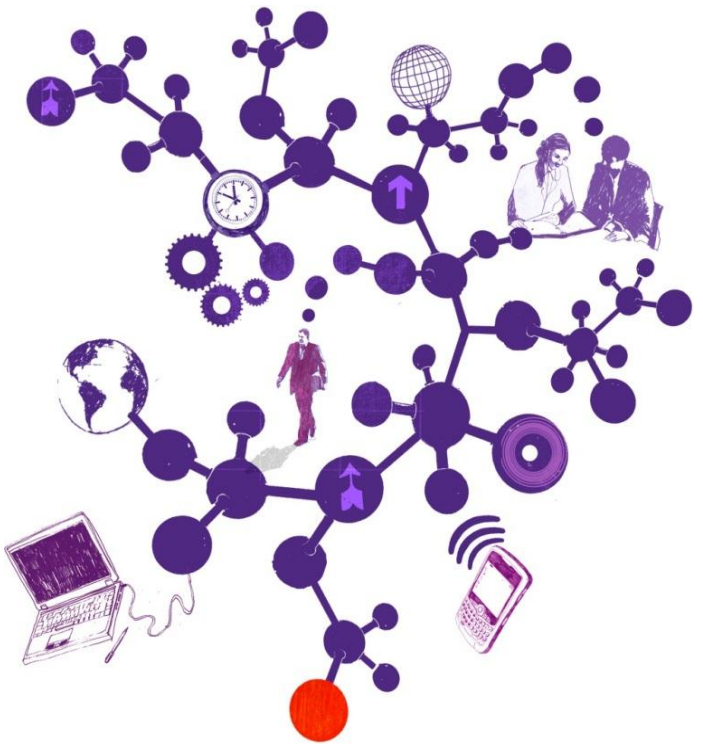
This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Review of the Council's Arrangements for Securing Financial Resilience

Swindon Borough Council

Year ended 31 March 2013

17 September 2013



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

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Executive Summary

Our approach

Value for Money Conclusion

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

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

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

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

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

Further detail on each of these areas is provided in the sections of the report that follow. Our overall conclusion is that whilst the Council faces some significant risks and challenges during 2012/13 and beyond, its current arrangements for achieving financial resilience are adequate.

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

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Executive Summary

National and Local Context

National Context

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

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

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

These funding reductions come at a time when demographic and recession based factors are increasing demand for some services, and there is a decreasing demand for some services, such as car parking, where customers pay a fee or charge.

Financial austerity is expected to continue until at least 2017.

Local Context

Swindon is a large town within the Borough of Swindon and the county of Wiltshire, in South West England. It is midway between Bristol and Reading, and London is 81 miles to the east. In the 2011 census, the population of Swindon was 209,000 people, an increase of 16.2% since 2001. Swindon was also the scene of sharp population expansion in the post war period and this has meant that Swindon now has a significant and increasing elderly population. The town has and established and growing base of economic activity, with a number of large employers based there.

Like most Councils with similar demographics, Swindon faces significant challenges in regard to reducing central government funding, and in managing the social and financial implications of new government policies on welfare and local taxation. This is in the context of demographic challenges such rapid population growth and an increasing elderly population.

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Executive Summary

Overview of Arrangements

Risk area	Summary observations	High level risk assessment
Key Indicators of Performance	The Audit Commission's profile for 2011/12 shows the Council spending on services is in the lowest 10% of similar Councils. The spend per head of population on leisure and culture, housing and adult services was higher than average. Comparative costs were reducing for housing and leisure and culture but increasing for adults. Reducing the costs of adult services is a key priority for the Council. Financial indicators show a stable financial position. The Council shows good performance against its budget .The council is in the middle of the range for similar councils in its liquidity ratio, borrowing and reserve levels. We noted that workforce key performance indicators are not reported to Cabinet as they are in some Councils. They can have both financial and service delivery implications that can complement the financial and service performance reporting. There is scope to reduce sickness absence further and the Council should ensure that its target remains challenging.	Green
Strategic Financial Planning	The Council's process for financial forecasting and developing financial assumptions is robust. Financial plans are regularly reviewed and include effective use of earmarked reserves and contingencies to manage financial risks. The two biggest internal risks to the Councils finances are the increasing costs of adult care and the financial risk posed by the Witchelstowe development. Both of these have been highlighted in the Council's new transformational change programme, but the success of the measures being taken is yet to be determined. We noted that in 2012/13 a number of risks arose in relation to the Council's subsidiaries. Swindon Commercial Services Ltd (SCS), had not been able to provide income streams in line with the budget assumptions and Thamesdown Transport Ltd, is also not meeting revenue levels set out in the business plan and the budget contribution to the Council has been reduced. These risks are being closely managed, including a decision to bring SCS services back in house.	Amber
Financial Governance	There is an adequate level of challenge and engagement from the Cabinet and we found that significant risks were mitigated by the effectiveness of management processes and review. We noted further opportunities to develop the skills and experience of all members, particularly those who are not part of the Cabinet. This could be aided by consideration of the way that financial and other information is presented to members. We also noted opportunities for the finance team to expand its understanding of the services in some cases, to shift the relationship from one of reviewer and challenger to business advisor. The finance team has developed innovative methods of communicating financial issues, for example in a recent presentation to the Finance Advisory Group, and it would be good to build on this to communicate with members and the public.	Amber
Financial Control	The Council has a strong recent track record on delivering budgets and savings plans, which is indicative of a robust financial control framework. The Council has an effective control framework overall, as indicated by the Head of Internal Audit's annual opinion and has a clear picture of the areas that require development. We noted that Cabinet does not monitor capital expenditure against planned annual spend, in favour of measuring cumulative expenditure on all current approved schemes and forecast total expenditure. This gives a good perspective on cost variance but not on timeliness of delivery. We note that the risk assurance process is currently being updated to ensure that it aligns effectively with the Councils service structure and is fully incorporated into the management reporting cycle.	Green

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Executive Summary

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Key Indicators of Performance	The Council should aim to reduce sickness absence in order to move into the second quartile of Council performance nationally. This would need to be managed in a way that did not adversely impact on staff morale.			
Financial Planning	The Council should continue to take steps to avoid or reduce the level of risk posed by the Wichelstowe development and ensure that arms length bodies are closely monitored and the impact of this is reflected in future revisions to the MTFP. It is also important that lessons learned are carried forward when developing current and future commercial business cases for service reorganisation.			
Financial Governance	The finance team should develop better understanding of the services they support, to shift the relationship from one of reviewer and challenger to business advisor. This could involve training and more direct involvement on the service planning side.			
Financial Governance	In the context of the significant financial challenges facing the sector, the Council should continue to develop the skills and experience of all members, particularly those who are not part of the Cabinet.			

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Executive Summary

Next Steps

Area of review	Key points for consideration	Responsibility	Timescale	Management response
Financial Governance	The Council should consider presenting summary performance information using a dashboard of financial KPIs to highlight the relationships between finance and operational issues, focus member attention and promote engagement.			
Financial Governance	Further consideration should be given to the content and presentation of financial information to promote better engagement with all Council members and the public.			
Financial Control	The Council should consider whether the capital monitoring report to Cabinet should also include commentary (by exception) on project progress against agreed milestones.			
Financial Control	The risk assurance process is currently being updated to ensure that it aligns effectively with the Councils service structure and is fully incorporated into the management reporting cycle. The Council should ensure that the revised risk management process is implemented on a timely basis.			

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1. Key Indicators

Introduction

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

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

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

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

Stockton-on-Tees Borough Council
Calderdale Metropolitan BC
Bedford Borough Council
Trafford Metropolitan BC
Medway Council
Milton Keynes Council
Warrington Borough Council
Stockport Metropolitan BC
Bury Metropolitan Borough Council
Derby City Council
Swindon Borough Council
Borough of Telford and Wrekin
Kirklees Metropolitan Council
Darlington Borough Council
Peterborough City Council
Dudley Metropolitan BC

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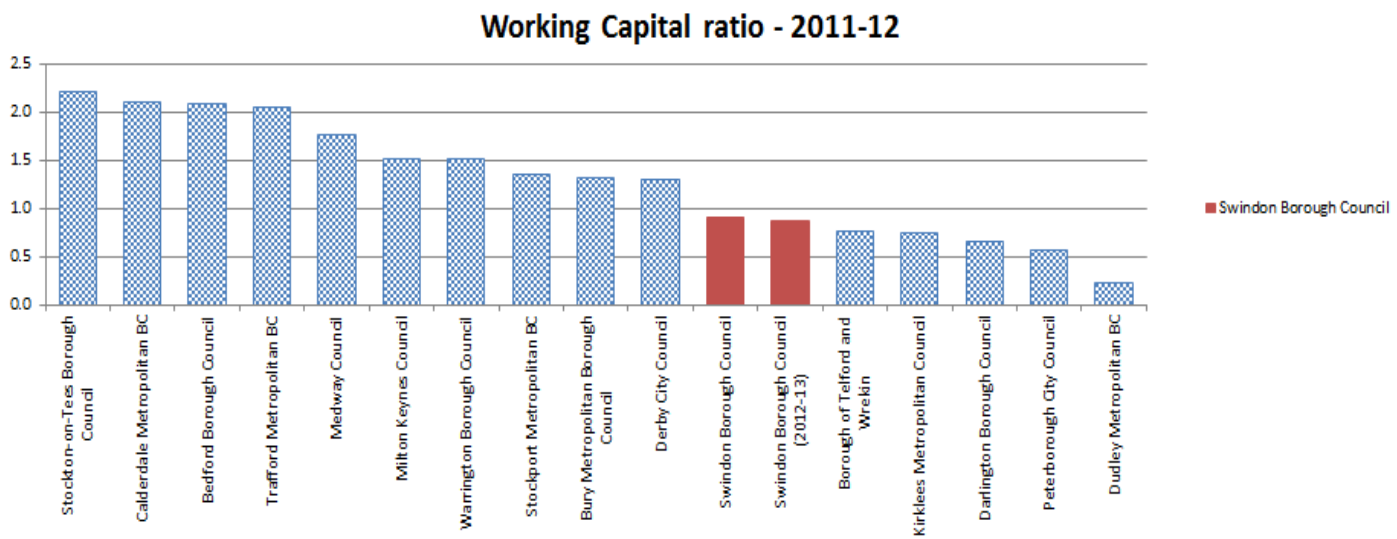
1. Key Indicators

Overview of performance

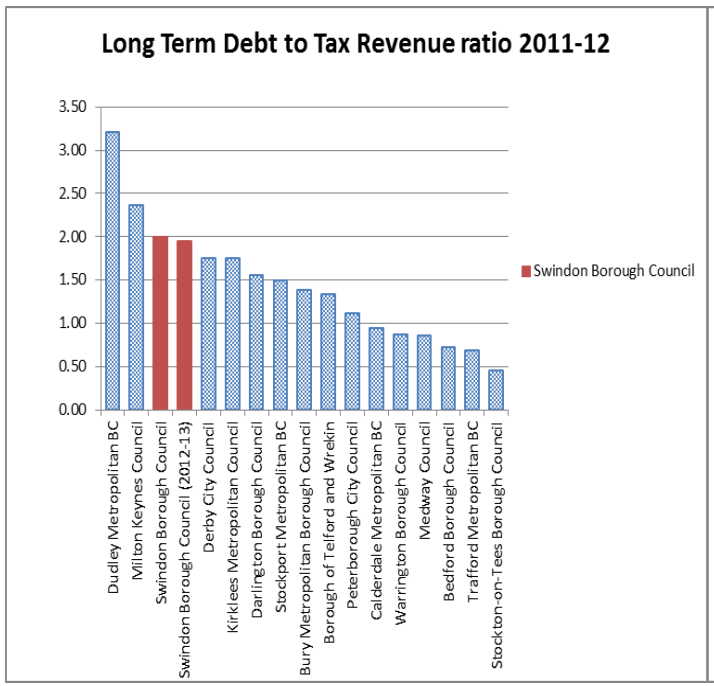
Area of focus	Summary observations	Assessment
1.1 Liquidity	• The Council continues to have a comparatively low ratio of current assets (cash and assets readily convertible to cash) in relation to current liabilities (debts payable in the short term). The ratio in 2012/13 was 0.87 (0.90 in 2011/12) which means that the value of current liabilities was greater than the value for current assets. A ratio of less than 1 can be an indicator of financial risk. • The risk is mitigated via the Council's embedded treasury management policy. During 2012/13 an average balance of £56 million was being used for short term investments and which the Council deems sufficient to manage the peaks and troughs of the Council's cash flows. • Although the Council's collection rate for debtors and NNDR continues to be good, the Council should continue to monitor this area closely as there will be increasing pressures on the cash position, in the context of the Council's increasing reliance on income from local taxation, as grant funding reduces over the medium term.	Green

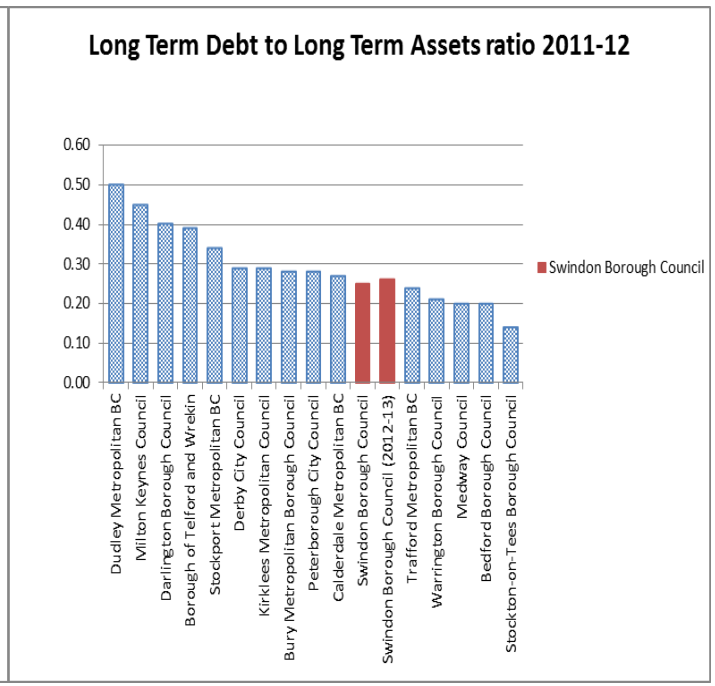


1. Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
1.2 Borrowing	The Council's borrowing levels are relatively high as a proportion of tax revenue, but are in line with other similar Councils as a proportion of total assets. Borrowing is closely controlled by the treasury management policy and monitored by the Cabinet. The Council kept within its prudential borrowing limits during 2012/13 and the majority of lending is with other LG bodies and the Public Works Loans Board (PWLB), which helps to manage the level of risk. Total long term borrowing has decreased slightly year on year and stands at £235 million of which £145 million relates to the HRA. The Council retains scope for further long term borrowing in support of Council policy.	Green





1. Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
1.3 Workforce	• Staff sickness at the Council (excluding school staff) was 8.2 days lost per FTE in 2012/2013, this is in line with the national average for Local Authorities in England which is also 8.2 days. If the Council could manage this level down in order to move into the second quartile of Council performance, there would be financial benefits from greater productivity. This would need to be managed in a way that did not adversely impact on staff morale in the context of changes to services and further cost reductions over the next few years. • Workforce performance is monitored within the services, however it does not form part of the regular reporting to Cabinet. Workforce management has not traditionally been an area of focus for the Council; agency staff usage is limited and payroll costs (including the impact of vacancies)are monitored through the budget reporting process. • Many Councils report workforce key performance indicators to Cabinet as they can have both financial and service delivery implications. These KPIs traditionally include sickness absence rates, staff satisfaction, agency staff usage, turnover and vacant posts, often analysed by service. The Council should consider whether the reporting of workforce indicators to cabinet would be of value to members in providing a complete overview of performance.	Amber

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1. Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
1.4 Performance Against Budgets: revenue & capital	• The Council has a good track record of managing its revenue budget effectively which has continued in 2012/13. The majority of divisions delivered on or under budget, although there was a netting off effect of a number of significant variances between the divisions. • The adverse variances included a £1.1 million (1%) overspend in Commissioning, primarily related to demand in excess of plan on Children's care placements (90 placements against 60 budgeted). The assumptions have been amended for the 2013/14 budget. Managing demand for social care in general is a key priority for the Council, although we note that Adult Social care was delivered on budget. In addition, the Corporate division reported a £1 million under achievement of net income due to the rebate from Swindon Commercial Services Ltd (SCS) being less than expected (see 2.2 below). This pressure was mitigated by £1.5 million of unplanned income and underspends (e.g. a one off maintenance budget underspend) from property services. In addition reduced operating costs within libraries, one-off staff vacancies, additional planning income and National Non-Domestic Rates (NNDR) savings. Assumptions for both SCS and other subsidiaries have been amended in the 2013/14 budget. This level of budget variance is within reasonable levels and the Council has been transparent about how the impact was mitigated.	Green

	£'000 Budget	£'000 Actual	£'000 Variance	% Variance
Chief Executive	528	490	-38	-7.2%
Finance, Revenues, Benefits & Property	-371	-1,873	-1,502	404.9%
Corporate	-10,122	-9,140	982	-9.7%
Transformation & Strategic Projects	4,676	4,725	49	1.0%
Localities	1,493	1,425	-68	-4.6%
Commissioning	108,957	110,140	1,183	1.1%
Service Delivery	32,230	31,624	-606	-1.9%
	137,391	137,391	0	0.0%

• In 2012/13 the HRA produced a net surplus of £1.5 million due to underspends on the breakeven budget, following a net surplus of £3.6 million in 2011/12

• In 2012/13 £53.7 million was spent on capital schemes compared to £72.3 million in the prior year, with a further £69 million of forecast spend from 2013/14 onwards to complete the schemes. Total forecast spend on current approved schemes is £195 million which is in line with forecast. However, within this a £0.6 million forecast overspend on schools is netted off against a £0.5 million underspend on Section 106 funded schemes (e.g. cycleway and woodland schemes). This level of variance is within reasonable levels and the work of Internal Audit provides assurance that capital project management in the services is not currently an area of significant concern .

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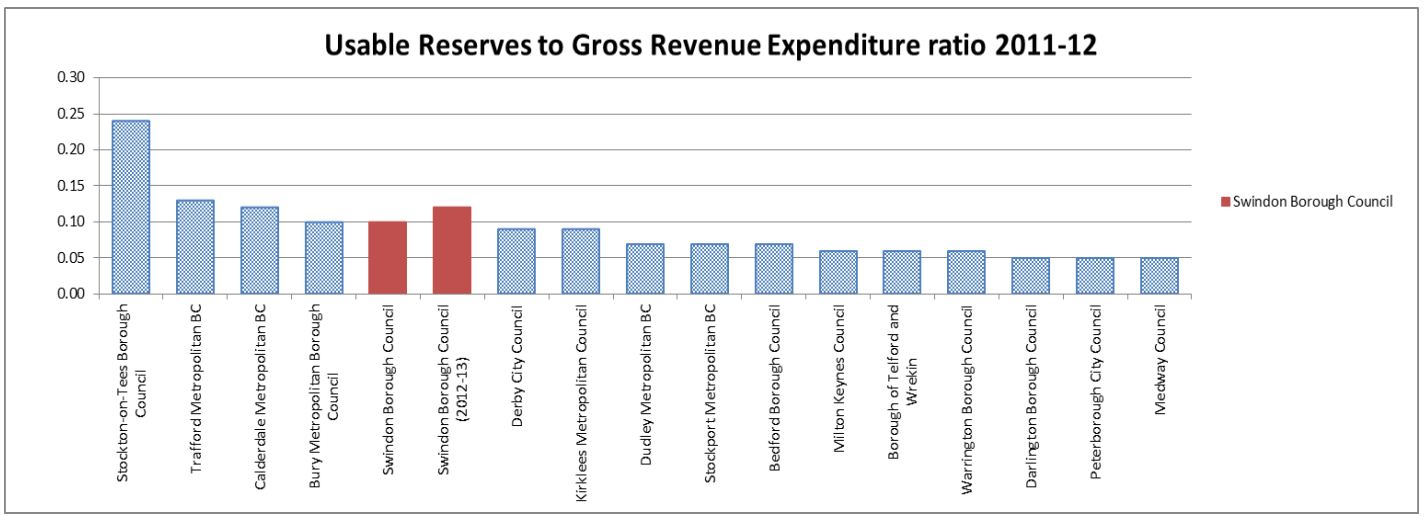
1. Key Indicators

Overview of performance

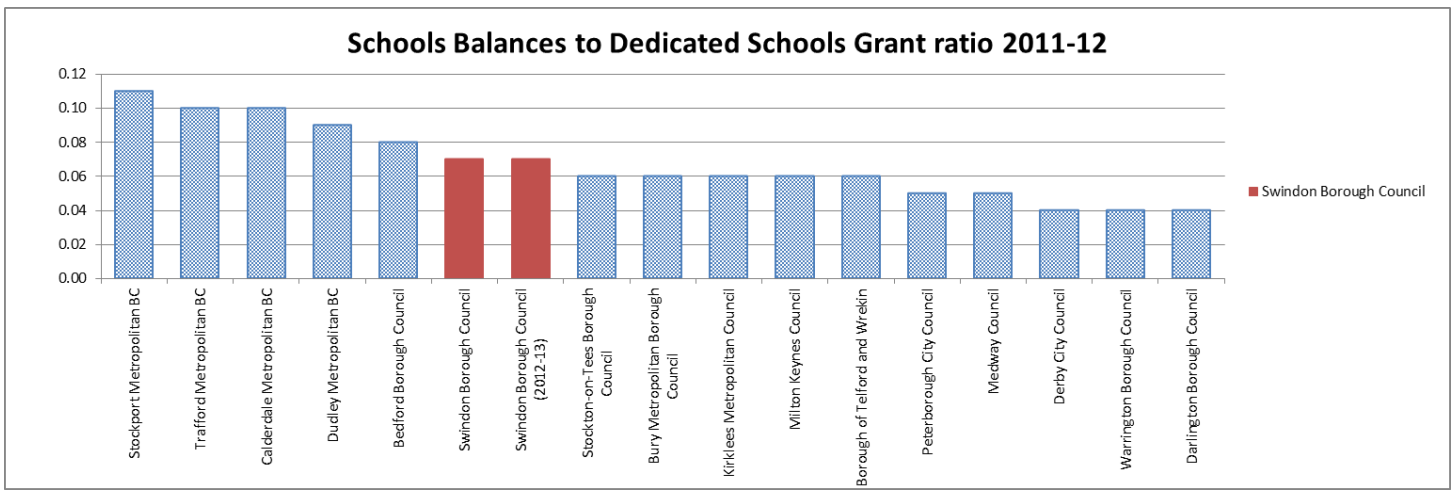
Area of focus	Summary observations	Assessment
1.5 Reserve Balances	• The Council continues to hold a comparable level of useable reserves (as a proportion of gross expenditure) to other similar councils. The Council has been able to marginally improve its levels of useable reserves in 2012/13, while significantly reducing gross revenue expenditure. • General fund reserves remain unchanged, but earmarked reserves and the capital receipts reserves have seen small increases year on year. Reserves are important as they are a key safety net to enable the Council to withstand financial shocks and manage financial risks (e.g. through earmarked reserves). However, the Council recognises that any increase in reserve levels must also be balanced against the prioritisation of spending on services and the level of local taxation.	Green



1. Key Indicators

Overview of performance

Area of focus	Summary observations	Assessment
1.6 Schools Balances	• The Council holds a reasonable level of schools reserves as a proportion of Dedicated Schools Grant (DSG) in comparison to similar councils (based on 2011/12 data) and has maintained these levels in 2012/13. This indicates that schools budgets are largely under control and that reserves are in place to absorb future financial shocks.	Green



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2. Strategic Financial Planning

Key characteristics of good strategic financial planning

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

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

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2. Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment

2.1 Focus of the MTFP	• The 2013/14 budget was presented to Cabinet in February 2013 along with an updated three-year medium term financial plan (MTFP) for the period 2016-17.
	• The Council faces a number of major economic and demographic challenges in the context of recent reforms to welfare and Council funding (see 2.2 below).
	• The Council has predicted a funding gap of between £40 million and £48 million by the end of 2016/17. The Council's MTFP acknowledges the significant challenge and the need to consider alternatives to the current way in which services are delivered as well as driving efficiency
	• The Council's MTFP exists as a detailed financial model administered by the finance department. It has been presented to members as a detailed paper accompanying the 2013/14 budget, and in a series of presentations to Cabinet members and the Finance Advisory Group. The Council has not produced a traditional MTFP document, as it has done in previous years, as it is felt that the plan needs to remain flexible in the current economic climate and is subject to revision on an on-going basis, not just as part of an on-going cycle.
	• The Council is concerned with prioritising future service provision in order to address the medium term funding gap while focusing on those areas most valued by residents. Previously this has been done through the Neighbourhood strategy.
	• The key focus of the MTFP is the predicted increase in demand for Adult's and Children's Social services, where the Council intends to adapt the services to increase efficiency and stem the rise in demand. This is to be funded partly by creating recurrent efficiency savings in the other services and partly through regeneration and economic growth initiatives increasing income from local taxation, fees and charges.
	• For 2013/14, the Council has stripped £15 million out of the budget to meet the identified funding gap, from the start of the year . By February 2013 the savings gap has already been closed pending successful delivery of the budget.
	• For 2014/15, the Council has identified a £14.8 million funding gap with £1.5 million of net cost reductions still to be identified. The remaining £13.3 million has been identified from defined efficiency savings and the emerging impact of structural changes.
	• From 2014/15 to 2016/17, the Council has switched its focus away from defined individual efficiency savings in favour of structural change, through six key transformation projects that broadly align to key service areas. These are planned to start to impact from 2014/15. These are:
	  • Leisure & Culture (theatre running costs, outsourcing Leisure services and commercial opportunities).
	  • Street-smart (reshaping waste and street-cleaning services).
	  • Adults (developing care packages to manage demand and managing the impact of inflation).
	  • Strengthening families (reshaping care costs and services and income generation in traded services).
	  • Economic Strategy (encouraging economic growth increasing NNDR income and reducing Council tax support)
	  • Wichelstowe development (maximising New Homes Bonus, increasing housing and economic growth).
		
		Green

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2. Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
2.2 Adequacy of planning assumptions	• The MTFP has been subject to significant review during the 2013/14 planning cycle and has been updated to reflect the projected position up to 2016/17. The SR13 announcement did not significantly affect the Councils financial plans, as the Council has already made assumptions about the potential impact. As a result of this, stakeholder expectation has been managed and options for major changes to service delivery are already being explored as the primary solution in the medium to long term. • The Council has previously implemented alternative delivery model and partnership solutions, such as outsourcing finance processing to Capita and creating a number of arms length commercial ventures to deliver services. The Council is developing its six large change programmes under the 'One Swindon' initiative. This includes solutions for Leisure and is also developing demand focused solutions, for example the Strengthening Families programme. The Council is also investing in a major house-building and regeneration project (Wichelstowe). • The two biggest internal risks to the Councils finances are the increasing costs of adult social care and the financial risk posed by the Witchelstowe development. Both of these have been highlighted in the Council's new transformational change programme. • The financial risk posed by the Wichelstowe project is significant. The cost of infrastructure on the site is currently not being reimbursed by proceeds from the sale of houses. So far the impact of the interest on debt raised to fund the development has been reduced by money paid from the original developers but this is running out. The Council has carried out a full review of the project master plan and recently appointed new property advisers to help it find a new joint venture development partner to eliminate or minimise the financial risk. If a development partner is not identified or the liability is not fully taken by a partner, the Council's future interest burden will be significant i..e. interest of £1.4m from 2013/14. • We noted that in 2012/13 Swindon Commercial Services Ltd (SCS), had not been able to provide income streams in line with the budget assumptions. This organisation has been subject to review by the Council and it has been decided to bring the services back in house during 2013/14. We also noted that the Council's other major subsidiary Thamesdown Transport Ltd, is also not meeting revenue levels set out in the business plan and the budget contribution to the Council has been reduced for 2013/14. In both cases, the situation is attributed to the original business plan assumptions being undermined by the decline in economic conditions since they were put into effect. These issues are being carefully managed by the Council and the overall impact on the Councils finances is expected to be minimal, the main effect being that alternative solutions have had to be found to close the projected MTFP funding gap within the Council's change programme. The Council should ensure that the situation with these arms length bodies is closely monitored and the impact is reflected in future revisions to the MTFP. It is also important that lessons learned are carried forward when developing current and future commercial business cases for service reorganisation . • The Council's MTFP demonstrates a good grasp of key developments in local government financing. The key assumptions discussed in the MTFP include consideration of changes to local government funding and the impact of council tax and NNDR reform The Council has analysed the implications of the government settlement on areas such as grant funding in the MTFP in some depth.	 Amber

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2. Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
2.2 Adequacy of planning assumptions (continued)	• The Council is likely to benefit from NNDR retention, as Swindon is an area with strong economic growth. NNDR appeals have been a challenge – they have had quite a few large firms challenging the NNDR valuations, but this is expected to be resolved in the short term. Nevertheless this does pose a risk. • There is no forecast change to the Council Tax collection rate. Swindon has a rapidly growing population with high employment and high wages and together with schemes such as Wichelstowe, they hope to benefit from Council tax retention due to a growing council tax base. The expansion of Council tax to new strata of the population has been challenging, but collection rates have not been adversely affected overall. • The Welfare cap due to come in over the next few years is also an area of risk, although again it should be manageable. Swindon (as elsewhere) does have a shortage of 2 bedroom properties for people to downscale into. The Housing Strategy is being updated to address this issue. They have access to the government funded support scheme and the local private rental property market is relatively low cost. • The MTFP recognises that the assumptions for years two and three of the MTFP are subject to uncertainty, and has presented a range of outcomes. • We also noted that inflation assumptions have been built into the MTFP projections, focusing on those contracts that tie the Council in to inflationary rises. • The Council has a good recent track record of delivering savings and budget which provides assurance that the MTFP assumptions are likely to be reliable, although as noted above, the SCS issues with the rebate indicate that the Council should continue to exercise a degree of caution in regard to income assumptions.	
2.3 Scope of the MTFP and links to annual planning	• We noted a good level of co-ordination between the financial plans and the individual service strategies (e.g. Economic Strategy). • The Council continues its policy of using sensitivity analysis and modelling of demand selectively, for high risk areas within service plans. • The majority of savings planned in the next few years come from the Council's six transformational change projects.	● Green

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2. Strategic Financial Planning

Medium Term Financial Strategy

Area of focus	Summary observations	Assessment
2.4 Review processes	• As in prior years the Councils MTFP is reviewed and updated at least annually and a three year planning horizon is maintained on a rolling basis . • The Annual budget and MTFP is presented to Cabinet and Approved by full Council in February each year.	Green
2.5 Responsiveness of the Plan	• Financial planning been an area of focus in order to equip the Council to address the financial challenges over the next few years. As in 2011/12 the Council has demonstrated that its financial planning process is responsive to changing circumstances, for example, we note that the preliminary (December) budget proposals for 2013/14 were updated in February to reflect a worse than expected outcome from the finalisation of the government settlement for that year . • Also as discussed above, sensitivity analysis and modelling of key assumptions such as demand are used to support the planning process and to develop the MTFP assumptions and a range of scenarios are presented in regard to the projected financial gap over the life of the MTFP. • The Council has a clearly defined reserves policy. In both 2012/13 and 2013/14 the Council has decided to maintain General Fund reserves at £6million, while implementing a net increase in Earmarked reserves set aside to manage identified financial risks (see 1.5 above). • The Council also makes prudent use of budgeted contingencies, which can then be released as a surplus if not used at year end. The Council has been able to achieve a surplus in 2012/13, increasing the total Earmarked Reserves. The MTFP does not propose to write down general fund reserves to fund on-going budget deficits . • The Council risk assesses individual savings schemes to ensure that potentially risky assumptions are covered by budget contingencies.	Green

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1 Key Indicators

2 Strategic Financial Planning

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3. Financial Governance

Key characteristics of effective financial governance

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

Understanding

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

Engagement

- There is engagement with stakeholders including budget consultations.

Monitoring and review

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

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3. Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
3.1 Understanding the Financial Environment	• The Council retains a monthly management information process reported to Corporate Board, alongside the formal reporting process to Cabinet at least every two months. • The positive outcomes for 2012/13 budget delivery indicate that embedding cultural change in regard to financial management in the services has been broadly successful, although financial effectiveness across the services should continue to be reviewed (see section 1.4 above). • Finance managers are allocated to each of the services, primarily inputting into the quarterly cycle. Discussion with staff indicates that the level of support provided to services was generally good in this regard However, it was expressed that there was a need for the finance team to better understand the services in some cases, to shift the relationship from one of reviewer and challenger to business advisor. This could involve training and more direct involvement on the service planning side. The finance team consider that this will be enabled now that the service managers have adopted the finance culture and are able to directly process budget information, which has freed up the finance team to focus more on strategic finance support . • There was a consensus that there is a strong finance culture embedded within the services. Services have direct access to the finance system and are generally comfortable in using the system.	Amber
3.2 Executive and Member Engagement	• There is an appropriate level of senior management and Cabinet engagement in the financial management process. We confirmed this though review of minutes and papers submitted to members during the year. There is a consensus that Cabinet members are well briefed and provide strong challenge on financial matters . The relationship between the finance department and the Cabinet, including the Cabinet Finance lead, are considered to be strong. • In 2012/13 the Council has offered a series of briefings for Members on strategic finance as part of an on-going training programme to ensure that they are fully equipped to provide challenge. This included the creation of the Finance Advisory Group that is intended to provide an opportunity for back-benchers to engage with the financial planning process. • Overall, the level of engagement and challenge from members on financial issues is similar to what we see in many other Councils, in that it is good in parts, but often reliant on a limited number of individuals primarily within the Cabinet. In the context of the very significant financial challenges facing the sector, the Council should continue to develop the skills and experience of all members, particularly those who are not part of the Cabinet.	Amber

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3. Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
3.3 Overview for controls over key cost categories	• The understanding of unit costs by services is comparatively good and Council's finance team has worked with services on financial benchmarking to help them understand their costs. The finance department continue to challenge services to ensure that key service unit costs are identified for external benchmarking. The Council has used sources of national benchmarking information provided by the Audit Commission and by CIPFA. This has shown that areas such as Culture and Leisure, Libraries and Housing are more expensive per head than at other comparable Councils, and all three of these areas are being looked at as part of the change programme	Green
3.4 Budget reporting: revenue and capital	• A monitoring report is presented to Cabinet at least every two months with a year end summary in June/July. This includes information on financial performance of the Council for both revenue and capital, with commentary on an exception basis. The Cabinet minutes provide evidence of the scrutiny of members . • Monthly monitoring takes places at Corporate Board and within Directorates via the monthly budget management meetings with the finance team. Directors also discuss the monthly reports with their Cabinet leads as appropriate on a approximately monthly basis . • This arrangement has successfully supported the delivery of budget in 2011/12 and 2012/13 which indicates that the process has embedded and is effective.	Green

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3. Financial Governance

Understanding and engagement

Area of focus	Summary observations	Assessment
3.5 Adequacy of other Committee/ Cabinet Reporting	• Currently, the monitoring information reported to members is a traditional combination of narrative and tabular financial information. Financial performance reporting to Cabinet strikes a good balance of regularity, accessibility, transparency and supporting detail and compares favourably with many other Councils. In regard to the information provided to Members in the Cabinet budget monitoring report, the basic content makes use of both actual performance and forecast outturn against service budgets (capital and revenue). The report also tracks virements between budgets. • Increasing numbers of Councils have taken steps to present summary information using a dashboard of financial KPIs. This often forms part of a 'balanced scorecard' report which combines service performance measures, and other areas such as workforce to provide a holistic overview. The more detailed information is then often provided as an appendix to enable variances to be explored in more depth. The Council should consider the advantages of this approach in focusing member attention and promoting engagement, and also in highlighting the relationships between finance and operational issues. • The finance team has already developed innovative methods of communicating financial issues, for example in a recent presentation to the Finance Advisory Group. Wider public and member engagement might be aided by further consideration of the content and presentation of financial information and could benefit engagement with all Council members and the public.	Green

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4. Financial Control

Key characteristics of effective financial control

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

Budget setting and budget monitoring

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

Savings Plans

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

Financial Systems

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

Finance Department

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

Internal Control

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

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4. Financial Control

Internal arrangements

Area of focus	Summary observations	Assessment
4.1 Budget setting and monitoring - revenue and capital	• The Council has well established budget setting processes that encourage ownership from budget holders and finance briefings are provided to officers and Members. The Council has a good track record in managing budgets on a service by service basis which has continued in 2012/13. • A governance structure has been developed around the delivery of the change programmes, which are key to addressing the projected funding gaps set out in the MTFP . • There is a good level of challenge from Cabinet members on financial matters, as recorded in the meeting minutes. This demonstrates a good understanding the scale of the financial management challenge facing the Council. • The Council uses a conventional budgeting approach, which focuses on historic budget baselines with adjustments for inflation, growth and savings pressures. Up until 2013/14 the Council has been able to achieve savings by individual savings opportunities on a service basis. From 2014/15 the Council I is relying largely on savings to be made from its major transformational change programmes. • At Cabinet level, the Council does not monitor capital expenditure against planned annual spend, in favour of measuring cumulative expenditure on all current approved schemes and forecast total expenditure. This gives good perspective cost variance but not on timeliness of delivery. The timeliness of project delivery is managed by an Officer and Member Asset Management group which also looks at progress against annualised capital budgets. • The Council should consider whether the capital monitoring report to Cabinet should also include commentary (by exception) on project progress against agreed milestones.	Green

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4. Financial Control

Internal arrangements

Area of focus	Summary observations	Assessment
4.2 Performance against Savings Plans	• The Council develops its savings programme to deliver a year in advance. Therefore, the 2012/13 budget had the value of savings schemes removed from the outset, and therefore the successful delivery of the budget broadly equates to successful delivery of savings. The Council demonstrated delivery to budget across the services, effectively achieving £15 million of cost efficiency savings in time for setting the 2012/13 budget. • For 2013/14, a further £15 million was achieved in efficiency savings and from service changes during the prior year, in time for the confirmation of the budget in February 2013 • The development of savings plans and income contributions is monitored by the Directors Group using a milestones report, that shows how much of the projected funding requirement for the next year has been met by developed schemes. The Council is currently developing £1.5 million of schemes to add to £13.5 million already developed, for inclusion in the base budget for 2014/15	Green
4.3 Key Financial Accounting Systems	• The Council's Audit Committee is responsible for gaining assurance that controls over key financial systems are functioning, via monitoring progress on the Internal Audit plan and ensuring that the risk assurance framework is functioning correctly. The annual internal auditors report to the Committee indicates that the control framework is functioning well in general, and has highlighted a small number of areas where improvement is needed . • The Head of Internal Audit's opinion for 2012/13 was that the Council's overall internal control arrangements during 2012/13 are considered to be satisfactory, resulting in a 'Moderate' level of risk. Where significant issues had been found, an appropriate action plan was in place to address the issue. None of the issues raised indicates the existence of a material risk to the Council's financial resilience . • The Internal Audit report for the Payroll system recognised that further improvements had been made following the previous audit, the issue being the lack of an authorised signatory process which has now been addressed although the level of compliance still needs to be improved • The Council has had some issues with the delivery of capital schemes in past years, however recent review by internal audit indicate that these issues have now been resolved and the process is working well overall. • No significant financial systems issues have been reported in the Council's Annual Governance Statement.	Green

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4. Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
4.4 Finance Department Resourcing	• The Council's finance team structure has moved away from the conventional model over the last few years. All transactional finance processing is outsourced to Capita with a finance support team remaining at the Council. The Capita contract has been assessed in year and found to be effective. The finance support team are broadly split so that half are focused on 'business as usual' finance tasks and the other half are focused on strategic finance and specifically the change programmes. Heads of Finance are allocated to each service and also to the associated change programmes. • The finance team has reduced by a third as a result of past efficiency savings made in back office functions during 2011/12, although the more senior staff levels have been largely unaffected by this, so there has been little loss of skills. These changes have been judged to be successful and the Council has been involved in demonstrating to other Councils how this kind of structural change can work.. The Council leadership is very supportive of finance and recognises the importance of the function in achieving financial resilience in the future.	Green
4.5 Internal audit arrangements	• The Council has effective internal audit and counter fraud arrangements in place. This service is primarily delivered by a well established in-house team and the Head of Internal Audit Reports directly to the Chief Executive. • The Internal Audit Annual Report indicates that the service is compliant with the CIPFA Code of Practice and that the services performance KPIs were broadly met for 2012/13. • The audit plan is risk based, and therefore work is focused on areas where there are known issues, and this is reflected in the small number of reviews noted as 'of concern' and of 'significant' materiality and impact. • The Head of Internal Audit indicates that there is a culture of openness to improvement is embedded in the services. Officers are held accountable for any delays in implementing actions agreed in relation to internal audit reports and high priority recommendations are followed up after 6 months.	Green

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4. Financial Control

Internal and external assurances

Area of focus	Summary observations	Assessment
4.6 External audit arrangements	• The External Audit of the 2012/13 Accounts did not raise any significant matters in regard to financial control with only minor recommendations being made. The Accounts opinion is expected to be unqualified.	Green
4.7 Assurance framework/risk management	• The Council has an established risk assurance process and this is reviewed by the Audit Committee on an annual basis. Service directors prepare directorate risk registers which are compiled into a corporate register. The process includes the management of risk within major projects. The corporate risk register is administered by Internal Audit and is periodically reviewed by the Corporate Group and by Cabinet. • The Risk Assurance Process is now overseen by the Head of Internal Audit following a change in arrangements. The process had been found to have significant weaknesses in a recent internal audit review, which the Council has acknowledged. The process is currently being updated to ensure that it aligns effectively with the Councils service structure and is fully incorporated into the management reporting cycle. The Council should ensure that the revised risk management process is implemented on a timely basis.	Amber

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