reported. 	Year	Total number of sickness absence days per FTE	Target	2009	11.8	10.3	2010	12.0	10.3	2011	8.2	10.3	<p style="text-align: center;">● Green</p>
Year	Total number of sickness absence days per FTE	Target												
2009	11.8	10.3												
2010	12.0	10.3												
2011	8.2	10.3												

Overview of performance

Area of Focus	Summary observations	High level risk assessment								
Workforce (continued)	<ul style="list-style-type: none">The graph below shows that performance at the Council reflects well against the public sector average, but there remains room for improvement when comparing to the private sector average: <div data-bbox="517 539 1435 1098"><table border="1"><caption>Average number of sickness absence days</caption><thead><tr><th>Entity</th><th>Average number of sickness absence days</th></tr></thead><tbody><tr><td>Stevenage</td><td>8.2</td></tr><tr><td>Public Sector</td><td>9.5</td></tr><tr><td>Private Sector</td><td>6.5</td></tr></tbody></table></div> <ul style="list-style-type: none">Improved performance means a reduction in the target set by the Council. It is felt that this is reflective of a significant shift in organisational culture and behaviours.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 going forward, given the context of significant pressures on staff to deliver 'more for less'.	Entity	Average number of sickness absence days	Stevenage	8.2	Public Sector	9.5	Private Sector	6.5	
Entity	Average number of sickness absence days									
Stevenage	8.2									
Public Sector	9.5									
Private Sector	6.5									

Section 3


Strategic Financial Planning

1.	Executive summary
2.	Key Indicators
3.	Strategic Financial Planning
4.	Financial Governance
5.	Financial Control

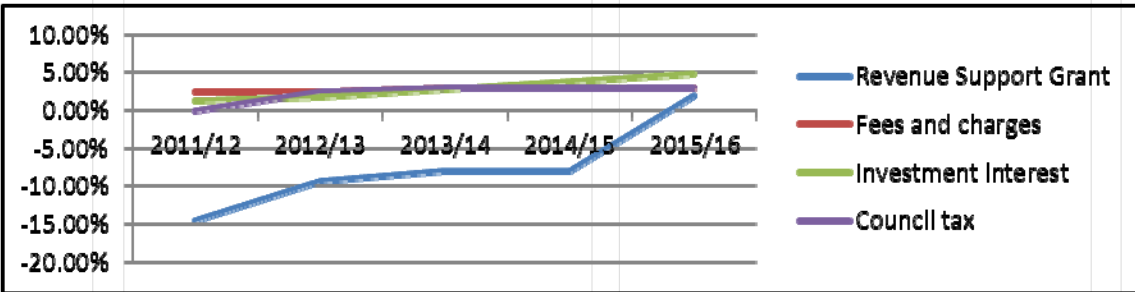
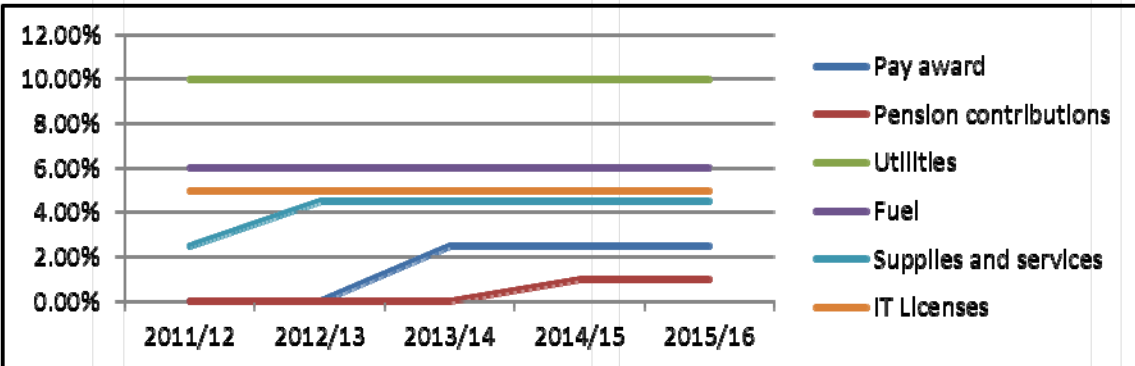
Key indicators of good Strategic Financial Planning

- Focus on achievement of corporate priorities is evident through the financial planning process. The MTFS focuses resources on priorities
- Service and financial planning processes are integrated.
- The MTFS includes outcome measures, scenario planning, benchmarking, resource planning and details on partnership working. Targets have been set for future periods in respect of reserve balances, prudential indicators etc.
- Annual financial plans follow the longer term financial strategy.
- There is regular review of the MTFS and the assumptions made within it. The Council responds to changing circumstances and manages its financial risks.
- The Council has performed stress testing on its model using a range of economic assumptions including SR10.
- The MTFS is linked to and is consistent with other key strategies, including workforce.
- KPIs can be derived for future periods from the information included within the MTFS.
- Effective treasury management arrangements are in place.
- The council operates within an appropriate level of reserves and balances.

Medium Term Financial Strategy

Area of Focus	Summary observations	High level risk assessment
Focus of the MTFS	<ul style="list-style-type: none"> • The MTFS is recognised as the Council's key financial planning document, sitting out the strategic approach to the management of finances and Council Tax levels. The strategy is required to underpin the Council's priorities for the community, as well as the internal priorities set out in the Corporate Plan and other strategic documents of the Council. • The MTFS is set up so to establish the Council's strategy for the next five years and to set out the financial challenges that the Council will face over this medium term. It is clearly recognised that this continues to be a period of uncertainty across local government as the Government consider and review resource needs and demands within the framework of the Comprehensive Spending Review and in light of the economic climate and the state of public finances. • The Council has stated that there are three strategic financial objectives that underpin the MTFS: <ul style="list-style-type: none"> ➤ reduce reliance on reserves ➤ reduce reliance on investment income ➤ create a balanced budget with no significant unplanned under/over spends • As part of the MTFS, the Council consider a number of major viewpoints. Review of this confirms that they are in line with expectations. Examples include: <ul style="list-style-type: none"> ➤ Policy context ➤ Strategic financial objectives ➤ National context ➤ District council context ➤ Stevenage context • Review of the MTFS makes it clear that the plan is applying resources so as to achieve the Council's priorities. • Key to the MTFS is also how the Council manage their capital going forward. Discussions with management have clearly identified this as an area of focus and an updated Asset Management Strategy was taken to the Executive in March 2011. The Council are looking to make sure that the Asset Management Plan is more strategically focussed, setting out a plan of action to show how their estate can be managed in such a way as to be true to the Council's wider ambitions, whilst being both financially and environmentally sustainable. • The Council will need to reduce the size and cost of their estate, with there currently being a significant gap between what the Council needs to spend on its assets and what it can afford. It is accepted by senior officers that a level of borrowing as acceptable in the short term to help with the strategy, but that borrowing cannot be a long term solution. • Clearly, this is a major project for the Council, a project which is very much in the early stages. To achieve success, it is vital that the necessary resources are made available and also that the project plan is clearly documented and recorded to ensure that the maximum benefits are achieved. 	 Green

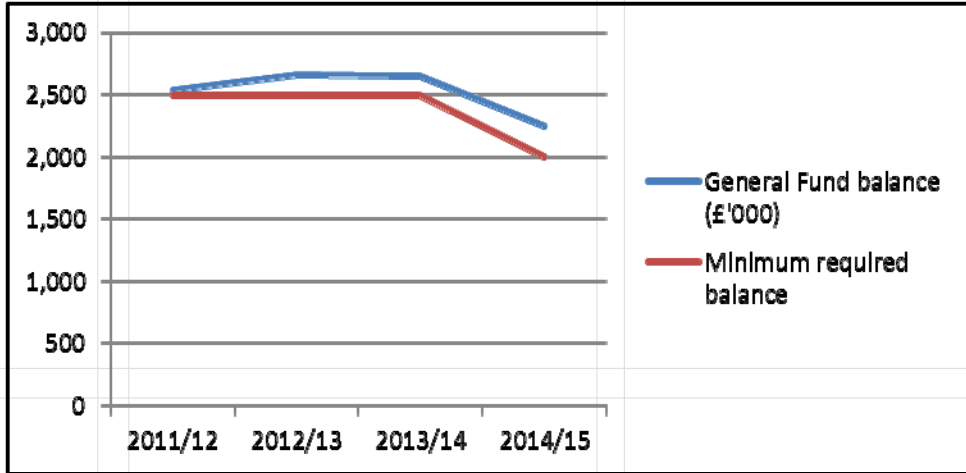
Medium Term Financial Strategy

Area of Focus	Summary observations	High level risk assessment
<p>Adequacy of planning assumptions</p>	<ul style="list-style-type: none"> The MTFS is monitored on an on-going basis by senior officers and updates are required to be taken to the Executive for any material changes. In particular, this should ensure that responses to the outcome of the next finance settlement and any emerging proposals from the Local Government Resource Review are highlighted. The main assumptions around income are shown in the graph below:  <ul style="list-style-type: none"> This highlights the large anticipated drops in the Revenue Support Grant. Council Tax assumptions show an increase of 2.5% for 12/13 and 3% for subsequent years, with the current increase met by the government grant. The main assumptions around expenditure are shown in the graph below:  <ul style="list-style-type: none"> This shows the high levels of expenditure increases anticipated and highlights the challenge for the Council when set against the income expectations. 	<p style="text-align: center;">● Amber</p>


Medium Term Financial Strategy

Area of Focus	Summary observations	High level risk assessment										
<p>Adequacy of planning assumptions (continued)</p>	<ul style="list-style-type: none"> Part of dealing with the cost pressures faced by the Council is the achievement of savings targets. These savings are seen as being of vital importance as the Council wants to maintain a prudent level of general balances. In terms of the savings required, the Council is felt to be in a strong position given the significant progress made with the 11/12 savings package. This has meant that the Council has remodelled the savings targets to provide more time for complex strategic savings to be delivered. The proposed savings targets are shown below: <div data-bbox="512 595 1473 1038" data-label="Figure"> <table border="1"> <caption>Proposed savings target (£m)</caption> <thead> <tr> <th>Year</th> <th>Proposed savings target (£m)</th> </tr> </thead> <tbody> <tr> <td>2011/12</td> <td>1.65</td> </tr> <tr> <td>2012/13</td> <td>0.75</td> </tr> <tr> <td>2013/14</td> <td>0.80</td> </tr> <tr> <td>2014/15</td> <td>0.80</td> </tr> </tbody> </table> </div> <ul style="list-style-type: none"> As this shows, the planned savings in the years ahead are much lower than those budgeted for 11/12 and highlight the benefit of early and detailed planning. As part of the MTFS process, the Council have completed some sensitivity analysis. This has included consideration of movements in Council Tax, pay awards, inflation, interest rates, borrowing rates and fees and charges. This helps to provide some confidence over the ability of the budget to respond to unexpected changes. The use of benchmarking was also discussed. Whilst other MTFS from the local area are considered, the effectiveness of benchmarking is felt to be restricted as SBC have a different structure to most neighbouring authorities in terms of properties, political differences and differing priorities. Despite this, the Council could consider expanding this to incorporate other areas where they feel that similarities do exist. 	Year	Proposed savings target (£m)	2011/12	1.65	2012/13	0.75	2013/14	0.80	2014/15	0.80	
Year	Proposed savings target (£m)											
2011/12	1.65											
2012/13	0.75											
2013/14	0.80											
2014/15	0.80											


Medium Term Financial Strategy

Area of Focus	Summary observations	High level risk assessment															
<p>Adequacy of planning assumptions (continued)</p>	<ul style="list-style-type: none"> Clearly, all of the assumptions made feed into the budgeted General Fund position. The estimated year end balances are shown within the graph below:  <table border="1"> <caption>Estimated data from the graph</caption> <thead> <tr> <th>Year</th> <th>General Fund balance (£'000)</th> <th>Minimum required balance (£'000)</th> </tr> </thead> <tbody> <tr> <td>2011/12</td> <td>2,500</td> <td>2,500</td> </tr> <tr> <td>2012/13</td> <td>2,700</td> <td>2,500</td> </tr> <tr> <td>2013/14</td> <td>2,700</td> <td>2,500</td> </tr> <tr> <td>2014/15</td> <td>2,200</td> <td>2,000</td> </tr> </tbody> </table> <ul style="list-style-type: none"> When these budgeted balances were set, the Strategic Director (Resources) was required to assess their adequacy when considering the strategic, operational and financial risks facing the authority. The following factors were considered: <ul style="list-style-type: none"> ➤ an amount necessary to cover a 1.5% overrun in gross expenditure ➤ an amount necessary to cover a 1.5% shortfall in expected gross income ➤ an amount necessary to cover specific risk items identified in the Strategic Risk Register As part of the annual budget setting process, the Strategic Director (Resources) is required to provide a statement on the robustness of estimates and adequacy of reserves. For the 2011/12 process they were considered "<i>sound and robust</i>". 	Year	General Fund balance (£'000)	Minimum required balance (£'000)	2011/12	2,500	2,500	2012/13	2,700	2,500	2013/14	2,700	2,500	2014/15	2,200	2,000	
Year	General Fund balance (£'000)	Minimum required balance (£'000)															
2011/12	2,500	2,500															
2012/13	2,700	2,500															
2013/14	2,700	2,500															
2014/15	2,200	2,000															


Medium Term Financial Strategy

Area of Focus	Summary observations	High level risk assessment
<p>Scope of the MTFS and links to annual planning</p>	<ul style="list-style-type: none"> The Council's revised five year MTFS was approved by the Executive in July 2011. This recognises that public services are being faced with meeting unprecedented challenges in how Councils are run and the services that they are able to deliver. The Comprehensive Spending Review was published in October 2010. This included spending cuts for the Department for Communities and Local Government, with reductions of 27% being front loaded to 2011/12 and 2012/13. The Local Government Finance Settlement was announced in December 2010 covering a two year period. As a result of this, Stevenage saw a reduction in their formula grant for 11/12 of £908k (14.59%) and a further reduction of £536k (9.4%). Future years will need to be reviewed as there is increased clarity over central government funding. The MTFS presented to the Executive in July 2011 covers savings and growth targets for the 12/13 budget process. As the plan notes, the Council have made significant progress against saving requirements by developing a strong savings package for 11/12. This process was part of the MTFS presented to the Executive in July 2010. This process essentially attempted to anticipate the results of the CSR. As part of this, a savings target was set for the three year period 11/12 to 13/14 of £3.1m, with savings of £1.1m set for 11/12. A timetable was put into place for officers across the Council to identify savings options to enable this to be met. Following the CSR, a report was taken to the Executive in November to update them on the implications and also to propose a range of savings options. This identified a new savings target of £1,671k and provided a number of options to aid in achieving this. All Heads of Service were required to develop savings options. The Council's SMB then met for three days to consider and challenge each Head of Service on the options presented to them. This then led to further options being developed and presented. Further to this, a Leadership Challenge Day was then held for all Executive Portfolio Holders to discuss and challenge all of the savings and their associated impacts. This process identified potential savings of £2,632k, with £1,671k recommended for approval. The Council should consider adopting a strategic Zero Based Budgeting (ZBB) approach to financial planning. ZBB is an approach to budgeting that starts from the premise that no costs or activities should be factored into the plans for the coming budget period, just because they figured in the costs or activities for the current or previous periods. Rather, everything that is to be included in the budget must be considered and justified. By adopting this approach the Council will be able to prioritise and rank services, so that all financial planning decisions can be made in a fully informed and transparent way. The budget for 2011/12 was approved by the Executive in February 2011. The report supporting this clearly links back to the MTFS set in July 2010 and the savings proposals agreed at the November 2010 Executive. There is evidence that both senior officers and members debated and challenged budgets and savings across all services. 	 <p>Green</p>

Medium Term Financial Strategy

Area	Summary observations	High level risk assessment
Review processes	<ul style="list-style-type: none"> The Council have a clear process in place for the preparation of the MTFS through to the final budget. The revised five year MTFS is taken to the Executive in July each year. As noted within the report, the purpose of the MTFS is to support the planning process and to identify the resource issues and principles that will shape annual budget development. In preparing the MTFS, the Strategic Director (Resources) takes account of all available information sources to produce a financial forecast for the General Fund over the next five years. As part of this process, the level of savings required is identified. A timetable is then put in place for identifying these savings. This process involves Members, key finance staff, Portfolio Holders, Heads of Service and the Strategic Management Board. In addition to this, the Council have an established number of key stakeholders with whom consultation takes place. Following the MTFS in July 2010, the next report on this taken to the Executive was the MTFS update based on the CSR. This included the detailed consideration of the savings proposal. A report was then taken in December 2010 detailing rent setting and the HRA budget. The report on Council Tax setting was then taken to the Executive in January 2011. The Annual Budget was then presented in February 2011. Attached to this report were reports detailing the opposition party proposals and also the scrutiny comments. Review of the comments from Scrutiny highlighted positive comments about the budget forecasting. In particular, the fact that the officers had anticipated the Government grant settlement well and the Council were in a position to be able to front load savings into 2011/12 to put the Council's finances in line with the Government's grant settlement. It was noted that there were a large number of uncertainties surrounding the economic climate, but Scrutiny was of the view that the level of reserves and risk management in place was adequate. Clearly, with significant saving requirements in place, there are inherent risks within the plan. Officers are clearly aware of this, and there are significant monitoring arrangements in place, including quarterly monitoring and an Executive Member/Officer Group meeting regularly to monitor the progress of the implementation of the budget savings. The process for approval was discussed with senior finance officers. The Heads of Service are given the opportunity to highlight what they perceive to be the pressures and opportunities, but it can often be difficult to link these through to the actual detail of the budget. In order to assist with this process, therefore, everything is broken down into separate columns. This means that it is possible to follow a step by step process to show the move from the opening strategy to the final budget. 	 Green

Medium Term Financial Strategy

Area	Summary observations	High level risk assessment
Responsiveness of the Plan	<ul style="list-style-type: none"> It is clear from review of minutes and reports around the finances of the Council that the MTFS is being monitored closely and any changes being taken into account. If there are any material changes required, for example emerging proposals or government announcements around the next finance settlement, then the plan would be revised and presented to the Members. The MTFS is updated each year as part of the annual planning cycle. All changes are monitored on an on-going basis. The MTFS presented to the Executive in July 2011 was updated to reflect all government announcements on public finances, as well as trying to anticipate potential announcements that may be still to come. The MTFS talks about the difficult financial position that the Council has faced over previous years. It is noted that the 'Corporate Planning' process and the Leaders Services Priority Group (LSPG) approach has helped to focus and redirect resources to priorities. <i>"However, over the last twelve months with increasing pressures and expectations on the Council to deliver more for less, continuing recession pressures, and most significantly a 14.59% reduction in government grant, Members committed to take the difficult step in achieving a balanced budget for the Council from 2010/11 and beyond."</i> As a result of this decision, the Council has been required to downsize significantly. It is recognised to be the correct decision given grant cuts in excess of levels predicted both nationally and locally. The Council has been able to achieve a Council Tax freeze for 2011/12 and make a forecasted contribution back into balances. This is clearly a significant achievement and highlights the Council's strong financial management whilst continuing to protect priority services. 	
	<ul style="list-style-type: none"> The MTFS report notes that feedback from both Strategic Directors and Heads of Service has shown that the budget development process should be started earlier. It has also identified a need to create a methodology that allows savings options with an extended implementation timetable, e.g. service redesign, to be considered, approved and monitored at a strategic level. The acknowledgement that savings are becoming far harder to find and more complex to implement has led to the creation of the Challenge Board. The role of the Challenge Board is to <i>"critically scrutinise the whole of the General Fund and budget allocations and underlying policies."</i> The Challenge Board consists of the SMB, the Head of Finance and the Head of Communication & Partnerships. They have looked at understanding underspends, reviewing one off movements, analysing spend at a per head level and then using this information to feed into the base budget review. Clearly, through an improved understanding of what is causing variances and pressures, the plan is able to become much more responsive going forward. With the Comprehensive Spending Review having taken place, the MTFS has had to be responsive. This is further evidenced through the savings options prepared by the Council and the ability to front load savings. Risk ratings of savings was discussed with senior members of the finance team. Ultimately, it is felt that all savings included within the plan should be achievable. However, when completing the risk assessment of the required year end balances a percentage risk is assumed against the savings. A report is also taken to each SMB meeting highlighting performance against the savings options. This RAG rates the status of each individual saving. 	 Green



Section 4

Financial Governance

1.	Executive summary
2.	Key Indicators
3.	Strategic Financial Planning
4.	Financial Governance
5.	Financial Control

Key indicators of effective Financial Governance

There is a clear understanding of the financial environment the Council is operating within:

- Regular reporting to Members. Reports include detail of action planning and variance analysis etc
- Actions have been taken to address key risk areas
- The CFO is a key member of the leadership team
- Officers and managers across the council understand the financial implications of current and alternative policies, programmes and activities
- The leadership ensure appropriate financial skills are in place across all levels of the organisation
- The leadership foster an open environment of open challenge to financial assumptions and performance

There is engagement with stakeholders including budget consultations


There are comprehensive policies and procedures in place for Members, Officers and budget holders which clearly outline responsibilities.

Number of internal and external recommendations overdue for implementation


Committees and Cabinet regularly review performance and it is subject to appropriate levels of scrutiny

There are effective recovery plans in place (if required)

Understanding and engagement

Area of focus	Summary observations	High level risk assessment
<p>Understanding the Financial Environment</p> <p>The controls assurance performance monitoring focuses on financial management, governance and risk management</p>	<ul style="list-style-type: none"> Once a budget is in place, it is the responsibility of the Executive to implement it. As part of this process, the Executive receive quarterly monitoring reports to highlight performance. It is clear that the Council believe that financial skills should form part of general management skills across services. Finance has seen its profile raised significantly and members of the finance team now get much closer to Heads of Service than had previously been the case. Key Performance Indicators are communicated across all managers and there are clear signs of departments being much more financially aware. Members of the Finance team meet with budget holders and Heads of Service to try and highlight any possible pressures and also potential solutions. Budget holders also recognise that re-investment is driven by the Corporate plan and the clear focus of the Council. Budget managers are provided with training to ensure that there is a clear understanding of responsibilities. All monitoring is also required to be both timely and accurate. The SMB all sit on the Challenge Board, of which the Head of Finance is also a member. This ensures that there is the ability to provide technical input into considerations. All reports taken to Executive include a section to outline financial implications. The finance reports produced for the Executive provide a detailed narrative regarding the performance of the Council. As an appendix to the report there is a detailed breakdown of variances to budget including comments against each. 	<p style="text-align: center;">  Green </p>


Understanding and engagement

Area of focus	Summary observations	High level risk assessment
<p>Executive and Member Engagement</p>	<ul style="list-style-type: none"> Review of the budget setting process indicates that there is considerable engagement in the process both from senior officers and from members. As noted previously, there was a great deal of consultation around the proposed savings plans. The timeline below shows how this process involved both senior officers and staff:  <ul style="list-style-type: none"> All departments receive monthly budget monitoring reports. These are reviewed by the budget holders and regular meetings are held with the Finance Team to discuss any issues. There is then quarterly reporting to the Executive to review revenue and capital monitoring reports. 	<p style="text-align: center;">● Green</p>


Understanding and engagement

Area of focus	Summary observations	High level risk assessment
Executive and Member Engagement (continued)	<ul style="list-style-type: none"> • The Council have established a Challenge Board to "critically scrutinise the whole of the General Fund and budget allocations and underlying policies. The Board is made up of the SMB, the Head of Finance and the Head of Communication & Partnerships. The Board meet monthly and feed into the Leader, the Executive Away Day and the LSPG. • The key objectives of the Challenge Board are: <ul style="list-style-type: none"> ➤ To propose a balanced budget that aligns to the council's strategic priorities outlined in the CBP; ➤ To protect the delivery of front line services, and minimising job losses through redundancy; ➤ To establish where the Council subsidises services, and ensures these subsidises are consistent with Members policy objectives; ➤ To propose affordable growth into the base budget aligned to the council's strategic priorities outlined in the CBP; ➤ To propose a Council Tax and Fees and Charges strategy that supports the delivery of a balanced budget, and the objectives of the majority group; ➤ To propose and develop a five year financial strategy • The Council also have a Leaders Services Priority Group (LSPG) in place. It is felt that the group adds to the annual budget process - "<i>This cross party mix of front and back bench members has provided a robust method of developing and challenging the range of savings proposals developed to address the MTFS objectives.</i>" The LSPG focuses on the following: <ul style="list-style-type: none"> ➤ the assumptions that underpin the MTFS, including an examination of financial risk associated with current government consultations ➤ the emerging savings proposals from Heads of Service ➤ the 2010/11 variations and on-going savings identified through closedown ➤ a review of the Corporate Fees and Charges Strategy ➤ revenue growth proposals • Training on the MTFS is also provided for members. 	

Monitoring and review

Area	Summary observations	High level risk assessment
Review of accuracy of Committee reporting	<ul style="list-style-type: none"> • The Executive receive quarterly finance monitoring reports. Review of example reports have found them to include detailed financial information alongside explanations for variances. Each report is split into the following sections: <ul style="list-style-type: none"> ➤ Purpose ➤ Recommendations ➤ Background ➤ Reasons for the recommended course of action and other options ➤ Implications ➤ Appendix - variances to the General Fund and HRA budget ➤ Appendix - carry forward requests ➤ Appendix - investment and loans portfolio • The Council have recognised the importance of understanding any over or underspends. As part of the quarter 4 monitoring report the Council analysed the overall underspend to identify whether they were as a result of a one off event, had been carried forward as committed spend or were habitual underspends. • All reports taken to Executive include a section to outline financial implications. 	 Green

Monitoring and review

Area	Summary observations	High level risk assessment								
<p>Performance Management of Budgets</p>	<ul style="list-style-type: none"> Performance against the budgeted change in reserves has been highlighted within the graph below. This shows that in both 2009/10 and 2010/11, the Council have performed ahead of expectations. <div data-bbox="512 552 1473 963" data-label="Figure"> <table border="1"> <caption>Net change in reserves - variance to budget</caption> <thead> <tr> <th>Year</th> <th>Net change in reserves - variance to budget</th> </tr> </thead> <tbody> <tr> <td>2008/09</td> <td>~100</td> </tr> <tr> <td>2009/10</td> <td>~(850)</td> </tr> <tr> <td>2010/11</td> <td>~(750)</td> </tr> </tbody> </table> </div> <ul style="list-style-type: none"> The statement of accounts includes detail on performance against budget and provides explanations for all significant movements. The quarterly finance reports presented to the Executive include significant detail of actual and planned performance alongside the subsequent variances. The narrative included within the report provides details of the causes of the variance along with planned corrective action. A detailed set of key performance indicators are also prepared and maintained, along with the Executive receiving regular update reports on the MTFs. All departments get monthly budget monitoring reports. These are then reviewed and discussed with the relevant members of the finance team. Performance against the planned savings is RAG rated and presented to each SMB meeting. 	Year	Net change in reserves - variance to budget	2008/09	~100	2009/10	~(850)	2010/11	~(750)	<p style="text-align: center;">  Amber </p>
Year	Net change in reserves - variance to budget									
2008/09	~100									
2009/10	~(850)									
2010/11	~(750)									



Section 5

Financial Control

1.	Executive summary
2.	Key Indicators
3.	Strategic Financial Planning
4.	Financial Governance
5.	Financial Control

Key indicators of Effective Financial Control

Budget setting and budget monitoring

- Budgets are robust and prepared in a timely fashion and the council has a good track record of operating within its budget
- Budgets are monitored at an officer, member and Cabinet level and officers are held accountable for budgetary performance
- Financial forecasting is well-developed and forecasts are subject to regular review, including trend analysis, benchmarking of unit costs, risk and sensitivity analysis.
- There is particular focus on monitoring income related budgets

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



Financial Systems

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



Internal Control

- Strength of internal control arrangements - there is an effective internal audit which has the proper profile within the organisation. Agreed Internal audit recommendations are routinely implemented in a timely manner
- There is an assurance framework in place which is used effectively by the Council and is how business risks are managed and controlled.
- The Annual Governance Statement gives a true reflection of the organisation.


Internal arrangements

Area of focus	Summary observations	High level risk assessment
<p>Performance against Savings Plans</p>	<ul style="list-style-type: none"> At their Executive meeting in November 2010, the members were presented with a range of General Fund savings options proposals to incorporate into the 2011/12 budget process and the MTFS. Based on their discussions, they have attempted to take savings up front and as early as possible to help them best manage the process. As part of the savings proposals, members were provided with a breakdown of the recommended savings and also a breakdown of additional savings that were available but not recommended. Based on a review of this information, the Council have clearly been proactive in highlighting savings required and in providing options for the members to discuss. All savings proposals are required to highlight the impact that they will have. It is clear that the Council have continued to target resources to high priority areas through the achievement of efficiency savings. Savings are reported on a line by line basis to each SMB meeting. This report RAG rates all savings according to their performance. This is considered to be good practice as budgets should ideally be monitored separately to savings. 	<p style="text-align: center;">  Green </p>
<p>Finance Department resourcing and qualifications / experience</p>	<ul style="list-style-type: none"> The current staffing level is 19.75 FTEs across Accountancy, Exchequer, Payroll and Creditors. Of these, 6 are qualified accountants, with there also being an additional 2 trainee posts. The Finance Team have been working with two Group Accountants. It is felt that this is not sufficient and they will now be looking to recruit a third. 	
	<ul style="list-style-type: none"> The main issue for the future structure of the finance department is around the Housing Options appraisal. It is likely that this will all be brought back in house, having a significant impact on the structure as staff from SHL would be brought over to the Council. It is key for the Council that detailed consideration is given to how changes in structure could impact upon the finance department. Discussions with senior finance officers have highlighted the importance that the Council places on training. Clearly, all qualified accountants are required to complete CPD training on an on-going basis. In addition to this, there is a qualified Treasury Management member of staff who is required to attend regular training sessions. The training budget for finance is significant and it is considered important to keep the wider team well informed and up to speed on issues. The Council are also a member of FAN and as part of this membership they receive 6 free training places. 	<p style="text-align: center;">  Green </p>

Internal and external assurances

Area of focus	Summary observations	High level risk assessment
Summary of key financial accounting systems	<ul style="list-style-type: none"> • The most recent Internal Audit report on the main accounting system was produced as a final report dated 4 August 2011. This report assigned Substantial Assurance to the systems and procedures which underpin the Main Accounting System process. This does not highlight any significant areas of concern. • Currently the Council are using Integra as their accounting system. There is likely to be a business case to look at a move to an E-Series system, but there will need to be a clear business reason for this to be considered. • Currently there are not felt to be any major issues with the accounting system. It is able to produce the required information and no major issues have been noted. 	 Green
Internal audit arrangements including compliance with CIPFA Code of Practice for Internal Audit	<ul style="list-style-type: none"> • For the year 2010/11, Internal Audit was an in-house function at the Council. Performance of the function had improved over the past few years and the level of plan completion had increased significantly. • The Internal Audit report of 2010/11, as highlighted in the Annual Governance Statement, stated that "<i>the Chief Internal Auditor can provide a moderate level of assurance that the system of internal control which has been in place at Stevenage Borough Council for the year ended 31 March 2011 accords with proper practice.</i>" 	
	<ul style="list-style-type: none"> • Annual reviews of the Internal Audit function at Stevenage have not highlighted any significant issues in relation to the CIPFA Code of Practice for Internal Audit. It will be vital that this is continued with the introduction of the Shared Internal Audit Service (SIAS). • SIAS has been formed amongst the following bodies: <ul style="list-style-type: none"> ➤ Stevenage Borough Council ➤ East Herts District Council ➤ Hertsmere Borough Council ➤ North Herts District Council ➤ Welwyn Hatfield Borough Council ➤ Hertfordshire County Council • The shared service is anticipated to provide a £50k annual saving for SBC. • It is anticipated that that sharing services will increase resilience in internal audit and give a greater economy of scale to allow for access to specialist audit skills. However, to all members of the shared service, it is vital that quality is high and that each member is provided with sufficient levels of IA work and assurance. The Council must ensure that suitable monitoring arrangements are put in place to maintain a high standard of Internal Audit support. 	 Green

Internal and external assurances

Area of focus	Summary observations	High level risk assessment
External audit arrangements and programme of activities	<ul style="list-style-type: none">• The most recent VfM conclusion confirmed that the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.• Work around the VfM opinion over previous years has also highlighted improvements in performance across the Council.• The Council has always included management responses to recommendations raised in previous audit reports and have made good progress in implementing these recommendations.	 Green