Stevenage Borough Council

Review of the Council's Arrangements for Securing Financial Resilience

September 2012

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Our approach

Value for Money Conclusion

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

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

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

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

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

Further detail on each of these areas is provided in the sections of the report that follow.

Our **overall conclusion** is that whilst the Council faces some risks and challenges during 2012/13 and beyond, its current arrangements for achieving financial resilience are adequate.

This is in the context that our overall conclusions are either adequate or not adequate.

This report needs to be read in the context that 2012/13 is the second year of the four year SR10 period, where some of the potential risks and challenges over the medium term have yet to materialise. Our assessment may change in future years, although we would note that the Council has systems in place to address future challenges.

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

Green	**Arrangements meet or exceed adequate standards**. Adequate arrangements identified and key characteristics of good practice appear to be in place.
Amber	**Potential risks and / or weaknesses**. Adequate arrangements and characteristics are in place in some respects, but not all. Evidence that the Council is taking forward areas where arrangements need to be strengthened.
Red	**High risk**: The Council's arrangements are generally inadequate or may have a high risk of not succeeding

Executive Summary

Context

National Context

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

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

The CSR 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.

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

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

The Chancellor of the Exchequer, in his Autumn Statement in November 2011, announced further public spending reductions of 0.9% in real terms in both 2015-16 and 2016-17. Financial austerity will therefore continue until at least 2017.

Local Context

With the challenges that they are facing, the Council are continually monitoring their overall strategies. As a result of increasing complexity, they have developed an overall Medium term Strategy, integrating the General Fund, the HRA and the Capital Accounts. The aim is to strike a balance between limited resources and growing expenditure pressures.

The Council is committed to developing the strategy, alongside meeting the continuing demands of the Government's expanding efficiency agenda to ensure a sustainable financial position, whilst addressing a range of spend pressures and continual service improvements.

The Council have been working to prioritise their services in order to determine future resource allocations and growth. This has helped to identify over £8.5m of savings over the last six years that has been used to solve the Council's underlying budget gap, and to ensure the Council's budget remains in balance supported by a prudent level of reserves.

The Council continues to face a turbulent period to identify sufficient funding to invest in the town's assets. The Council is working hard to be able to support a prudent level of borrowing whilst the outcomes from the recently updated asset management plan is worked on.

Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Key Indicators of Performance	• The Council has a good track record in managing expenditure against budget. This reflects good performance in challenging financial times. • The Council's usable reserves level has increased to £13,368k, up £1,210k from 2010/11. However, not all of this is available to support revenue expenditure. Part of the increase also related to one off expenditure, e.g. the return of SHL services. • One of the key principles that underpins the current MTFP is the need to maintain a suitable level of balances and earmarked reserves. Currently, the budgeted level of reserves over the life of the MTFP are in excess of the minimum required level as assessed by the Section 151 officer, suggesting that sufficient headroom exists. This does however include a savings target from 2014/15 onwards of £950k per year. • The ability to fund capital expenditure is a key risk for the Council. The capital spend in 2011/12 totalled £18m and, of this, only £415k was funded using capital receipts. • The lack of brought forward capital receipts for the General Fund means that borrowing will be required. Currently, the Council are utilising investment balances in preference to taking out additional borrowing. This is a sensible decision given the low levels of interest rates available on investments compared to the higher rates that would have to be paid on borrowing. • Senior Officers at the Council have recognised that borrowing is not a long term solution and that this can only really support the capital programme for a couple of years. • The Council currently has loans of £217m with the Public Works Loan Board (PWLB). Of this balance, £17m relates to funding for the Decent Homes programme and £200m is relating to the self financing settlement whereby the Council now keep all rents generated from their housing stock. The majority of costs related to this borrowing are charged to the HRA. • The Council's sickness absence levels show a further improvement in performance in 11/12.	Amber

Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Strategic Financial Planning	• Members have remained committed to achieving a balanced budget for the Council despite the on-going pressures and the MTFS is set up to support this. This approach requires a focus on effective prioritisation and management of resources. • A review of the 2011/12 capital programme found that the downturn in land and housing sales resulted in the need to borrow for the General Fund capital programme. In the year, the funding requirement was £1.8m. With interest rates at such low levels, the decision was made to absorb this 'borrowing' by reducing the level of investments. • The Council have noted that *"in order to have a sustainable, affordable General Fund Capital Strategy, it is imperative that the Asset Management Plan is implemented to release resources to reduce the burden on the General Fund and ensure that the capital programme delivers the right investment outcomes for the Council's assets."* • Following the £200m borrowing under self financing, the rate achieved by the Council was much better than the assumed 5% cost of borrowing, equating to a £2m saving each year. This has enabled the introduction of a new build programme which will be funded using these savings. • The reduction in Government Grant levels, alongside other General Fund pressures has meant that a £750k savings target has been set for 2012/13. These savings have been identified and approved for 2012/13. This delivers a balanced annual budget, along with a prudent level of balances to cover unexpected liabilities, costs or pressures. • The scale of the savings requirement highlights the challenge ahead for the Council. It also raises the issue over how much more can be found from efficiencies, before service cuts need to be enforced. • With the introduction of the Localism Bill, there are to be some fundamental changes to Council financing going forward. From the 2013/14 year, there will be the localisation of both Council Tax Benefit and Business Rates and also the centralisation of other benefits with the introduction of the Universal Credit from 1 October 2013. These all represent significant changes for the Council to respond to, and they must ensure that planning is able to react to the uncertainties that these changes will bring.	Green

Executive Summary

Overview of Arrangements (continued)

Risk area	Summary observations	High level risk assessment
Financial Governance	• The Executive retains the overall responsibility for the implementation of the budget and they continue to receive detailed quarterly monitoring reports to help them oversee performance. The Senior Management Team also receive key performance indicators monthly. • The Council are keen to ensure that staff are kept up to date with the financial position of the Council and this has been incorporated into staff briefings presented by senior officers. • There remains a strong level of senior management and member level engagement in the financial management process. • As a result of feedback from both Strategic Directors and Heads of Service it was felt that there was a need to start the budget development process earlier. The reasoning for this is to allow an extended implementation timetable to be put in place. This will become increasingly important as savings potentially involving service redesign become more complicated. • As part of the on-going performance management process, Members approved the return of the housing function from Stevenage Homes Limited back to the Council. This was put into effect from 1 December 2011. A key factor behind the return of the housing function was the expected efficiencies of £750k to the HRA.	Green

Executive Summary

Overview of Arrangements (continued)

Risk area	Summary observations	High level risk assessment
Financial Control	• The Council has a well established budget setting process and a strong track record in managing budgets. We have first hand evidence from our work at the Council over the year of both Members and Officers challenging the financial position of the Council, making it clear that they understand the scale of the financial challenge ahead. • During the year, the Council have established a shared Revenues & Benefits service with East Herts District Council. The intention of this shared service is to deliver efficiencies, strengthen resilience and consolidate good practice. • In order to manage the progress against these savings and also to ensure that performance is maintained at a high level, a balanced scorecard is being set up to monitor Revs & Bens. • For the first year in 2011/12, the Internal Audit opinion for the year was provided by the Shared Internal Audit Service. To assess the service provided by SIAS a peer review was undertaken, highlighting a number of positive conclusions. • In addition to the peer review, SIAS compliance with the CIPFA Code of Practice for Internal Audit in Local Government was reviewed. This review did not highlight any significant issues. • The Council are currently progressing their Asset Management Strategy. The main aim of the strategy is to review all of the building assets and land within the Borough to assess whether they are: - providing value for money - providing the expected service • A scoring template has been developed focussing on economic factors (e.g. running costs, planned maintenance, income) and social factors (e.g. utilisation, location, need). • Based on this system a recommendation is then made to: - retain - retain but consider for the future - dispose (sell/lease/mothball) • The review of all assets is currently approximately one third of the way through. It is expected to be completed by June 2013. The intention is that everything will then continue to be reviewed annually.	Green

Executive Summary

Recommendations

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Key Indicators of Performance	• The Council should continue to maintain appropriate levels of reserves and monitor the Council's liquidity to ensure financial resilience Is maintained.			
Strategic Financial Planning	• The Council will need to ensure that the MTFP remains responsive, given the scale of the savings still required, and the financial uncertainty that remains within the timeframe of the Plan.			
Financial Control	• The Council must ensure that they complete the asset management review as part of the Asset Management Strategy in order to enable the release of resources to reduce the burden on the General Fund.			
Financial Control	• The Council must continue to monitor the performance of the shared services that have been established to ensure that they continue to deliver high standards, whilst also achieving the required savings levels.			

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:

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

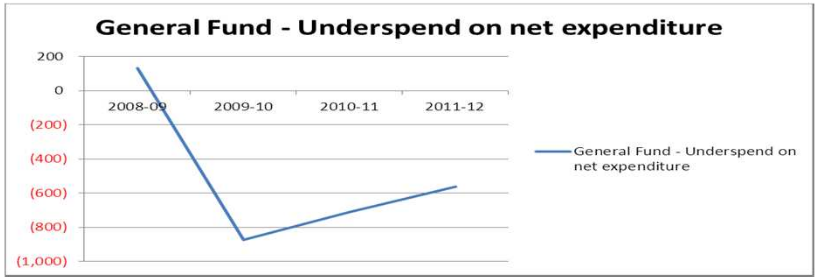
We have used the Audit Commission's nearest neighbours benchmarking group comprising the following authorities:

- Basildon Borough 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
- Tamworth Borough Council
- Wellingborough Borough Council
- Welwyn Hatfield Borough Council
- Worcester City Council

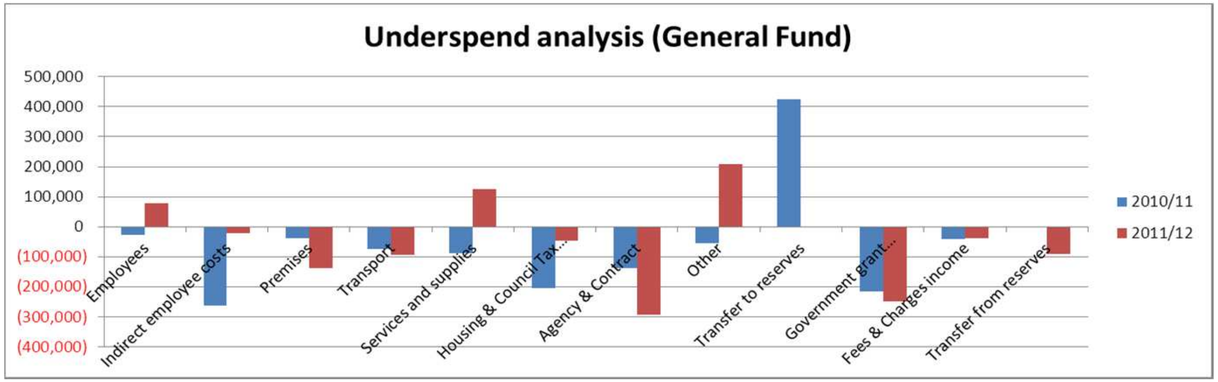
Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Performance Against Budget	The Council has a good track record in managing expenditure against budget. In three of the last four years, they have achieved net underspends, as shown in the graph below:	



This reflects good performance in challenging financial times. An analysis of the underspend in the past two years is shown below:

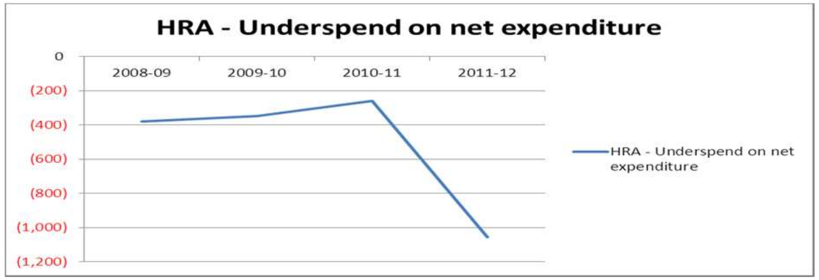
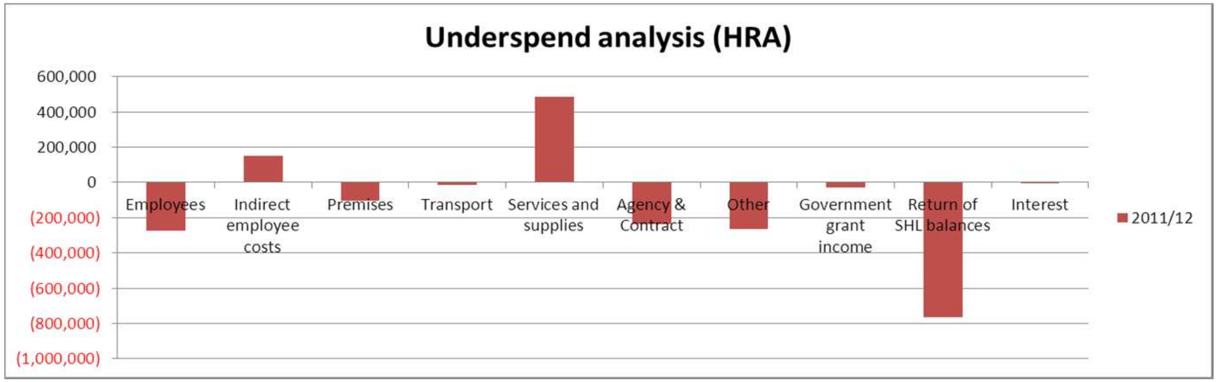


These underspends have been reviewed by the Council and this process has been considered within the Strategic Financial Planning section and the review of savings.

Assessment: Green

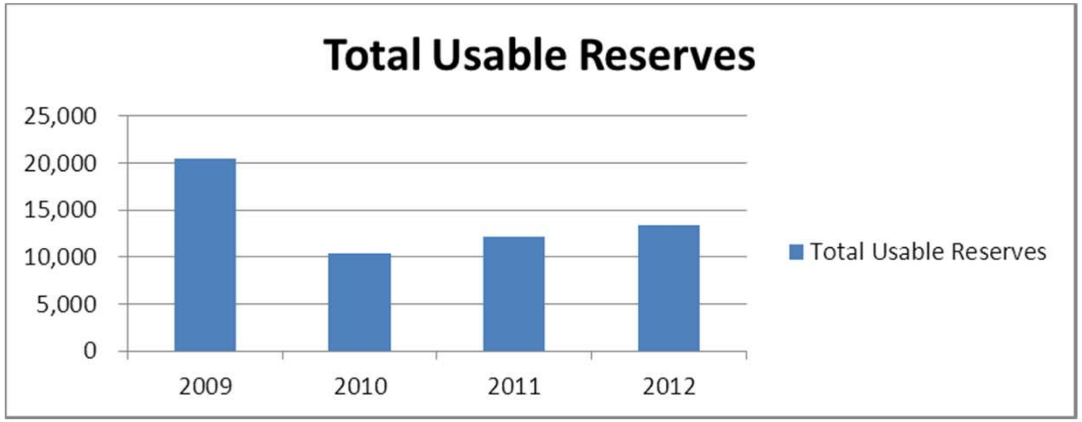
Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Performance Against Budget (continued)	The Council has also been able to achieve a regular underspend on their Housing Revenue Account, as shown in the graph below:  As with the General Fund, this reflects good performance in challenging financial times. The 2010/11 costs relating to the HRA were included within the management fee paid to Stevenage Homes. As such, the analysis of the underspend below is just for 2011/12:  These underspends have been reviewed by the Council and this process has been considered within the Strategic Financial Planning section and the review of savings.	

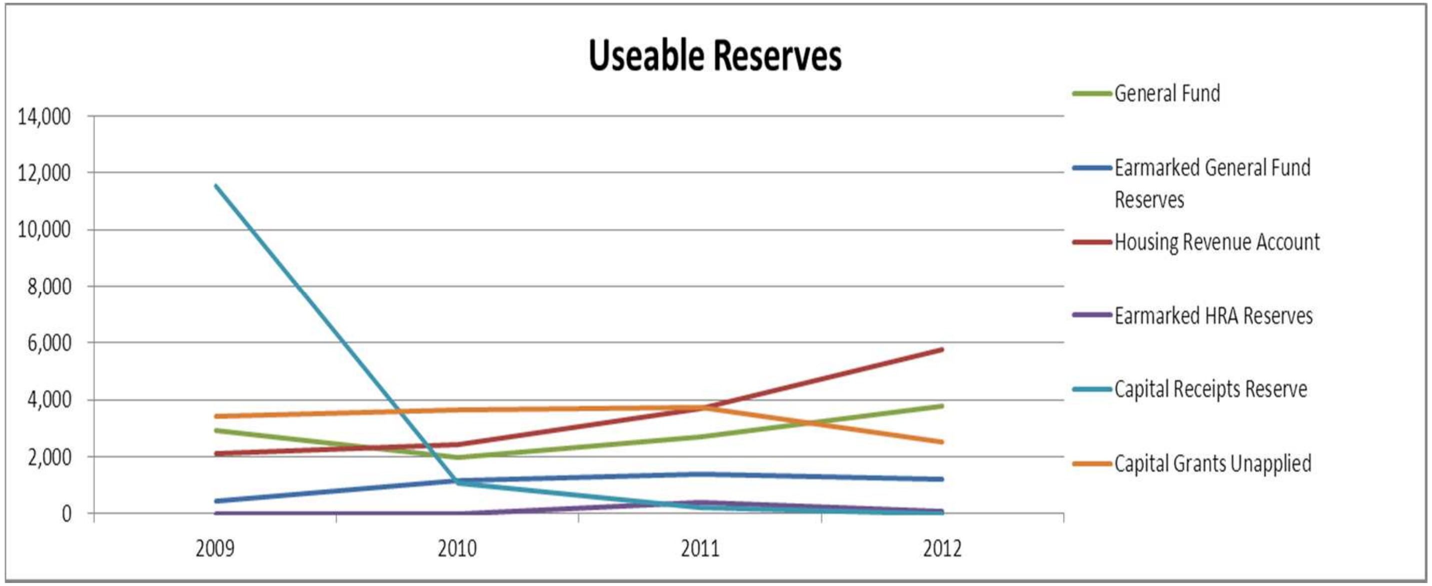
Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Reserve Balances	The Council's usable reserves level has increased to £13,368k, up £1,210k from 2010/11. As the graph below shows, this builds on the £1,843k increase seen in the prior year:  Each year, the Council undertake a risk assessment to determine the level of balances required. The current view is that the level of balances should be set so as to reflect the risks to the General Fund from the implementation of localisation of Business Rates and Council Tax Benefit support, alongside uncertainty around the level of further Government Grant cuts. Prior to 2010/11, the Council had used General Fund balances to support in year expenditure. The Medium Term Financial Strategy recognised that this was unsustainable and has subsequently identified and achieved savings to allow for a net contribution to balances.	Amber

Key Indicators

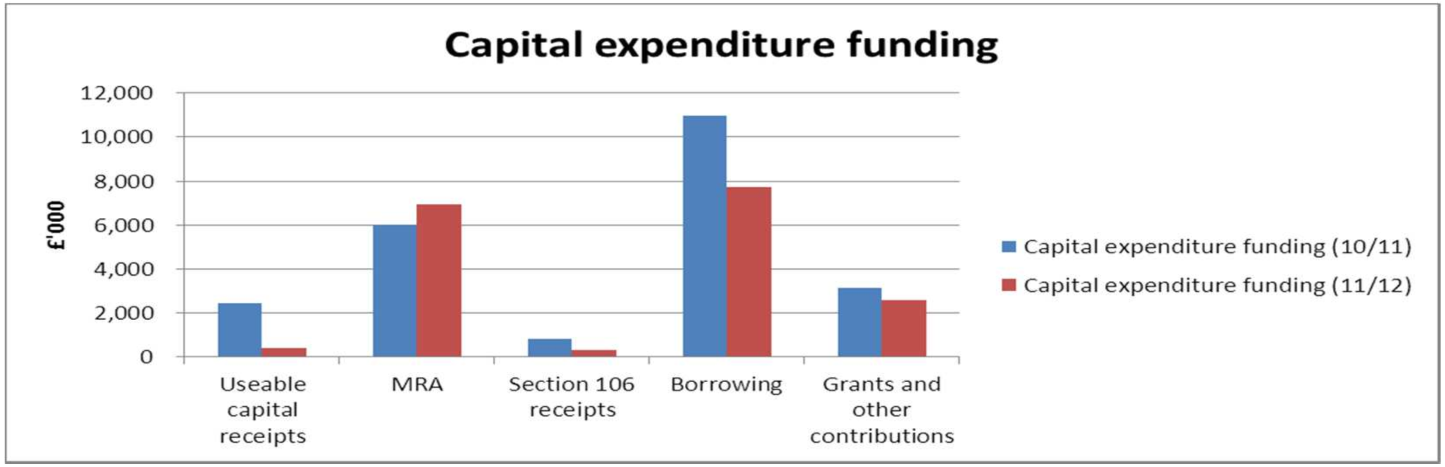
Overview of performance

Area of focus	Summary observations	Assessment
Reserve Balances (continued)	The split of reserves and their movement over the past four years is shown within the graph below:  This shows the increasing trend in the reserve levels, with the exception of the capital receipts reserve which is now down at a nil balance. The capital spend for 2011/12 has been considered over the page.	

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Reserve Balances (continued)	As identified in the prior year, the ability to fund capital expenditure is a key risk for the Council. The capital spend in 2011/12 was £18m. Of this, only £415k was funded using capital receipts, highlighting the funding issues facing the Council. The split of funding compared to 2010/11 is shown below:	



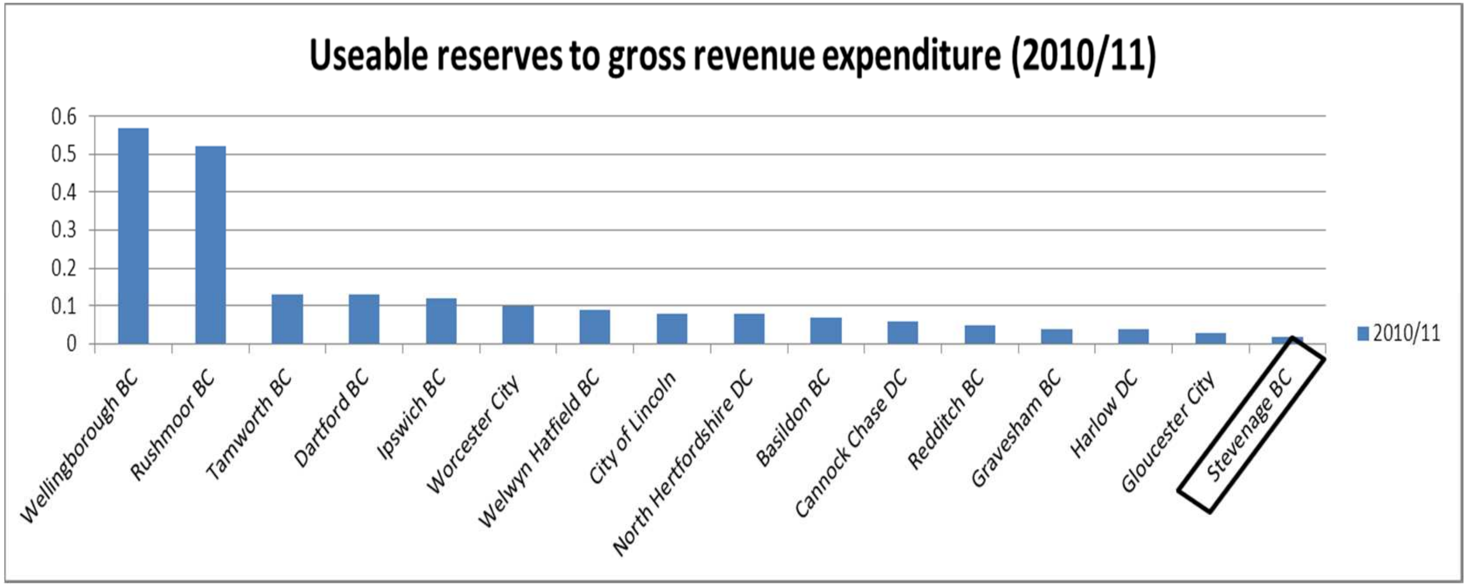
There are not felt to be issues around capital funding for the HRA, but the lack of brought forward capital receipts for the General Fund means that borrowing is required. The market is also no longer supporting land sales and, even if it were, it is felt that the Council does not have any significant assets that they would be in a position to sell. Senior Officers at the Council have recognised that borrowing is not a long term solution and that this can only really support the capital programme for a couple of years.

The importance of this issue has been acknowledged at a high level and the Council and are continuing to work on their Asset Management Project. This has been considered as part of the Strategic Financial Planning section of the report.

Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Reserve Balances (continued)	The Audit Commission has made comparative data available for 2010/11. The graph below shows a comparison of the 'usable reserves to gross revenue expenditure' ratio for Stevenage and what the Audit Commission considers to be 'Nearest Neighbours'. Note, in this case, useable reserves are considered to be: - General Fund - Earmarked reserves - Usable capital receipts	



As in the prior year, the Council holds what appears to be a low level of useable reserves compared to nearest neighbours. This is predominantly due to the lack of a capital receipts reserve, the impact of which on capital is considered within the Strategic Financial Planning section of this report.

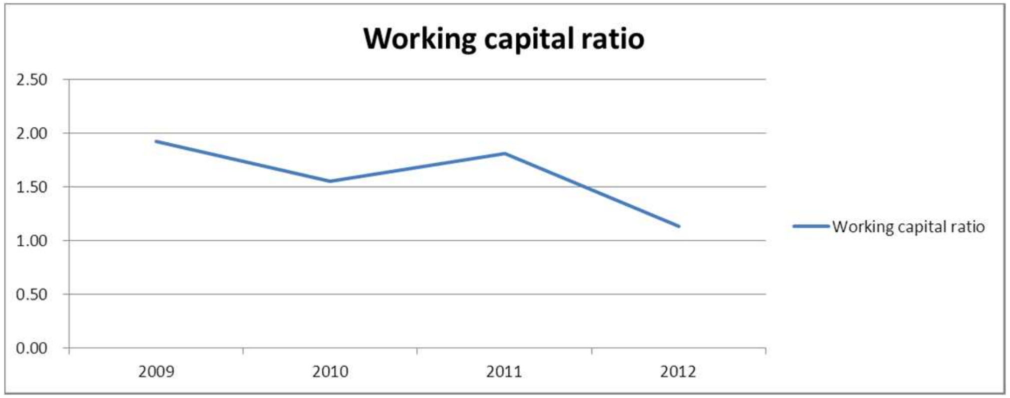
Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Reserve Balances (continued)	One of the key principles that unpins the current Medium Term Financial Plan is the need to maintain a suitable level of balances and earmarked reserves. As part of the 'General Fund Medium Term Financial Strategy' report presented to the Executive on 31 July 2012, there is an assessment of the level of balances by the Chief Finance Officer. This is in line with CIPFA guidance. As part of this assessment, the following factors are considered: • 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 items identified in the Strategic Risk Register • An amount necessary to cover additional risks of the Localism Bill (including localisation of Council Tax support, localisation of Business Rates and the Universal Credit) Based on this assessment, the minimum level of balances has been set as shown below. This does however include a savings target from 2014/15 onwards of £950k per year. .	

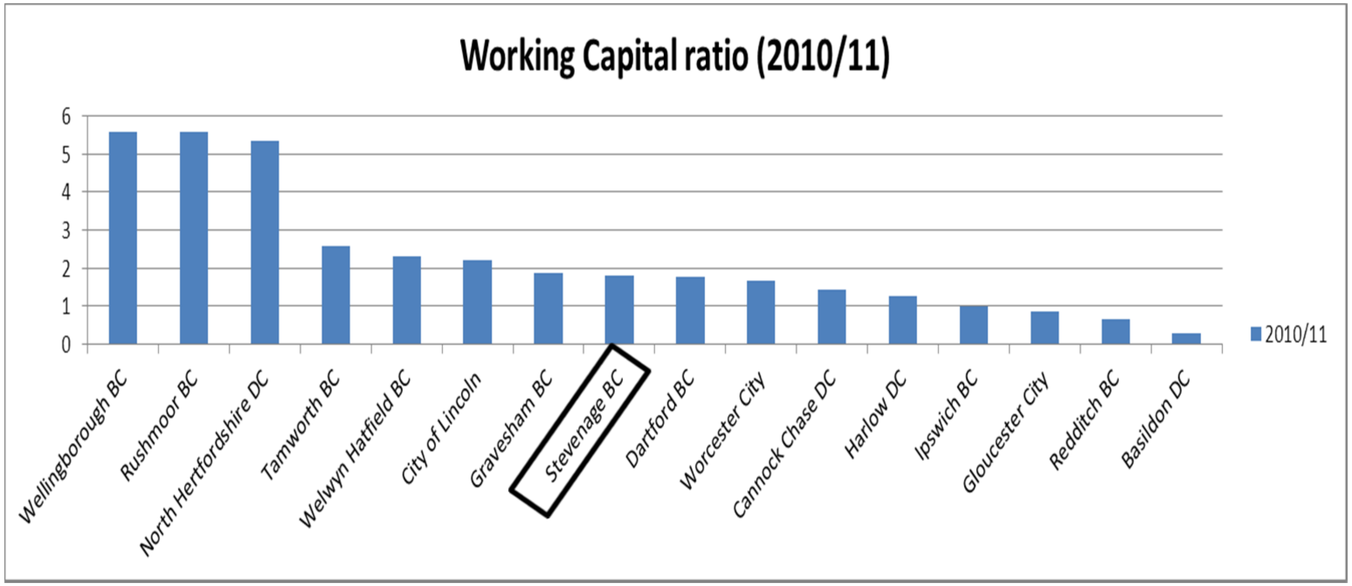
Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Liquidity	The working capital ratio indicates if an authority has enough current assets, or resources, to cover its immediate liabilities - i.e. those liabilities to be met over the next twelve month period. A ratio of less than one (i.e. current liabilities exceed current assets) indicates potential liquidity problems. The trend of the working capital ratio at the Council is shown below:  This shows a fairly significant drop from a ratio of 1.81:1 in 2010/11, to a ratio of 1.14:1 in 2011/12 (based on draft financial statements). The movement is as a result of investment balances reducing and borrowing balances increasing. Year end investment balances Part of the reduction in working capital has been a Council policy to use investment balances in preference to taking out borrowing to fund the General Fund capital programme. This is a sensible decision given the low levels of interest rates available on investments, compared to the higher rates that would have to be paid on borrowings. Borrowing balances have increased as a result of the self financing settlement, although the impact of this is on long term borrowing. The increase in short term borrowing relates to the fact that some of the existing borrowing taken out to fund the Decent Homes programme has fallen due.	Amber

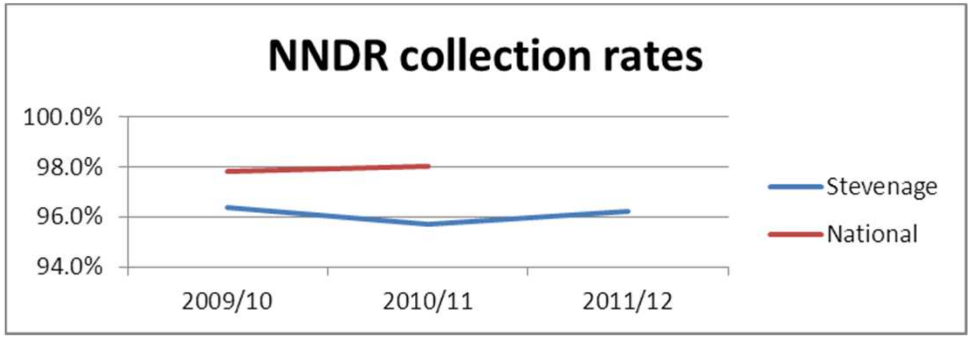
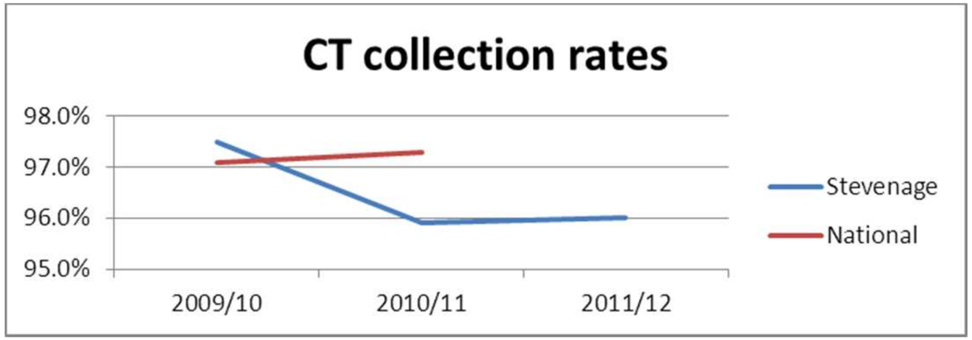
Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Liquidity (continued)	As with usable reserves, the Audit Commission has made comparative data available for 2010/11. 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':  Between 09/10 and 10/11, the Council have seen a 5% increase in their working capital ratio. Of their 'nearest neighbours', 8 out of the 16 authorities have seen a decreasing ratio. Based on this comparison, their benchmarked position appears reasonable. It is noted that some of the Council's identified above have completed LSVT with their housing stock.	

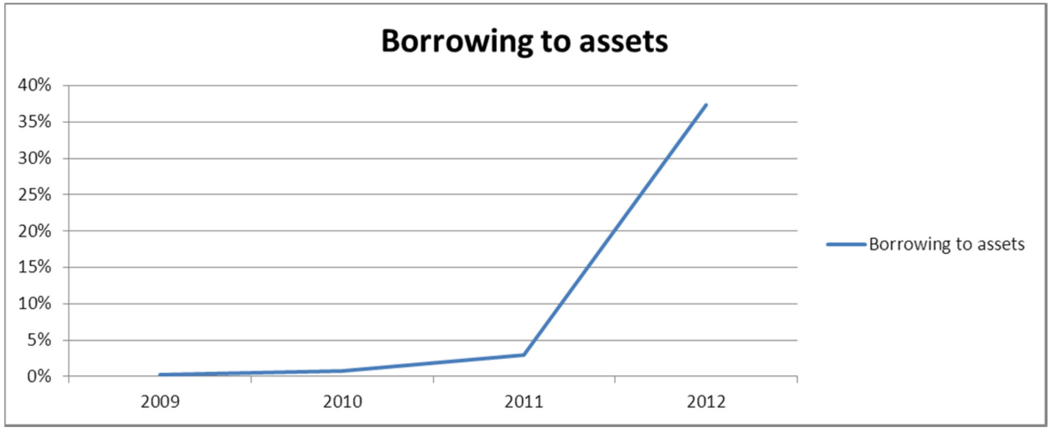
Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
Liquidity (continued)	• The Council's collection rates for both NNDR and Council Tax are shown in the separate charts below:   • This highlights that collection rates are broadly comparable to the national average.	

Key Indicators

Overview of performance

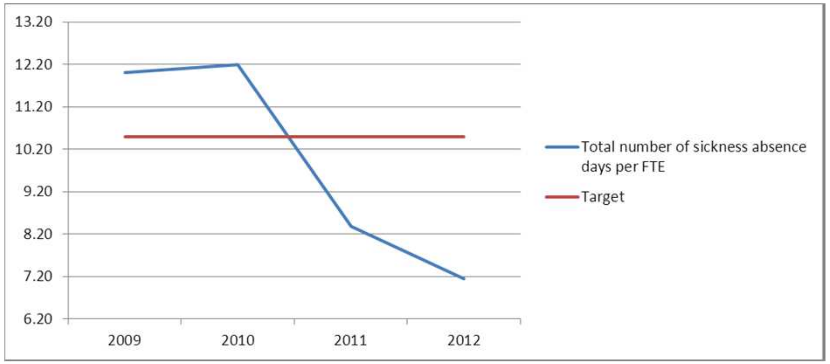
Area of focus	Summary observations	Assessment
Borrowing	The Council have seen a major increase in their borrowing levels in the year, with the balance moving from £17m to £217m. This now represents 37% of long term assets, compared to 3% in the prior year:  The Council has loans of £217m with the Public Works Loan Board (PWLB). Of this balance, £17m relates to funding for the Decent Homes programme and £200m relates self financing settlement (see section on Strategic Financial Planning). The majority of the costs related to this borrowing are charged to the to the HRA and refunded via the housing subsidy system. In relation to the General Fund capital programme, the downturn in land and housing sales has resulted in the need to 'borrow'. It is a Treasury Management decision over whether to borrow from the market or from the PWLB, but with interest rates at a historic low, the Council is currently absorbing the expenditure by reducing its investments. In 2011/12, funding of £1.8m was required, compared to a budgeted requirement of £2.5m. Most of this reduction relates to scheme slippage and the budgeted requirement for 2012/13 now stands at £3.8m.	Green

Key Indicators

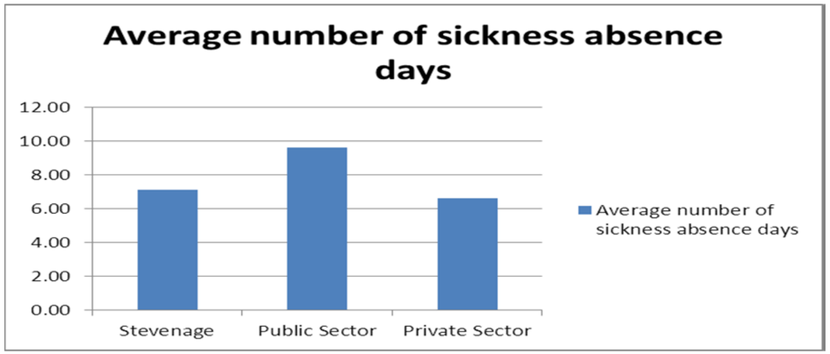
Overview of performance

<table>
<tr><th>Area of focus</th><th>Summary observations</th><th>Assessment</th></tr>
<tr><td>Workforce</td><td>

- The Council's sickness absence levels show a further improvement in performance in 11/12, with the balance down to just over 7 days:



- The graph below shows that performance at the Council continues to reflect well against the public sector average. They are getting closer to the private sector average, but there does remain slight scope for improvement.



</td><td>Green</td></tr>
</table>

Strategic Financial Planning

Key indicators of good strategic financial planning

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

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

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Focus of the MTFS (Revenue)	• The Council's General Fund budget for 2012/13 was presented to the Executive at their meeting on 7 February 2012. Subsequent to this, both the General Fund and the Housing Revenue Account Medium Term Financial Strategies were presented to their meeting on 31 July 2012. • Members have remained committed to achieving a balanced budget for the Council despite the on-going pressures and the MTFS is set up to support this. It also recognises that assumptions and forecasts will need to be continually revised and updated, with reports to be taken to the Executive where necessary. • The MTFS remains the Council's key financial planning document setting out their strategic approach to the management of its finances and Council Tax levels. Reviewing a number of reports made to the Executive makes it clear that the Council recognise the difficult decisions that continue to be required. This is due to the on-going gap between the level of resources and expenditure plus inflation. This all requires the MTFS to focus on effective prioritisation and management of resources. • To underpin the MTFS process, the Council have three strategic financial objectives. With the erosion of investment balances, and the need to prudentially borrow to support the Capital Strategy, these objectives have been updated to: ➢ reduce reliance on reserves ➢ reduce reliance on prudential borrowing to support the Capital Strategy ➢ create a balanced budget with no significant unplanned under or overspends • Further to this, the MTFS is based on the principle that the Council will look to *"achieve and maintain a balanced General Fund budget such that on-going expenditure matches income from Council Tax, fees and charges, and government and other grants, with reserves only being used to finance one off items of priority related expenditure."* • The Council have also set out the key policies supporting their long term planning around the HRA. These key focus areas are: ➢ recycling of borrowing headroom, as repayments are made from the principal of the initial borrowing undertaken, either for capital investment purposes (major works to existing stock), estate redevelopments, or new build programmes ➢ a treasury management objective is approved aiming to repay all of the debt within the life of a 30 year business plan ➢ any gains achieved from the management of the debt portfolio is used to repay debt and to provide further investment in housing ➢ that the Council's objective is to meet the Stevenage Decent Homes standard for all of its Council Housing Stock under self financing in accordance with the original business plan model.	Green

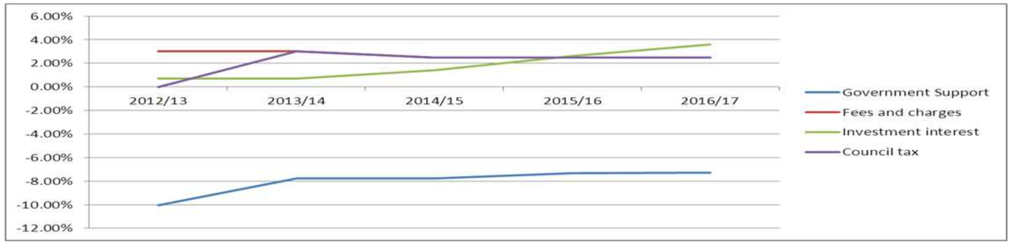
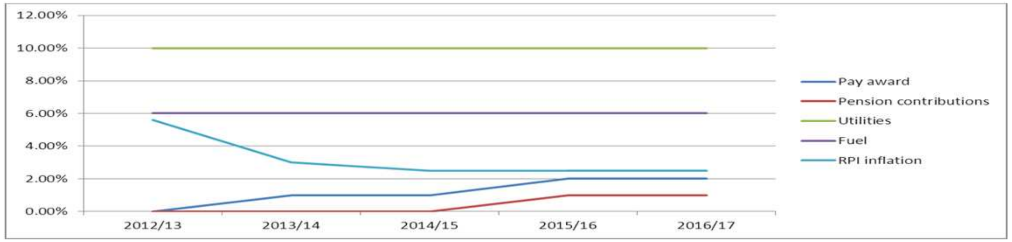
Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Focus of the MTFS (Capital)	• The 2010/11 financial resilience report identified the importance of the Council's management of their assets going forward. On-going discussions with senior officers over the course of the year have identified that this remains an issue. • A review of the 2011/12 capital programme found that the downturn in land and housing sales resulted in the need to borrow for the General Fund capital programme. In the year, the funding requirement was £1.8m. With interest rates at such low levels, the decision was made to absorb this 'borrowing' by reducing the level of investments. • In the capital report to the Executive at their meeting on 10 July, it was noted that the current capital strategy does not identify the level of works that are required to maintain the Council's assets over the medium to long term. As a result of this, there is to be a review of all of the different asset class needs that are embedded within: ➢ Asset Management Strategy ➢ Fleet Strategy ➢ ICT Strategy ➢ Play Strategy ➢ Parks and Open Spaces Strategy • The Council has a five year rolling programme in place and the shortfall in resources is continuing to be compounded by diminishing levels of capital receipts. Market conditions are preventing the Council from selling surplus assets, meaning that the strategy has to be brought back into balance by deferring or deleting schemes within the programme based on a prioritisation of need. • The strategy shows a funding deficit of £1.8m in 2013/14, a deficit that continues to increase despite taking out projected borrowing of £2m in each future year of the strategy. It is noted though, that "in order to have a sustainable, affordable General Fund Capital Strategy, it is imperative that the Asset Management Plan is implemented to release resources to reduce the burden on the General Fund and ensure that the capital programme delivers the right investment outcomes for the Council's assets."	Amber

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Adequacy of planning assumptions	• The most recent Government settlement did not cover funding from 2013/14 onwards. As such, assumptions have been made such that there will be on-going reductions of nearly 8% per annum. This equates to a reduction in grant of £2.8m between 2011/12 and 2016/17, or 43% when compared to the 2010/11 settlement. • The main assumptions around income are shown in the graph below:  • This highlights the large anticipated drop in government funding. It also shows increasing Council Tax income. These assumptions are in place to support the delivery of a balanced budget, but it has been calculated that a 1% spending increase without any additional government support would result in a 2% increase in Council Tax. • The Government have provided a incentive to freeze Council Tax for 2012/13 but there is no announcement about whether this will be repeated for 2013/14. If it is not repeated, then £144k of additional savings will be required. • The main assumptions around expenditure are shown in the graph below:  • When set alongside reducing income, expectations of increasing expenditure really highlights the challenge facing the Council.	Green

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Adequacy of planning assumptions (continued)		

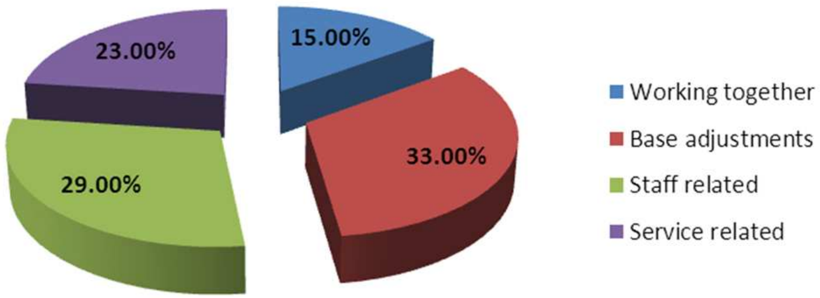
- The 2011/12 outturn position on the HRA was a net surplus of £2,080k. This was partly a one off relating to the transfer of staff to SBC and the return of Stevenage Homes Limited (SHL) balances to the HRA.
- Members have approved a 1% reduction in the proposed rent increase and this has been incorporated into the Business Plan. This was on the basis that sufficient balances existed with the HRA to meet both the future capital programme and the debt repayment schedule whilst maintaining sufficient contingencies. The business plan does follow the formula rent increase to enable the financing of the HRA debt repayments and the capital programme. The rent increase assumptions below have been built into the HRA MTFS:

- Under self financing, the Council made a one off payment of £200m to the Government and will now keep all rents generated from their housing stock.
- This means that the budget is required to fund capital charges for both the repayment of debt and the funding of the capital programme. This represents 26% and 31% of the 2012/13 expenditure respectively.
- The interest charges to support the £200m of self financing debt have been fixed for the life of the 30 year business plan at an average rate of 3.4%. This was in order to ensure that the HRA had financial stability and to ensure that the capital programme was achievable over the 30 years. This will mean that the HRA will carry higher cash balances for a number of years in order to be able to meet capital commitments in later years. In 2012/13, the interest payments will be £7.2m.
- The rate achieved by the Council was much better than the assumed 5% cost of borrowing, equating to a £2m saving each year. This has enabled the introduction of a new build programme which will be funded using these savings.

Strategic Financial Planning

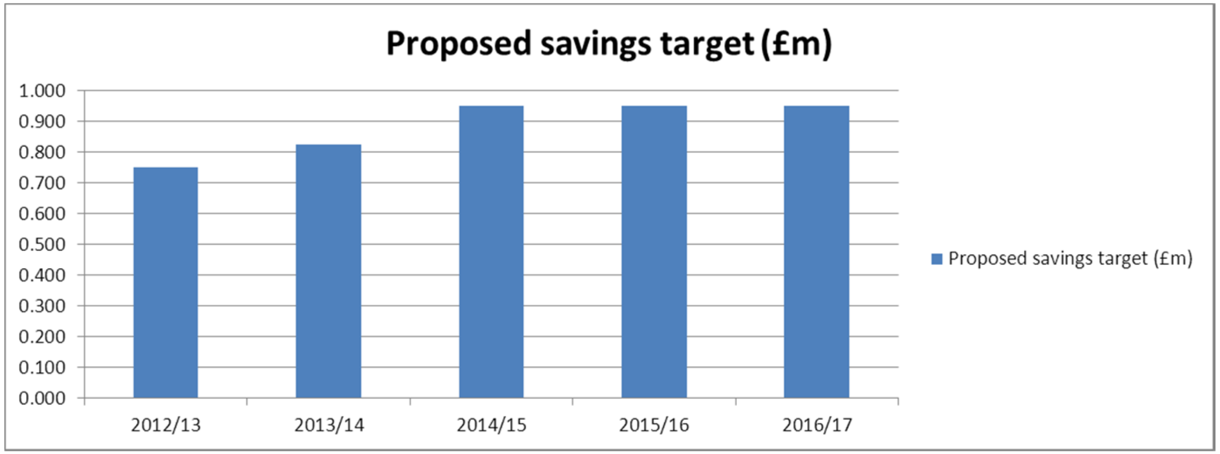
Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Adequacy of planning assumptions (continued)	• The reduction in Government Grant levels, alongside other General Fund pressures has meant that a £750k savings target has been set for 2012/13. This has been identified and implemented. This delivers a balanced annual budget, along with a prudent level of balances to cover unexpected liabilities, costs or pressures. The Council has been successful in previous years in delivering the required levels of savings and efficiencies to ensure that sensible budgets have been met. • When setting the savings proposals, members and officers are required to consider: ➢ targeted and aligned revenue and capital resources to priorities ➢ maximised the value of resources and assets ➢ had a strong commitment to delivering value for money and efficiency for the community • Savings of £1,653k were made in 2011/12 to cope with the scale of the government grant reduction. In order to be able to make this level of savings, service cuts were required. For 2012/13, the savings have been generated in part through Council change programmes and improved procurement, meaning that the savings are mainly efficiencies, rather than service cuts. The split of these savings is shown in the graph below:	



Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Adequacy of planning assumptions (continued)	• Proposed savings over the life of the MTFS are shown in the graph below:  • The scale of the savings requirement highlights the challenge ahead for the Council. It also raises the issue over how much more can be found from efficiencies, before service cuts need to be enforced. • As in previous years, 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.	

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Adequacy of planning assumptions (continued)	• With the introduction of the Localism Bill, there are to be some fundamental changes to Council financing going forward. From the 2013/14 year, there will be the localisation of both Council Tax Benefit and Business Rates and also the centralisation of other benefits with the introduction of the Universal Credit from 1 October 2013. These all represent significant changes for the Council to respond to, and they must ensure that planning is able to react to the uncertainties that these changes will bring. • Under the localisation of Council Tax Benefit, the national Council Tax Benefit scheme will be replaced by a local Council Tax Support. This new local scheme will need to be designed by the Council to ensure that it is suitable for the characteristics of Stevenage. In addition, the new scheme is required to work within a budget including a 10% reduction. This is based on Government assumptions about reducing caseloads, despite the current trend of increasing numbers of claims. This cost pressures associated with these changes will need to be closely monitored going forward and the Council are likely to face some difficult decisions about both the focus and level of the funding support they are able to provide. • With Business Rates, the Government are attempting to incentivise the promotion of economic growth by allowing a share of the growth in their rates to be retained. Unfortunately, given current projected growth levels, this is unlikely to result in any significant funding increases for the Council. It has been recognised in the MTFS that this presents a potential risk for the Council were a major business to move from Stevenage as this would significantly reduce the business rate yield and hence the share retained by the Council. • The new Universal Credit scheme is to be launched in 2013 and will replace a number of benefits including Housing Benefit. The new scheme will be administered centrally and will bring a range of working age benefits into a single streamlined payment. Within the MTFS, the Council have identified that there are a number of implications. In particular, the benefit will be paid direct to the claimant and not to the Council meaning that there are potential arrears issues. There are also potential impacts on the Revenues and Benefits team as claimants will now be dealt with via a central scheme. • There remains a great deal of uncertainty around the issues discussed above and it is clear that the Council will need to closely monitor the potential impacts as the level of understanding increases. It is positive to note that these have been assessed as risks to the MTFS by the Council and that they are being regularly monitored.	

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Review processes	• The Council have a clear process in place for the development of the MTFS and the financial resilience work completed in 2010/11 did not highlight any significant issues. • As previously, the draft budget proposals were reported to the Resources Development & Scrutiny Committee at their meeting on 17 January 2012. The General Fund Budget was then presented to the Executive at their meeting on 7 February 2012. The revised five year General Fund MTFS was then presented to the Executive at their meeting on 31 July 2012. This is the continuation of the process that has worked well in the past. • As well as the involvement of both Executive officers and Council Members (considered within the Governance section of this report), the Council is committed to wider consultation as well. • Over the course of the year, there have been a number of opportunities, both online and face to face, for the public to contribute to the corporate priorities which then help to shape the budget. In addition to this, there is a dedicated area of the Council website that provides information for the public who are looking to get involved. • The Council have stated that they want to ensure that "residents are properly informed about the Council, its role, its policies and its performance so that they can take part in shaping and developing future services and setting priorities." In order to help this process, the Council held an community consultation event in November 2011 entitled 'Your Voice, Your Choice'. This involved a wide cross section of residents who were given the opportunity to give their views on the Council's priorities for service delivery over the coming year. • The Council also ran 'Café Choice', a consultation event in the town centre, again providing an opportunity for residents to discuss future priorities. • Between November and January, a town wide resident's survey was completed, with over 4,000 households included. The survey covered council services, priorities, town issues and co-operative working with the community. Once available, the results of the survey will be used to inform the Corporate Plan, service plans, medium and long term financial planning and the 2013/14 budget.	Green

Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
Responsiveness of the Plan	• As noted within the Key Indicators section of this report, the Council assesses a number of factors when establishing the minimum reserve levels. These are: • 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 items identified in the Strategic Risk Register • An amount necessary to cover additional risks of the Localism Bill (including localisation of Council Tax support, localisation of Business Rates and the Universal Credit) • Based on these assumptions, the budgeted General Fund balance for 2012/13 is £3.6m against a minimum reserve requirement of £3m. • Sensitivity analysis is also included within the MTFS. This covers the following: - 1% increase in Council Tax - 1% increase in pay award - 1% increase in inflation - 1% increase in interest rates - 1% increase in borrowing rates - 1% increase in fees and charges • Based on this analysis, there appear to be sufficient reserves available to the Council. • The Council recognises the importance of policy decisions on future years and is being proactive in financial planning terms. For example, they are giving significant consideration to the potential impacts of the Localism Bill and how best to plan for these uncertainties. • There remains significant uncertainty of the financial position for 2014/15 and beyond. This is clearly a common position across the whole of the sector. The Council will need to ensure that the plan remains responsive given the scale of savings required, the uncertainty around both Council Tax Benefits and Business Rates, as well as the potential impact of Universal Credit.	Green

Financial Governance

Key indicators of effective financial governance

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

Understanding

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

Engagement

- There is engagement with stakeholders including budget consultations.

Monitoring and review

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

Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
Understanding the Financial Environment	• Review of the 2010/11 financial resilience report confirms that there were no significant issues identified in the review of Financial Governance. No issues have come to light in the past year that have indicated any significant issues with regard to this. • The Executive retains the overall responsibility for the implementation of the budget and they continue to receive detailed quarterly monitoring reports to help them oversee performance. • Financial skills continue to be regarded as an important aspect of general management skills across all services and members of the finance team have continued to meet regularly with budget holders and Heads of Service to try and highlight any potential pressures. • Financial management continues to be included in all relevant job descriptions and forms part of the performance management framework. • The Council are keen to ensure that staff are kept up to date with the financial position of the Council and this has been incorporated into staff briefings presented by senior officers. This fits with anecdotal evidence picked up by the audit team suggesting that staff feel that there has been effective communication on the financial challenges being faced.	Green
Review of accuracy of Committee/ Cabinet Reporting	• As in previous years, the Executive continue to receive quarterly monitoring reports. Review of these reports has found them to be sufficiently detailed, containing the key information and analysis. • Reporting around the MTFS is also very detailed, putting all information into a suitable context and ensuring that there are clear explanations for any over or underspends. • All reports taken to the Executive continue to require a section highlighting the financial implications.	Green

Financial Governance

Understanding and engagement

<table>
<tr><th>Area of focus</th><th>Summary observations</th><th>Assessment</th></tr>
<tr><td>Executive and Member Engagement</td><td>

- There remains a strong level of senior management and member level engagement in the financial management process.
- This is particularly noticeable when considering the process for savings options. The current timetable in place for the process is shown below:

- 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.

</td><td>Green</td></tr>
</table>

Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
Executive and Member Engagement (continued)	• As a result of feedback from both Strategic Directors and Heads of Service it was felt that there was a need to start the budget development process earlier. The reasoning for this is to allow an extended implementation timetable to be put in place. This will become increasingly important as savings potentially involving service redesign become more complicated. • The Challenge Board is to be in place again for the 2013/14 financial planning process. It has a role to "critically scrutinise the whole of the General Fund and HRA budget allocations and underlying policies. The Challenge Board meets monthly to analyse and review performance. • In addition to the Challenge Board, the Leader Services Priority Group also remains in place. As a cross party group of members, they remain responsible for helping to develop and challenge the range of savings. • All departments continue to 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 the detailed quarterly reporting to the Executive to review revenue and capital monitoring reports.	Green
Performance Management of Budgets	• Performance against budget has been considered within the Key Indicators section of this report. This showed that the Council have achieved net underspends in three of the last four years. • This performance is monitored by the Executive on a quarterly basis, with detailed reports being provided at these meetings. • As part of the on-going performance management process, Members approved the return of the housing function from Stevenage Homes Limited back to the Council. This was put into effect from 1 December 2011. A key factor behind the return of the housing function was the expected efficiencies of £750k to the HRA.	Green

Financial Control

Key indicators of effective financial control

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

Budget setting and budget monitoring

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

Finance Department

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

Financial Systems

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

Internal Control

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

Financial Control

Internal arrangements

Area of focus	Summary observations	Assessment
Performance Management of Budgets / Savings Plans	• The Council has a well established budget setting process and a strong track record in managing budgets. We have first hand evidence from our work at the Council over the year of both Members and Officers challenging the financial position of the Council, making it clear that they understand the scale of the financial challenge ahead. • It is without doubt that the financial challenge for Stevenage has been significant in recent years. Since 2007/08 Members have been able to approve savings of over £8.5m which, despite the ever increasing financial pressures, have enabled the Council to set a balanced budget since 2010/11. • Savings options are becoming increasingly difficult to implement as the more straight forward cost cutting options have been exhausted. This has the knock on impact of needing to ensure that sufficient lead in time is made available to complete the savings. • Savings continue to be reported on a line by line basis to each meeting of the Strategic Management Board. This report RAG rates all savings, a process which remains good practice. • A key highlight of the 2010/11 report was around establishing and progressing an Asset Management Strategy. This was considered as part of the review. • The main aim of the Asset Management Strategy is to review all of the building assets and land within the Borough to assess whether they are benefiting the town. In order to do this, a mechanism for review was established. Essentially, this covered two broad areas: - do they provide value for money? - do they provide the service? • A scoring template has been developed focussing on economic factors (e.g. running costs, planned maintenance, income) and social factors (e.g. utilisation, location, need). This scoring system was reported to the Strategic Management Board and to the Major Projects Members Reference Group who approved it for use. • The actual review of properties began in January 2012. The Borough was split into 52 'output areas' which are now being worked through on a systematic basis. This means that all land and building assets are assessed, with the exception of any HRA residential units. In all cases, any development potential is considered by the Estates Team. Were any to be identified, this would then go through the Planning and Legal Departments.	Amber

Financial Control

Internal arrangements

Area of focus	Summary observations	Assessment
Performance Management of Budgets / Savings Plans (continued)	• For all operational buildings the scoring system is reported using a traffic light system: - Green = does a good job - Amber = benefits are marginal - Red = too expensive / not providing the required service • Based on this system a recommendation is then made to: - retain - retain but consider for the future - dispose (sell/lease/mothball) • In addition to the recommendation of the Estates Team, the relevant Head of Service will also make a recommendation for each asset. • These recommendations are then taken to the Asset Management Steering Group. This group consists of the Heads of Service, the Strategic Director for Resources and the Estates Manager. They are then required to debate the two recommendations and raise a final recommendation. This final recommendation is then presented to the Strategic Management Board and the Major Projects Members Reference Group. • The same assessment process is undertaken for investment properties but, in addition, the yield from the sale proceeds is compared to the existing income yield. • The review of all assets is currently approximately one third of the way through. It is expected to be completed by June 2013. Once completed, the intention is that everything will continue to be reviewed on an annual basis. • So far most of the assets have been assessed as 'retain'. There have been a number identified as not being used to their full potential and these are under review with the relevant Head of Service. No recommendations have been taken to Members yet, but some resistance is expected around proposed disposals. To this end, any proposed disposals will be required to be accompanied with a detailed plan around resolving any potential issues. • In addition to the above, all reports to Members now include an asset management implication section that is required to be completed. There are also monthly meetings with Head of Service to catch up on any plans they have for their assets.	

Financial Control

Internal arrangements

Area of focus	Summary observations	Assessment
Finance Department resourcing and qualifications/ experience	• The current staffing level within the Finance Department is 25.22 FTEs, compared to 19.75 in the prior year. Of these, 8 are fully qualified accountants compared to 6 in the prior year. There are also additional trainee posts. The reason for the increase is the fact that the HRA has been brought back internally and the staff have moved over from Stevenage Homes accordingly. • The Finance team have also recruited a third Group Accountant, as well as a specialised HRA Accountant to support the HRA function. • As from 1 December 2011, the Council made a decision that the housing services previously undertaken by Stevenage Homes Limited (SHL) should return to be directly managed by the Council. SHL had been established as an Arms Length Management Organisation (ALMO) to access Decent Homes funding, but this requirement no longer exists. The Council completed a detailed options appraisal process before the decision was taken to return housing services to the Council. • As part of the decision making process, it was recognised that the ALMO model is potentially inefficient as there is a duplication of management and processes between the Council and SHL. There have been no significant issues since housing services were returned. • During the year, the Council have also established a shared Revenues & Benefits service with East Herts District Council. A business case was developed for this to attempt to deliver efficiencies, strengthen resilience and consolidate good practice. A Joint Committee has been established for the single service, comprising three elected members from Each of Stevenage and East Herts. • It was agreed the East Herts would discharge the functions of the administration of Council Tax, National Non Domestic rates and the administration of the Benefits scheme, including the investigation and prosecution of Benefit Fraud. It was decided that set up costs and savings would be split 50:50 between the Councils for the first three years. • As part of the process, the Stevenage staff were required to transfer to the employment of East Herts District Council. There were no major issues as a result of this transition and the combined team is now working effectively. • This shared service is expected to achieve savings of £133k in 2012/13 and then £173k each year thereafter. In order to manage the progress against these savings and also to ensure that performance is maintained at a high level, a balanced scorecard is being set up to monitor Revs & Bens. • The Finance Team have been engaged in on-going training throughout the year. This remains a priority for the Council.	Green

Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
Summary of key financial accounting systems	• The Council has well established systems and procedures for producing reliable financial monitoring and forecasting information, which is used alongside related performance information to support decisions. The process has enabled the Council to identify and manage financial risks in a timely way. • Internal Audit completed a review of the main accounting system in 2011/12 as part of their audit plan. This report assigned substantial assurance to the systems and processes that underpin the main accounting system process. This does not highlight any significant areas of concern. A review of the main accounting system has also been included within the 2012/13 Internal Audit Plan. • The Council are continuing to use Integra as their accounting system. In the 2010/11 financial resilience report it was noted that there was likely to be a business case to look at moving to an E-Series system. This is currently on hold given the amount of other activity that is happening across the Council. It is felt that any changes is likely to be prompted by support for the current system ending.	Green

Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
Internal audit arrangements including compliance with CIPFA Code of Practice for Internal Audit	• For the first year in 2011/12, the Internal Audit opinion for the year was provided by the Shared Internal Audit Service. They broke down their assurance into two separate opinions: ➢ Financial system - Substantial Assurance ➢ Non financial systems - Moderate Assurance • The Shared Internal Audit Service (SIAS) was in place from 1 July 2011, with the vision of the partner organisations being to *"create a core assurance service that provides for resilience, efficiency, access to specialisms, high standards of customer service and career development opportunities for its employees."* • As part of the establishment process and, as discussed within the SIAS Annual Report, the audit approach has been set up so as to take the best practices from each of the authorities as well as leading industry standards. • To review the effectiveness of SIAS at the end of their first year in existence a peer review was undertaken with the Director of Veritau, a local authority internal audit company. As highlighted in the SIAS Annual Report, there were some very positive conclusions reached from this review, alongside some suggested areas for strengthening. • In addition to the peer review, SIAS compliance with the CIPFA Code of Practice for Internal Audit in Local Government was reviewed. This review did not highlight any significant issues. • SIAS have monitored a number of performance indicators throughout the year. Key amongst these are the following: ➢ 88% progress against plan (actual days delivered as a percentage of planned days) ➢ 84% progress against plan (audits issued in draft by 31 March 2012) ➢ 100% client satisfaction (satisfactory or higher feedback rating from our customers) • The SIAS business model is said to have contributed efficiency savings over £300k for the partner organisations. The cost to the Council was in line with their expectation and there have been no issues raised with the level or quality of the service provided.	Green

Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
External audit arrangements and programme of activities	• 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 2011. • The Council has always included management responses to recommendations raised in previous audit reports and have made good progress in implementing these recommendations. • In relation to VFM, the 2010/11 Annual Audit Letter noted the following: ➢ The Council should continue to monitor its Medium Term Financial Strategy (MTFS) during its delivery, in particular in relation to changes to key assumptions, such as the impact of price inflation in the medium term, the outcome of the Government's funding settlement for the final two years of the plan, and consultation on the future funding of council tax benefit. ➢ The Council has prepared an updated Asset Management Strategy. This is an attempt to make the 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. The success of this project is vital as the Council 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 this financial resilience review has noted, the Council has continued to focus on these areas. Work around the Asset Management Strategy in particular remains key and senior officers are monitoring this on an on-going basis.	Green