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East Hertfordshire District Council

Review of the Council's arrangements for securing financial resilience

September 2011

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Section 1

Executive summary

1. Executive summary

2. Key Indicators

3. Strategic Financial Planning

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5. Financial Control

Introduction

Context

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

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

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

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

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

Our Approach

Value for Money Conclusion

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

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

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

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

- Key indicators of financial performance;
- 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. In overall terms the conclusion from this report is that the Council has adequate arrangements in place for achieving financial resilience.

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

Green

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

Amber

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



Red

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

Our findings are detailed between pages 6 and 41 of this report.



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

Overview of Arrangements

Area	Summary observations	Summary level risk assessment
Key Indicators of Performance	<ul style="list-style-type: none"> The Council has a good track record of financial management, achieving net underspends in each of the last three years. Benchmarked key indicators of performance indicate that the Council hold an average level of useable reserves compared to their nearest neighbours. The comparison also highlights a strong position in terms of working capital. However, it is clear that working capital will come under increasing pressure as a result of the CSR and will need to be carefully monitored. Sickness levels have been showing a reducing trend and current performance reflects well against both public sector and private sector averages. Absence management will be a particular challenge for all authorities going forward, given the context of significant pressures on staff to deliver 'more for less' The Council will need to carefully monitor these financial indicators to ensure that it remains financially resilient during the MTFP period. 	 Green
Strategic Financial Planning	<ul style="list-style-type: none"> The Council was able to undertake the most recent MTFP process with an effective lead in time and the process had a high level of stakeholder engagement. The Council has strengthened its financial planning process in light of the Government's deficit reduction programme. It is clear that the Council took account of its corporate priorities when setting what was a challenging budget. Key to the MTFS is also how the Council manage their capital going forward. It is intended that a significant proportion of the proposed programme will be funded from available capital receipts. This could prove challenging given the current economic outlook. In addition to this, there may be a requirement for the Council to undertake borrowing in the medium term. The Council must closely monitor the potential risks around the funding of the plan. The Council will need to continue to monitor the MTFP during its delivery, in particular in relation to the impact of price inflation in the medium term, and the outcome of the Government's funding settlement for the final two years of the plan. In addition, work is still required to ensure savings assumptions in the latter years of the plan are effectively developed and the savings realised. 	 Green

Key:
● High risk area
● Potential risks and/or weaknesses in this area
● No causes for concern

Overview of Arrangements

Area	Summary observations	Summary level risk assessment
Financial Governance	<ul style="list-style-type: none"> The Council has good Executive and member engagement in the financial management process. The Council has a well established approach and appropriate processes in place in relation to financial governance and has delivered good results in recent financial years. The finance reports provided for the Executive provide a detailed narrative regarding the performance of the Council. The reports include a detailed breakdown of variances to budget, including comments against each. The Council have recognised the importance of a clear understanding of financial information. Review of all reports presented to Committee identifies that financial implications must be considered in all cases. 	 Green
Financial Control	<ul style="list-style-type: none"> The Council has a robust approach to financial and performance management and associated financial controls. The Council has a good record in controlling spend and in achieving efficiencies and savings. All savings are required to show both their link to objectives and also their impact. A risk assessment of the ability to deliver the saving is also required. The Council should consider Red/Amber/Green (RAG) rating their savings proposals both in terms of deliverability and public acceptability. This would help provide a greater degree of clarity. 	
	<ul style="list-style-type: none"> Savings are monitored as part of the monthly healthcheck process. The budgets at the start of the year take on board the planned savings, and performance is then measured against the base budgets. Consideration should be given to monitoring the achievement of savings on a line by line basis. This separate monitoring process would help to scrutinise the delivery of savings and it is considered good practice to separately monitor budgets and savings. It is anticipated that the Shared Internal Audit Service (SIAS) will increase resilience and give a greater economy of scale to allow access to specialist audit skills. However, to all members of the shared service, it is vital that quality is high and that each member is provided with sufficient levels of IA work and assurance. The Council must ensure that suitable monitoring arrangements are put in place to maintain a high standard of internal audit support. 	 Green

Key: ● High risk area
● Potential risks and/or weaknesses in this area
● No causes for concern

Recommendations

Area of review	Recommendations	Responsibility	Timescale	Comment
Key Indicators of Performance	The Council should continue to maintain appropriate levels of reserves and monitor the Council's liquidity and other key financial ratios to ensure financial resilience is maintained.	Director of Internal Services	Ongoing - Quarterly	The Council's policy on reserves triggers a reporting requirement if reserves move outside floor / ceiling banding.
Strategic Financial Planning	The Council should continue to monitor the MTFP during it's delivery, in particular in relation to changes to key assumptions, such as the impact of price inflation in the medium term, and the outcome of the Government's funding settlement for the final two years of the plan. In addition, work must be performed to ensure savings assumptions in the latter years of the plan are effectively developed and the savings realised.	CMT	Each annual budget cycle	Future years savings proposals are reviewed at each budget cycle. Any which are determined to be not deliverable will be reconsidered.
	The Council should consider adopting Zero Based Budgeting to better understand Member's priorities and improve the financial planning and budget setting process. This should be in a controlled context linked to priorities and where the nature of services allows for effective implementation.	Director of Internal Services	Each annual budget cycle	The Council adopts a zero based budget approach when a service is subject to major change such as a shared service (Revs & Bens), contract renewal (refuse collection), physical relocation (Wallfields), major policy changes (housing services) or capital investment (Hertford Theatre). A comprehensive zero based budgeting approach is potentially beyond the resources the Council is able to apply as management capacity is being reduced. The BPI process under C3W has identified efficiency options for major services.
	The Council should consider whether more detailed scenario planning and sensitivity analysis around key variables such as the grant settlement, interest rates, inflation and pay awards might assist a wider understanding of the budget risks	Director of Internal Services	2012/13 budget round	In considering the risks around budgets when commenting on the robustness of estimates an indication of the impact of changed assumptions will be added.

Recommendations

Area of review	Recommendations	Responsibility	Timescale	Comment
Financial Control	The Council should consider Red/Amber/Green (RAG) rating their savings proposals both in terms of deliverability and public acceptability. This would help provide a greater level of clarity for members.	Director of Internal Services	Annual budget cycle	During the development of savings options a categorisation process is adopted and a RAG rating will clarify this approach.
	The Council should consider monitoring the achievement of savings on a line by line basis. This separate monitoring process would help scrutinise the delivery of savings and it is considered good practice to separately monitor budgets and savings.	CMT	With effect from 1 October 2011	This will provide a useful additional level of monitoring.
	The Council should ensure that suitable monitoring arrangements are put in place to maintain a high standard of Internal Audit support following the creation of the Shared Internal Audit Service (SIAS).	Director of Internal Services	In place	The monitoring process will operate at the level of: <ul style="list-style-type: none"> Individual audits - auditees and reporting Liaison meetings - Director of Internal Services and Lead Auditor SIAS Board - CFO's of partner authorities Audit Committee - reports from Head of SIAS
	The Council should ensure its financial system is upgraded in a timely fashion and service managers are engaged in that process to extend the range of users.	Director of Internal Services	In place	•A recommendation to upgrade the current system will be taken to members during 2011/12.

Section 2

Key Indicators

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

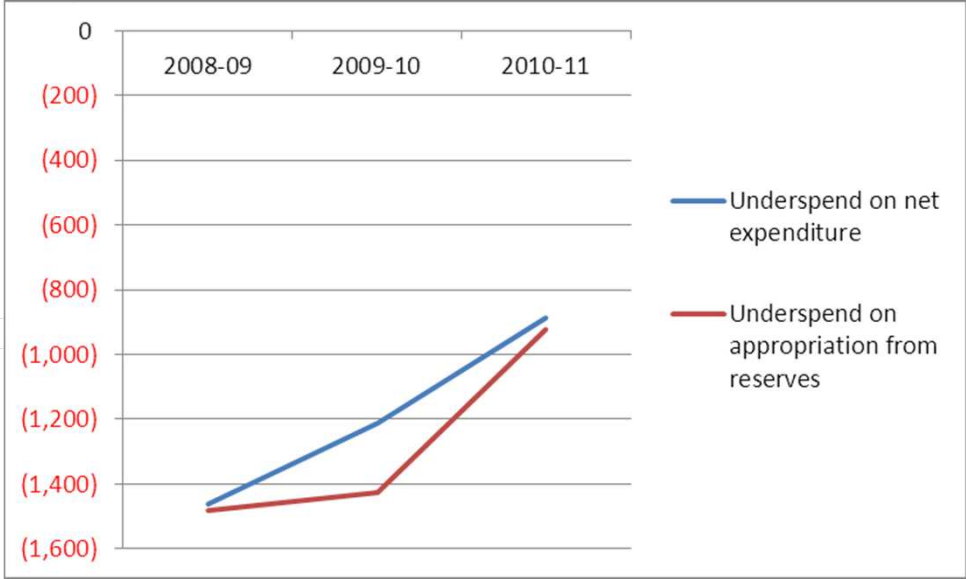
This section of the report includes analysis of key indicators of financial performance, benchmarked where this data is available. These indicators include:

- 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, which is the following authorities.

- Aylesbury Vale District Council
- East Hampshire District Council
- East Hertfordshire District Council
- Epping Forest District Council
- Horsham District Council
- Mid Sussex District Council
- Reigate & Banstead Borough Council
- Sevenoaks District Council
- South Oxfordshire District Council
- St Albans City District Council
- Surrey Heath Borough Council
- Test Valley Borough Council
- Three Rivers District Council
- Tonbridge & Mailing Borough Council
- Vale of White Horse District Council
- Waverley Borough Council

Overview of performance

Area of Focus	Summary observations	High level risk assessment												
Performance Against Budget	<ul style="list-style-type: none"> The Council has a good track record in managing expenditure against budget, achieving net underspends in each of the last three years. This is highlighted in the graph below:  <table border="1" data-bbox="528 555 1491 1136"> <caption>Estimated data from the underspend graph</caption> <thead> <tr> <th>Year</th> <th>Underspend on net expenditure</th> <th>Underspend on appropriation from reserves</th> </tr> </thead> <tbody> <tr> <td>2008-09</td> <td>(1,450)</td> <td>(1,500)</td> </tr> <tr> <td>2009-10</td> <td>(1,200)</td> <td>(1,450)</td> </tr> <tr> <td>2010-11</td> <td>(900)</td> <td>(1,100)</td> </tr> </tbody> </table> <ul style="list-style-type: none"> Per the draft statement of accounts, this is considered to reflect "the Council's commitment to sound financial management and its prudent approach to funding." A report taken to Audit Committee in November 2010 suggested that the underspends tended to be the result of over cautious estimates on income, budgets over which managers have limited control. 	Year	Underspend on net expenditure	Underspend on appropriation from reserves	2008-09	(1,450)	(1,500)	2009-10	(1,200)	(1,450)	2010-11	(900)	(1,100)	<p style="text-align: center;">● Green</p>
Year	Underspend on net expenditure	Underspend on appropriation from reserves												
2008-09	(1,450)	(1,500)												
2009-10	(1,200)	(1,450)												
2010-11	(900)	(1,100)												

Key: ● High risk area
 ● Potential risks and/or weaknesses in this area
 ● No causes for concern

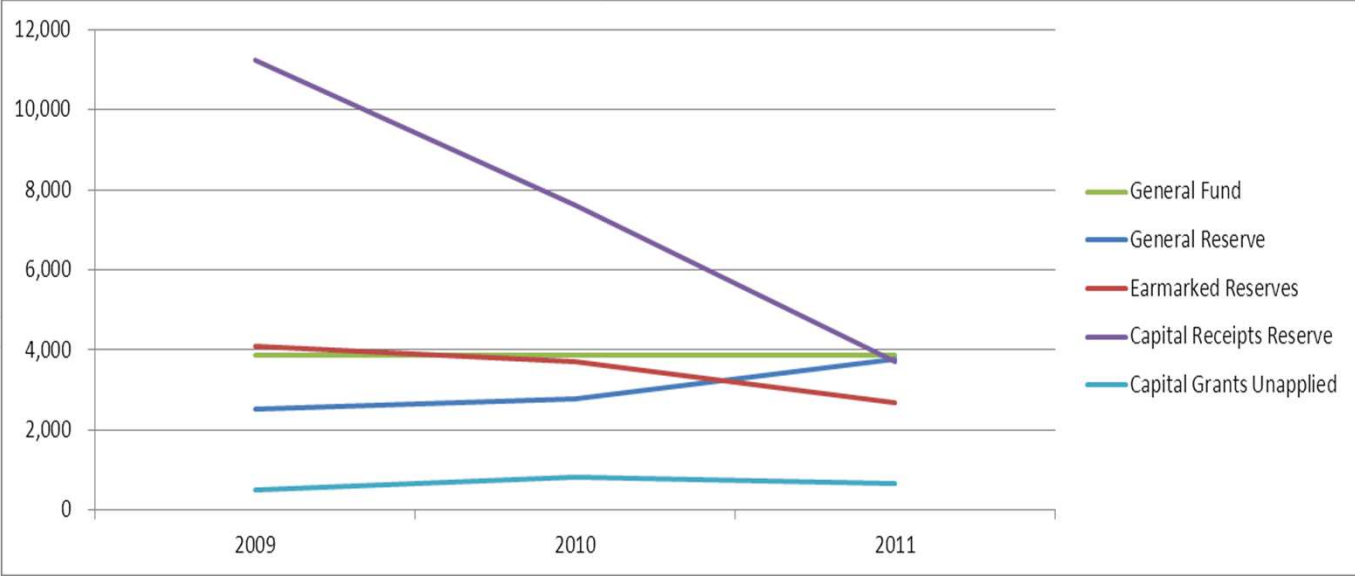
Overview of performance

Area of Focus	Summary observations	High level risk assessment																						
<p>Performance Against Budget (continued)</p>	<ul style="list-style-type: none"> The 2010/11 outturn is based on the amounts per the draft financial statements. A bridge graph highlighting the major differences is shown below: <table border="1"> <caption>Waterfall Chart Data (Values in £'000)</caption> <thead> <tr> <th>Category</th> <th>Value</th> </tr> </thead> <tbody> <tr> <td>Budgeted underspend</td> <td>0</td> </tr> <tr> <td>Recycling service</td> <td>-1060</td> </tr> <tr> <td>Benefits service</td> <td>-253</td> </tr> <tr> <td>Planning and Building control</td> <td>-270</td> </tr> <tr> <td>IT licences, members allowances, legal fees and audit fees</td> <td>-221</td> </tr> <tr> <td>Housing related services</td> <td>-121</td> </tr> <tr> <td>Investment income</td> <td>-779</td> </tr> <tr> <td>Car parking income</td> <td>-184</td> </tr> <tr> <td>Other</td> <td>-38</td> </tr> <tr> <td>Net underspend</td> <td>-924</td> </tr> </tbody> </table> <ul style="list-style-type: none"> The most significant variances were around the costs of the recycling service and investment income received. These areas have also seen significant variances in previous years. 	Category	Value	Budgeted underspend	0	Recycling service	-1060	Benefits service	-253	Planning and Building control	-270	IT licences, members allowances, legal fees and audit fees	-221	Housing related services	-121	Investment income	-779	Car parking income	-184	Other	-38	Net underspend	-924	
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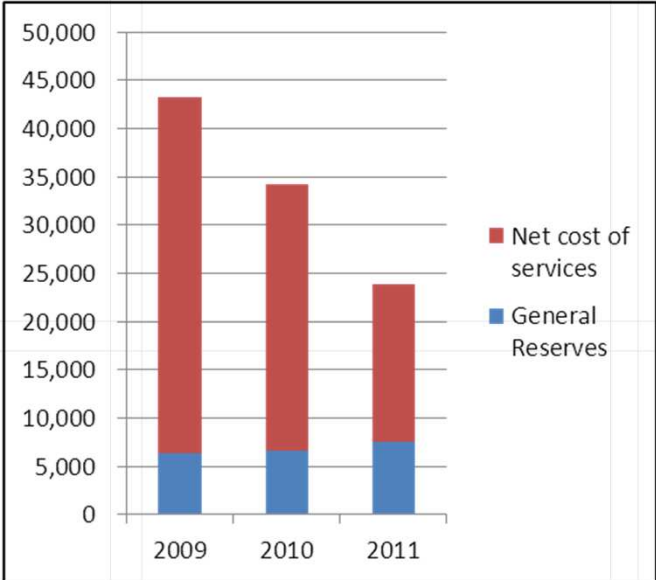
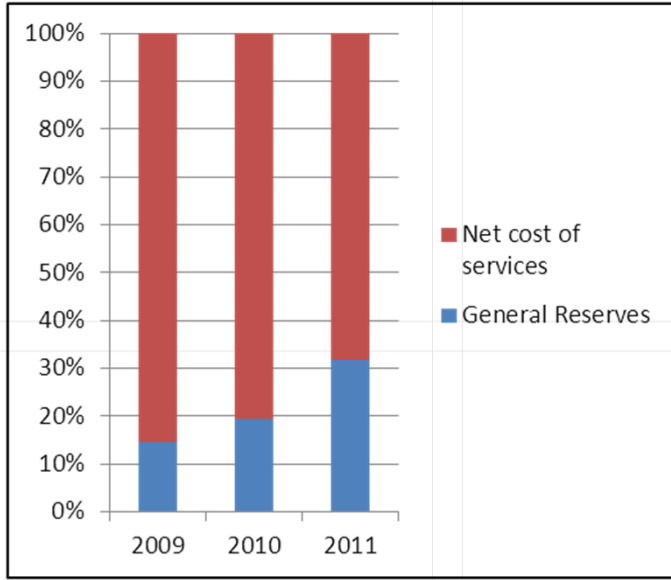
- High risk area
- Potential risks and/or weaknesses in this area
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Overview of performance

Area of Focus	Summary observations	High level risk assessment																								
Reserve Balances	<ul style="list-style-type: none"> The Council's usable reserves have reduced from £22,256k to £14,667k over the three most recent years. However, as the graph below shows, the key driver for this reduction is the planned use of the capital receipts reserve:  <table border="1" data-bbox="501 555 1852 1134"> <caption>Reserve Balances (Estimated values in £k)</caption> <thead> <tr> <th>Year</th> <th>General Fund</th> <th>General Reserve</th> <th>Earmarked Reserves</th> <th>Capital Receipts Reserve</th> <th>Capital Grants Unapplied</th> </tr> </thead> <tbody> <tr> <td>2009</td> <td>4,000</td> <td>2,500</td> <td>4,000</td> <td>11,251</td> <td>500</td> </tr> <tr> <td>2010</td> <td>4,000</td> <td>2,800</td> <td>3,800</td> <td>7,500</td> <td>800</td> </tr> <tr> <td>2011</td> <td>4,000</td> <td>3,500</td> <td>2,800</td> <td>3,721</td> <td>700</td> </tr> </tbody> </table> <ul style="list-style-type: none"> The balance of the capital receipts reserve has fallen from £11,251k in 09/10 to £3,721k in 10/11, a drop of 67%. In 10/11, for example, £5,182k was used to fund total capital expenditure of £5,909k and in the current economic climate it is difficult to sell assets to provide additional funding, hence the rapidly reducing level of the reserve. As an example of this, receipts of £1.86m are anticipated from asset sales in 11/12, raising the potential requirement of borrowing. 	Year	General Fund	General Reserve	Earmarked Reserves	Capital Receipts Reserve	Capital Grants Unapplied	2009	4,000	2,500	4,000	11,251	500	2010	4,000	2,800	3,800	7,500	800	2011	4,000	3,500	2,800	3,721	700	<p style="text-align: center;">●</p> <p style="text-align: center;">Amber</p>
Year	General Fund	General Reserve	Earmarked Reserves	Capital Receipts Reserve	Capital Grants Unapplied																					
2009	4,000	2,500	4,000	11,251	500																					
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Overview of performance

Area of Focus	Summary observations	High level risk assessment
Reserve Balances (continued)	<ul style="list-style-type: none"> The graphs below show the level of general reserves against the net cost of services balance. The first graph shows this in actual terms, the second in percentage terms: <div style="display: flex; justify-content: space-around;">   </div> <ul style="list-style-type: none"> This highlights that whilst the level of reserves has fallen over the previous three years, as a percentage of the net cost of services the level has actually risen. This evidences that the Council is maintaining reserves at a reasonable level. 	

Key: ● High risk area
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Overview of performance

Area of Focus	Summary observations	High level risk assessment																																		
Reserve Balances (continued)	<ul style="list-style-type: none"> The Audit Commission made comparative data available for 2009/10. This has been used to generate the graph below showing the ratio of usable reserves to gross revenue expenditure with a comparison against those authorities the Audit Commission considers to be 'nearest neighbours'. <div data-bbox="483 614 1879 1197"> <p>Useable reserves to gross revenue expenditure (2009/10)</p> <table border="1"> <caption>Data for Useable reserves to gross revenue expenditure (2009/10)</caption> <thead> <tr> <th>Authority</th> <th>Ratio (2009/10)</th> </tr> </thead> <tbody> <tr><td>South Oxfordshire DC</td><td>1.1</td></tr> <tr><td>Test Valley BC</td><td>0.6</td></tr> <tr><td>Reigate and Banstead BC</td><td>0.55</td></tr> <tr><td>Three Rivers DC</td><td>0.55</td></tr> <tr><td>Aylesbury Vale DC</td><td>0.4</td></tr> <tr><td>Epping Forest DC</td><td>0.38</td></tr> <tr><td>Sevenoaks DC</td><td>0.35</td></tr> <tr><td>East Hertfordshire DC</td><td>0.25</td></tr> <tr><td>Vale of White Horse DC</td><td>0.25</td></tr> <tr><td>East Hampshire DC</td><td>0.22</td></tr> <tr><td>Waverley BC</td><td>0.22</td></tr> <tr><td>Surrey Heath BC</td><td>0.22</td></tr> <tr><td>Horsham DC</td><td>0.18</td></tr> <tr><td>Tonbridge and Malling...</td><td>0.18</td></tr> <tr><td>St Albans City DC</td><td>0.12</td></tr> <tr><td>Mid Sussex DC</td><td>0.1</td></tr> </tbody> </table> </div> <ul style="list-style-type: none"> This shows the Council holds an average level of reserves compared to their 'nearest neighbours'. 	Authority	Ratio (2009/10)	South Oxfordshire DC	1.1	Test Valley BC	0.6	Reigate and Banstead BC	0.55	Three Rivers DC	0.55	Aylesbury Vale DC	0.4	Epping Forest DC	0.38	Sevenoaks DC	0.35	East Hertfordshire DC	0.25	Vale of White Horse DC	0.25	East Hampshire DC	0.22	Waverley BC	0.22	Surrey Heath BC	0.22	Horsham DC	0.18	Tonbridge and Malling...	0.18	St Albans City DC	0.12	Mid Sussex DC	0.1	
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Overview of performance

Area of Focus	Summary observations	High level risk assessment
Reserve Balances (continued)	<ul style="list-style-type: none"> It remains important, and is perhaps even more critical, to maintain appropriate levels of General Fund reserves during this period of fiscal constraint. Failure to do so will create cash flow pressures and may cause adverse publicity for the Council. This fact was recognised within the 'General Fund Revenue and Capital Out-turn 2010/11' report presented to the Executive in July 2011. In addition to stressing the budgetary pressures being faced, this highlighted that <i>"future Government decisions regarding top slicing the revenue support grant to fund the new homes bonus from 2013 and the potential financial impact of changes in funding arrangements for Council Tax benefits from 2013 may result in the need to call upon the General Reserve to support budgets in the medium term."</i> The MTFP recognises the importance of maintaining sufficient balances to deal with unforeseen events and to cover the potential risk of not achieving required savings levels. 	

Key:

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

Overview of performance

Area of Focus	Summary observations	High level risk assessment								
Liquidity	<ul style="list-style-type: none"> The working capital ratio indicates if an authority has enough current assets, or resources, to cover its immediate liabilities - i.e. those over the next twelve month period. As the graph below shows, the Council's working capital ratio has fallen over the three years 08/09 to 10/11. <div data-bbox="504 568 1803 1102" data-label="Figure"> <p>The graph shows the Working capital ratio over three years. The y-axis ranges from 0.00 to 14.00 in increments of 2.00. The x-axis shows the years 2009, 2010, and 2011. A blue line starts at approximately 13.0 in 2009, drops to about 10.0 in 2010, and further to about 7.0 in 2011.</p> <table border="1"> <caption>Working capital ratio data</caption> <thead> <tr> <th>Year</th> <th>Working capital ratio</th> </tr> </thead> <tbody> <tr> <td>2009</td> <td>13.00</td> </tr> <tr> <td>2010</td> <td>10.00</td> </tr> <tr> <td>2011</td> <td>7.00</td> </tr> </tbody> </table> </div> <ul style="list-style-type: none"> This indicates that the Council's liquidity is decreasing, although it should be noted that it remains at a very high level. A ratio of assets to liabilities of 2:1 is usually considered to be acceptable, whilst the Council currently have a ratio of just under 7:1. In general, a very high working capital ratio is not considered to be a good thing, as it tends to indicate that an authority is not investing its excess cash effectively. However, East Herts have invested the cash but, due to the nature of the investments, this remains reported as a current asset. Were these investments to be excluded from the calculation, the current working capital ratio would be 1.28:1 which would not be considered unreasonable. 	Year	Working capital ratio	2009	13.00	2010	10.00	2011	7.00	<p style="text-align: center;">● Green</p>
Year	Working capital ratio									
2009	13.00									
2010	10.00									
2011	7.00									

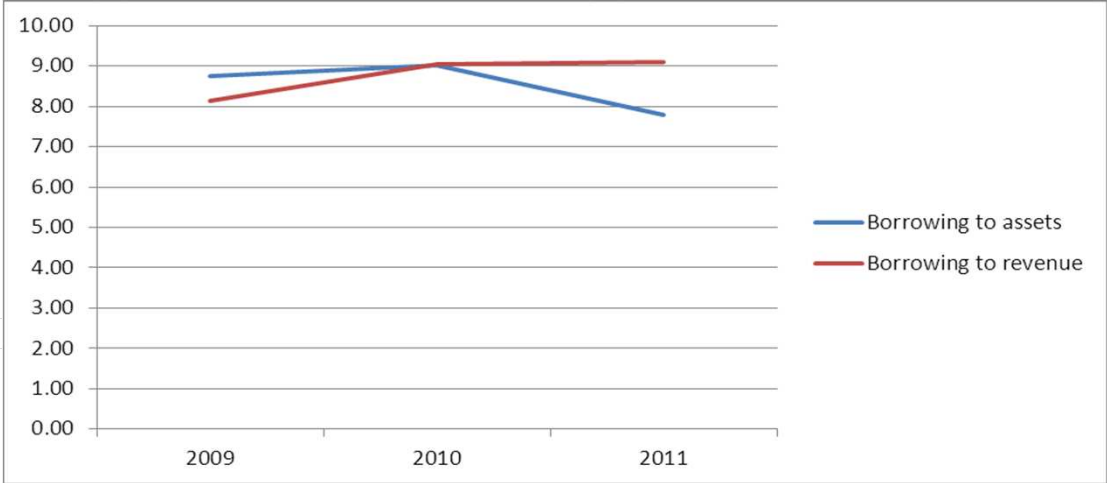

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Overview of performance

Area of Focus	Summary observations	High level risk assessment																																		
Liquidity (continued)	<ul style="list-style-type: none"> As with usable reserves, the Audit Commission made comparative data available for 2009/10. This has been used to generate the graph below showing the working capital ratio with a comparison against those authorities the Audit Commission considers to be 'nearest neighbours'. <div data-bbox="497 564 1738 1225" data-label="Figure"> <p>Working capital ratio (2009/10)</p> <table border="1"> <thead> <tr> <th>Authority</th> <th>Working capital ratio (2009/10)</th> </tr> </thead> <tbody> <tr><td>East Hertfordshire DC</td><td>10.2</td></tr> <tr><td>Tonbridge and Malling BC</td><td>8.5</td></tr> <tr><td>Epping Forest DC</td><td>7.2</td></tr> <tr><td>South Oxfordshire DC</td><td>7.0</td></tr> <tr><td>Surrey Heath BC</td><td>6.8</td></tr> <tr><td>Three Rivers DC</td><td>6.6</td></tr> <tr><td>Aylesbury Vale DC</td><td>6.5</td></tr> <tr><td>East Hampshire DC</td><td>6.2</td></tr> <tr><td>Test Valley BC</td><td>5.8</td></tr> <tr><td>Sevenoaks DC</td><td>4.8</td></tr> <tr><td>Mid Sussex District Council</td><td>4.0</td></tr> <tr><td>Waverley BC</td><td>3.5</td></tr> <tr><td>Horsham DC</td><td>3.0</td></tr> <tr><td>Reigate and Banstead BC</td><td>2.8</td></tr> <tr><td>Vale of White Horse DC</td><td>2.5</td></tr> <tr><td>St Albans City DC</td><td>1.8</td></tr> </tbody> </table> </div> <ul style="list-style-type: none"> The Council is maintaining a positive working capital ratio and looks to be in a strong position, as evidenced by the comparison above. However, it is clear that working capital will come under increasing pressure as a result of the Spending Review and will need to be carefully monitored. 	Authority	Working capital ratio (2009/10)	East Hertfordshire DC	10.2	Tonbridge and Malling BC	8.5	Epping Forest DC	7.2	South Oxfordshire DC	7.0	Surrey Heath BC	6.8	Three Rivers DC	6.6	Aylesbury Vale DC	6.5	East Hampshire DC	6.2	Test Valley BC	5.8	Sevenoaks DC	4.8	Mid Sussex District Council	4.0	Waverley BC	3.5	Horsham DC	3.0	Reigate and Banstead BC	2.8	Vale of White Horse DC	2.5	St Albans City DC	1.8	
Authority	Working capital ratio (2009/10)																																			
East Hertfordshire DC	10.2																																			
Tonbridge and Malling BC	8.5																																			
Epping Forest DC	7.2																																			
South Oxfordshire DC	7.0																																			
Surrey Heath BC	6.8																																			
Three Rivers DC	6.6																																			
Aylesbury Vale DC	6.5																																			
East Hampshire DC	6.2																																			
Test Valley BC	5.8																																			
Sevenoaks DC	4.8																																			
Mid Sussex District Council	4.0																																			
Waverley BC	3.5																																			
Horsham DC	3.0																																			
Reigate and Banstead BC	2.8																																			
Vale of White Horse DC	2.5																																			
St Albans City DC	1.8																																			

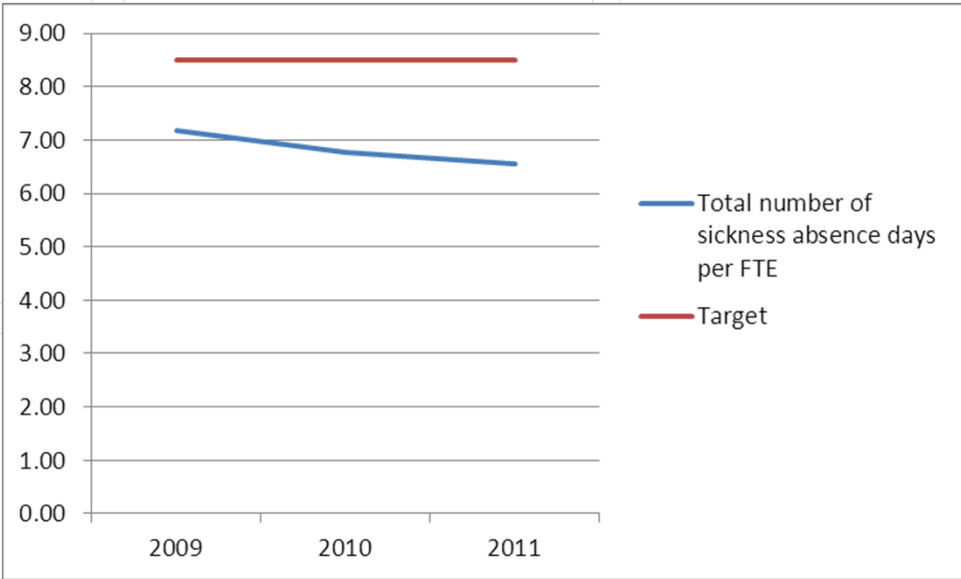
Key: ● High risk area
 ● Potential risks and/or weaknesses in this area
 ● No causes for concern

Overview of performance

Area of Focus	Summary observations	High level risk assessment												
<p>Borrowing</p>	<ul style="list-style-type: none"> Current borrowing at the Council stands at just under £8m. This represents just under 8% of long term assets and just over 9% of revenue, as shown in the graph below:  <table border="1" data-bbox="512 555 1615 1040"> <caption>Borrowing to assets and revenue (2009-2011)</caption> <thead> <tr> <th>Year</th> <th>Borrowing to assets</th> <th>Borrowing to revenue</th> </tr> </thead> <tbody> <tr> <td>2009</td> <td>8.8</td> <td>8.2</td> </tr> <tr> <td>2010</td> <td>9.0</td> <td>9.0</td> </tr> <tr> <td>2011</td> <td>7.8</td> <td>9.1</td> </tr> </tbody> </table> <ul style="list-style-type: none"> The current levels of borrowing indicate a reasonably resilient position for the Council , with the trends not highlighting any major risk factors. It is acknowledged that the Council has given consideration to repayment of this borrowing, but this is not possible due to both the size of the applicable penalty payments and also the need to reach agreement with other Councils. Borrowing is an area that the Council will need to monitor going forward, particularly to fund the on-going capital programme. The level of the capital receipts reserve is reducing and with the difficulty of obtaining significant capital receipts, there may need to be additional borrowing going forward. 	Year	Borrowing to assets	Borrowing to revenue	2009	8.8	8.2	2010	9.0	9.0	2011	7.8	9.1	<p style="text-align: center;">  Green </p>
Year	Borrowing to assets	Borrowing to revenue												
2009	8.8	8.2												
2010	9.0	9.0												
2011	7.8	9.1												

Key: ● High risk area
 ● Potential risks and/or weaknesses in this area
 ● No causes for concern

Overview of performance

Area of Focus	Summary observations	High level risk assessment												
<p>Workforce</p>	<ul style="list-style-type: none"> The Council's sickness absence levels have been showing a reducing trend over the past three years, with the estimated figure for 2010/11 down to just over 6.5 days. As the graph below shows, the Council are also consistently performing ahead of target.  <table border="1"> <caption>Sickness Absence Data (Estimated from Graph)</caption> <thead> <tr> <th>Year</th> <th>Total number of sickness absence days per FTE</th> <th>Target</th> </tr> </thead> <tbody> <tr> <td>2009</td> <td>~7.2</td> <td>~8.5</td> </tr> <tr> <td>2010</td> <td>~6.8</td> <td>~8.5</td> </tr> <tr> <td>2011</td> <td>~6.5</td> <td>~8.5</td> </tr> </tbody> </table> <ul style="list-style-type: none"> The Council reviews absence levels as part of its regular performance monitoring activity, and it will be important that they continue to carefully manage workforce issues when they arise and maintain a robust approach to sickness absence monitoring to maintain the improving trend. 	Year	Total number of sickness absence days per FTE	Target	2009	~7.2	~8.5	2010	~6.8	~8.5	2011	~6.5	~8.5	<p style="text-align: center;">● Green</p>
Year	Total number of sickness absence days per FTE	Target												
2009	~7.2	~8.5												
2010	~6.8	~8.5												
2011	~6.5	~8.5												

Key: ● High risk area
 ● Potential risks and/or weaknesses in this area
 ● No causes for concern

Overview of performance

Area of Focus	Summary observations	High level risk assessment								
<p>Workforce (continued)</p>	<ul style="list-style-type: none"> The graph below shows that performance at the Council reflects well against both public sector and private sector averages: <div data-bbox="512 550 1473 1134" data-label="Figure"> <table border="1"> <caption>Average number of sickness absence days</caption> <thead> <tr> <th>Category</th> <th>Average number of sickness absence days</th> </tr> </thead> <tbody> <tr> <td>East Herts</td> <td>6.5</td> </tr> <tr> <td>Public Sector</td> <td>9.5</td> </tr> <tr> <td>Private Sector</td> <td>6.5</td> </tr> </tbody> </table> </div> <ul style="list-style-type: none"> Costs that accrue from sickness absence relate to the hiring of agency staff to cover staff gaps, or from holding a larger workforce complement than is desirable. Absence also damages service levels either through staff shortage or lack of continuity. Reducing absenteeism saves money, improves productivity and can have a positive customer benefit. Absence management will be a particular challenge for all authorities going forward, given the context of significant pressures on staff to deliver 'more for less'. 	Category	Average number of sickness absence days	East Herts	6.5	Public Sector	9.5	Private Sector	6.5	
Category	Average number of sickness absence days									
East Herts	6.5									
Public Sector	9.5									
Private Sector	6.5									

Key: ● High risk area
 ● Potential risks and/or weaknesses in this area
 ● No causes for concern

Section 3

Strategic Financial Planning

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

Key indicators of good Strategic Financial Planning

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

Medium Term Financial Strategy

Area of Focus	Summary observations	High level risk assessment
<p>Focus of the MTFP</p>	<ul style="list-style-type: none"> • The Council have recognised that all policy objectives are subordinate to ensuring the sustainability of public finances. An updated Medium Term Financial Strategy (MTFS) has been prepared that runs to 2014/15. The strategy emphasises the need to address uncertainty in the planning process. As a response to this, savings options were developed ahead of the sums needed to balance the MTFP based on central planning assumptions. • The MTFS is set up so to establish the Council's strategy for the next four years and to set out the financial challenges that the Council will face over this medium term. It is clearly recognised this continues to be a period of uncertainty across local government as the Government consider and review resource needs and demands within the framework of the Comprehensive Spending Review and in light of the economic climate and the state of public finances. • Prior to the announcement of the 2011/12 settlement by CLG, the Council developed plans based on expected reductions in the formula grant and a freeze on Council Tax. By anticipating the potential reductions at an early stage the Council was able to prepare proposals for significant cost reductions. • Review of the MTFP makes it clear that the plan is applying resources so as to achieve the Council's priorities. • There are also a clear set of objectives in place to support both the MTFS and the MTFP. Review of the list of objectives confirms that they are in line with expectations. Examples include: <ul style="list-style-type: none"> ➢ Ensuring the Council is well placed to meet uncertainty about the level of funding ➢ Annual review of the Council's resources to enable redirection of funding to higher priority areas ➢ Ensure funding is available for priority service improvements ➢ To manage risks including keeping adequate reserves ➢ To achieve value for money from all spending • Key to the MTFS is also how the Council manage their capital going forward. As with the MTFS, the capital programme is focussed on the achievement of the Council's priorities. All proposed schemes are scrutinised in detail by the Corporate Management Team to ensure that projects are in line with these priorities and that all projects are phased appropriately and in line with available resources. • It is intended that a significant proportion of the proposed programme will be funded from available capital receipts. This could prove challenging given the current economic outlook. In addition to this, there may be the requirement for the Council to undertake borrowing in the medium term. The report on the capital programme taken to the Executive acknowledges the potential risks around the funding of the plan and highlights the need for both prudence and on-going monitoring. 	<p style="text-align: center;">●</p> <p style="text-align: center;">Green</p>


Medium Term Financial Strategy

Area of Focus	Summary observations	High level risk assessment																																													
<p>Adequacy of planning assumptions</p>	<ul style="list-style-type: none"> The MTFP is monitored on an on-going basis by senior officers and updates are required to be taken to the Executive for any material changes. In particular, this should ensure that responses to the outcome of the next finance settlement and any emerging proposals from the Local Government Resource Review are highlighted. The main assumptions around income are shown in the graph below: <div data-bbox="512 552 1391 844" data-label="Figure"> <table border="1"> <caption>Income Assumptions (%)</caption> <thead> <tr> <th>Year</th> <th>Revenue Support Grant</th> <th>Investment interest</th> <th>Council tax</th> </tr> </thead> <tbody> <tr> <td>2011/12</td> <td>-20.00</td> <td>-30.00</td> <td>0.00</td> </tr> <tr> <td>2012/13</td> <td>-10.00</td> <td>20.00</td> <td>2.00</td> </tr> <tr> <td>2013/14</td> <td>-5.00</td> <td>15.00</td> <td>3.00</td> </tr> <tr> <td>2014/15</td> <td>-2.00</td> <td>20.00</td> <td>3.00</td> </tr> </tbody> </table> </div> This highlights the large anticipated drops in the Revenue Support Grant, a stable Council Tax increase met by the government grant and a fluctuating expectation for investment income based on expected interest rate movements. The main assumptions around expenditure are shown in the graph below: <div data-bbox="512 962 1391 1331" data-label="Figure"> <table border="1"> <caption>Expenditure Assumptions (%)</caption> <thead> <tr> <th>Year</th> <th>Pay settlement</th> <th>Pay allowance</th> <th>Price inflation</th> <th>Pension contributions</th> </tr> </thead> <tbody> <tr> <td>2011/12</td> <td>0.00</td> <td>1.50</td> <td>2.00</td> <td>2.00</td> </tr> <tr> <td>2012/13</td> <td>0.00</td> <td>1.20</td> <td>2.30</td> <td>1.00</td> </tr> <tr> <td>2013/14</td> <td>1.80</td> <td>1.00</td> <td>2.60</td> <td>1.00</td> </tr> <tr> <td>2014/15</td> <td>2.40</td> <td>0.80</td> <td>2.70</td> <td>1.00</td> </tr> </tbody> </table> </div> This shows that expenditure increases are expected and highlights the challenge faced by the Council when considering the income expectations shown on the previous page. 	Year	Revenue Support Grant	Investment interest	Council tax	2011/12	-20.00	-30.00	0.00	2012/13	-10.00	20.00	2.00	2013/14	-5.00	15.00	3.00	2014/15	-2.00	20.00	3.00	Year	Pay settlement	Pay allowance	Price inflation	Pension contributions	2011/12	0.00	1.50	2.00	2.00	2012/13	0.00	1.20	2.30	1.00	2013/14	1.80	1.00	2.60	1.00	2014/15	2.40	0.80	2.70	1.00	<p style="text-align: center;">● Amber</p>
Year	Revenue Support Grant	Investment interest	Council tax																																												
2011/12	-20.00	-30.00	0.00																																												
2012/13	-10.00	20.00	2.00																																												
2013/14	-5.00	15.00	3.00																																												
2014/15	-2.00	20.00	3.00																																												
Year	Pay settlement	Pay allowance	Price inflation	Pension contributions																																											
2011/12	0.00	1.50	2.00	2.00																																											
2012/13	0.00	1.20	2.30	1.00																																											
2013/14	1.80	1.00	2.60	1.00																																											
2014/15	2.40	0.80	2.70	1.00																																											

Medium Term Financial Strategy


Area of Focus	Summary observations	High level risk assessment										
<p>Adequacy of planning assumptions (continued)</p>	<ul style="list-style-type: none"> Part of dealing with the cost pressures faced by the Council is the achievement of savings targets. These savings are seen as being of vital importance as the Council wants to maintain a strong level of general balances. In terms of the savings required, the Council is felt to be in a strong position given the significant progress made with the 11/12 savings package. The proposed savings targets are shown below: <div data-bbox="510 564 1375 995" style="border: 1px solid black; padding: 10px; margin: 10px 0;"> <p style="text-align: center;">Proposed efficiency savings (£m)</p> <table border="1" style="margin: 0 auto;"> <caption>Proposed efficiency savings (£m)</caption> <thead> <tr> <th>Year</th> <th>Proposed savings target (£m)</th> </tr> </thead> <tbody> <tr> <td>2011/12</td> <td>1.2</td> </tr> <tr> <td>2012/13</td> <td>2.2</td> </tr> <tr> <td>2013/14</td> <td>2.7</td> </tr> <tr> <td>2014/15</td> <td>3.0</td> </tr> </tbody> </table> </div> <ul style="list-style-type: none"> As this shows, the greater the level of recurring savings that can be found, the less the impact on subsequent years. Clearly, all of these assumptions feed into the General Fund position. When setting these estimates, the Section 151 Officer is required to report on the adequacy of reserves and the robustness of estimates. A detailed risk assessment was prepared which concluded that the estimates were sufficiently robust. It has been identified that no specific scenario planning took place. Essentially, senior officers took a view on expected grant levels, leading to a number of assumptions that were subjected to a risk assessment. Going forward, the Council could consider undertaking detailed scenario planning and sensitivity analysis to help support their planning. For example, there remains significant uncertainty in the economy over inflation. The Council should therefore ensure that their forecasts are carefully monitored and sensitivity analysis undertaken to ensure the on-going accuracy of assumptions. Benchmarking was completed to some extent through a reserves benchmarking exercise. The Council could consider expanding this to incorporate other areas where they feel that similarities with other Councils exist. 	Year	Proposed savings target (£m)	2011/12	1.2	2012/13	2.2	2013/14	2.7	2014/15	3.0	
Year	Proposed savings target (£m)											
2011/12	1.2											
2012/13	2.2											
2013/14	2.7											
2014/15	3.0											

Medium Term Financial Strategy

Area of Focus	Summary observations	High level risk assessment
<p>Scope of the MTFP and links to annual planning</p>	<ul style="list-style-type: none"> The Council's current MTFP covers the period up to 2014/15. and recognises that public services are being faced with meeting unprecedented challenges in how Councils are run and the services that they are able to deliver. The Comprehensive Spending Review was published in October 2010. This included spending cuts for the Department for Communities and Local Government, with reductions of 27% being front loaded to 2011/12 and 2012/13. The Local Government Finance Settlement was announced in December 2010 covering a two year period. As a result of this, East Herts saw a reduction in their formula grant for 11/12 of £1,207k (16.6%) and a further reduction of £731k (12.1%). Future years will need to be reviewed as there is increased clarity over central government funding. The Annual Budget and MTFP presented to the Executive in February 2011 covers savings and growth targets for the 11/12 budget process. As the plan notes, the Council made significant progress against saving requirements by developing a strong savings package for 11/12. This process was part of the MTFS presented to the Executive in September 2010 and essentially attempted to anticipate the results of the CSR. The Council always aims to set a balanced budget. Based on the changes to the settlement position, the savings proposals were revisited and additional savings used to bridge the gap. This meant that there were reductions in certain areas of spend, including some priorities, but ultimately that no priorities were changed. Savings proposals are identified by officers and are then taken to Scrutiny, a meeting that all members are able to attend. The Council provide their members with a long list of potential savings and set out the required savings target. The members are then responsible for selecting those savings that they feel are the most appropriate. Clearly, this means that things can be saved, but at the expense of others. The Council should consider adopting a strategic Zero Based Budgeting (ZBB) approach to financial planning. ZBB is an approach to budgeting that starts from the premise that no costs or activities should be factored into the plans for the coming budget period, just because they figured in the costs or activities for the current or previous periods. Rather, everything that is to be included in the budget must be considered and justified. By adopting this approach the Council will be able to prioritise and rank services, so that all financial planning decisions can be made in a fully informed and transparent way. The budget for 2011/12 was approved by the Executive in February 2011. The report supporting this clearly links back to the MTFS set in September 2010 and the savings proposals agreed at the November 2010 Executive. There is evidence that both senior officers and members debated and challenged budgets and savings across all services. . 	<p style="text-align: center;">  Green </p>

Key:
● High risk area
● Potential risks and/or weaknesses in this area
● No causes for concern


Medium Term Financial Strategy

Area	Summary observations	High level risk assessment
<p>Review processes</p>	<ul style="list-style-type: none"> • The Council have a clear process in place for the preparation of the MTFS through to the final budget. • In September 2010 the detailed MTFS was taken to the Executive. This followed detailed review of both the strategy and the savings proposals by the Scrutiny committees. The MTFS supports the planning process and helps to identify the resource issues and principles that will shape annual budget development. • The review process highlighted the Council's response to the economic downturn. They recognised potential impacts on the MTFP and senior officers then identified and took potential savings to Scrutiny meetings to enable Members to have a clearer understanding of potential options. • In preparing the MTFS, senior officers take account of all available information sources to produce a financial forecast for the medium term. As part of this process, the level of savings required is identified. A timetable is then put in place for identifying these savings. This process involves Members, key finance staff, Portfolio Holders, Heads of Service and senior management. In addition to this, the Council have an established number of key stakeholders with whom consultation takes place. • Following the MTFS in September 2010, the strategy was re-considered and updated where necessary as part of the 11/12 budget setting report that went to Scrutiny and Executive in January and December respectively. • 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 monthly corporate healthcheck reports going to both Scrutiny and the Executive. 	<p style="text-align: center;">  Green </p>

Key:

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

Medium Term Financial Strategy

Area	Summary observations	High level risk assessment
<p>Responsiveness of the Plan</p>	<ul style="list-style-type: none"> • It is clear from review of minutes and reports around the finances of the Council that the MTFP is being monitored closely and any changes being taken into account. If there are any material changes required, for example emerging proposals or government announcements around the next finance settlement, then the plan would be revised and presented to the Members. • The MTFP is updated each year as part of the annual planning cycle. All changes are monitored on an on-going basis. The MTFP presented to the Executive in September 2010 was updated to reflect all government announcements on public finances, as well as trying to anticipate potential announcements that may be still to come. • As part of the MTFP process, the Council identify a number of potential risks, considering the mitigation put in place as well as the likelihood and potential impact. It is clear from the report that there is the ability to update the MTFP if and when any risks materialise. • It is clear that budgetary pressures could arise due to a number of risk based factors and that a relatively small change to interest rates, inflation levels, pay awards, government funding or demand could result in significant impacts on Council Tax levels and/or the need to identify further savings. • The Council continues to monitor the MTFP during its delivery and the outcome of the Government's funding settlement for the final two years of the plan. • Ultimately, it is felt that all savings included within the plan should be achievable. However, the achievement of savings is considered as part of the risk assessment of reserve balances. • The achievement of savings are not monitored on a line by line basis. Ultimately, departments have set budgets that they need to achieve, included in which are savings. Performance is monitored against the overall budget rather than looking at the specific saving that had been identified. There is the opportunity here for the Council to consider how savings are monitored. More detailed monitoring would better help to identify performance and potentially identify savings being made in different areas to those anticipated. 	<p style="text-align: center;">  Amber </p>

Key:

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

Section 4

Financial Governance

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

Key indicators of effective Financial Governance

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

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

There is engagement with stakeholders including budget consultations


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

Number of internal and external recommendations overdue for implementation

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


There are effective recovery plans in place (if required)

Understanding and engagement

Area of focus	Summary observations	High level risk assessment
<p>Understanding the Financial Environment</p> <p>The controls assurance performance monitoring focuses on financial management, governance and risk management</p>	<ul style="list-style-type: none"> Once a budget is in place, it is the responsibility of the Executive to implement it. As part of this process, the Executive receive monthly corporate healthcheck monitoring reports to highlight performance. It is clear that the Council believe that financial skills should form part of general management skills across services. The Corporate Healthcheck process has put disciplines in place to ensure that a clear priority is in place for finance. Finance has seen its profile raised significantly and members of the finance team now get much closer to Heads of Service than had previously been the case. Key Performance Indicators are also communicated every month as part of the corporate healthcheck. Each month, as part of the healthcheck process, reports are sent out to budget holders. There are then a series of meetings between budget holders and accounts officers to identify and discuss issues. These meeting ensure that there is an early opportunity to highlight any possible pressures and also potential solutions. There are also monthly healthcheck meetings attended by a combination of accountancy officers, directors, heads of service and budget managers. There is a clear process for discussing issues and spending officers are increasingly good at liaising with their relevant accountancy contact. Budget holders also recognise that re-investment is driven by the Council's priorities and the clear focus of the Council. Budget managers are provided with training to ensure that there is a clear understanding of responsibilities and the management development programme is in place to try and identify any potential training needs. In addition to this, the accountancy team are able to provide training where required. Emphasis is given to the fact that all monitoring needs to be both timely and accurate. The senior management team are involved in the monthly healthcheck meetings so have close involvement with finance. Further to this, they have editorial rights over all reports going to members. All reports are required to assess any financial implications and this needs to be given a finance sign off before it can go to Committee. The finance reports produced for the Executive provide a detailed narrative regarding the performance of the Council. The reports include a detailed breakdown of variances to budget including comments against each. 	<p style="text-align: center;">  Green </p>


Key:
● High risk area
● Potential risks and/or weaknesses in this area
● No causes for concern

Understanding and engagement

Area of focus	Summary observations	High level risk assessment
<p>Executive and Member Engagement</p>	<ul style="list-style-type: none"> • Review of the budget setting process indicates that there is considerable engagement in the process both from senior officers and from members. • As noted previously, there was a great deal of consultation around the proposed savings plans. This involved both Scrutiny and the Executive, enabling all Members to comment on the plans and process. • A detailed budget consultation document was prepared highlighting consultation that had been performed. This included: <ul style="list-style-type: none"> ➢ Online budget simulator on the Council website available to all members of the public ➢ Online budget simulator sent out to business contacts ➢ Focus groups ➢ Online consultation for all Councillors • This consultation covered the following specific areas: <ul style="list-style-type: none"> ➢ Police Community Support Officers ➢ Community Grants and Funding ➢ Public Consultation / Public Meetings and Council Meetings ➢ Public Toilets ➢ Homelessness Help ➢ Support for museums, the arts and other cultural activities • All departments receive monthly budget monitoring reports. These are reviewed by the budget holders and regular meetings are held with the Finance Team to discuss any issues. • Training is being focussed on new members to ensure that they are up to spend with financial areas such as the healthcheck process and also the budget setting cycle. In addition to this, members of the Scrutiny Committee have received specific financial training and members of the Audit Committee receive training on different areas as part of the agenda at each and every meeting. 	<div style="text-align: center;">  <p>Green</p> </div>


Key: ● High risk area
● Potential risks and/or weaknesses in this area
● No causes for concern

Monitoring and review

Area	Summary observations	High level risk assessment
<p>Review of accuracy of Committee reporting</p>	<ul style="list-style-type: none"> The Executive receive monthly finance (corporate healthcheck) monitoring reports. Review of example reports have found them to include detailed financial information alongside explanations for variances. Each report is split into the following sections: <ul style="list-style-type: none"> Revenue financial summary Financial analysis and performance analysis (broken down along the lines of Council priorities) Capital financial summary Appendix - full set of performance indicators Appendix - detailed information on salaries Appendix - detailed information on capital Appendix - explanations on variances reported in previous months Appendix - summary of Executive actions in the year The Council have recognised the importance of a clear understanding of financial information. Review of all reports presented to Committee identifies that financial implications must be considered in all cases. 	<p style="text-align: center;">  Green </p>

Key: ● High risk area
 ● Potential risks and/or weaknesses in this area
 ● No causes for concern

Monitoring and review

Area	Summary observations	High level risk assessment								
<p>Performance Management of Budgets</p>	<ul style="list-style-type: none"> Performance against the budgeted change in reserves has been highlighted within the graph below. This shows that the Council have regularly performed considerably outside of expectations. <div data-bbox="510 550 1464 1054" data-label="Figure"> <table border="1"> <caption>Net change in reserves - variance to budget</caption> <thead> <tr> <th>Year</th> <th>Net change in reserves - variance to budget</th> </tr> </thead> <tbody> <tr> <td>2008/09</td> <td>1,400</td> </tr> <tr> <td>2009/10</td> <td>(1,400)</td> </tr> <tr> <td>2010/11</td> <td>900</td> </tr> </tbody> </table> </div> <ul style="list-style-type: none"> As a result of the significant variances to budget a report was prepared for the Audit Committee. This noted that managers are being encouraged to be more balanced in their reporting on the budget. In addition, it is acknowledged that the profiling of income budgets could be given more attention at the start of the year. The statement of accounts includes detail on performance against budget and provides explanations for all significant movements. The monthly finance reports presented to the Executive include significant detail of actual and planned performance alongside the subsequent variances. The narrative included within the report provides details of the causes of the variance along with planned corrective action. 	Year	Net change in reserves - variance to budget	2008/09	1,400	2009/10	(1,400)	2010/11	900	<p style="text-align: center;">  Amber </p>
Year	Net change in reserves - variance to budget									
2008/09	1,400									
2009/10	(1,400)									
2010/11	900									

Key: ● High risk area
 ● Potential risks and/or weaknesses in this area
 ● No causes for concern

Section 5

Financial Control

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

Key indicators of Effective Financial Control

Budget setting and budget monitoring

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

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



Financial Systems




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

Internal Control



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

Internal arrangements

Area of focus	Summary observations	High level risk assessment
Performance against Savings Plans	<ul style="list-style-type: none"> At the Scrutiny meeting in August 2010, the members were presented with a range of savings options proposals to incorporate into the 2011/12 budget process and the MTFS. The Council has attempted to take savings as early as possible to help them best manage the process. As part of the savings proposals, members were provided with a breakdown of the available savings and the savings requirement to enable them to focus on their preferred areas and so to maintain the key priorities of the Council. All savings proposals were posted onto the members intranet. This gave all members an opportunity to question or comment on the proposals. The relevant Head of Service was then required to respond to member queries. The Council have clearly been proactive in highlighting savings required and in providing options for the members to discuss. Overall performance against budget confirms that the Council has a good track record of delivering savings and finding efficiencies. All savings are required to show the link to objectives and also the impact. A risk assessment about the ability to deliver is also required. The Council could consider Red/Amber/Green (RAG) rating their savings proposals both in terms of deliverability and public acceptability. This would help to provide a greater level of clarity. Savings are monitored as part of the monthly healthcheck process. The budgets at the start of the year take on board the planned savings and performance is then measured against the base budgets. Consideration should be given to monitoring the achievement of savings on a line by line basis. This separate monitoring process would help to scrutinise the delivery of savings and it is considered good practice to separately monitor budgets to savings. 	 Amber
Finance Department resourcing and qualifications / experience	<ul style="list-style-type: none"> The current staffing level is 9.5 FTEs across Accountancy. This includes the Head of Financial Support Services who holds responsibility for Accountancy at the Council. Of these, two are fully qualified. Of the remaining members of the team, one is a CIPFA trainee and 2 are Accounting Technicians. The Finance Team at the Council has been in place for a number of years and contains staff very experienced within their roles. The team is expected to stay in its current form for the time being, although there is the potential for a move to shared services with Stevenage Borough Council and North Herts District Council in areas such as the payment of invoices and the sundry debtor functions. Discussions with senior officers have highlighted the importance of training. Clearly, all qualified accountants are required to complete CPD training on an on-going basis. There are on-going training requirements in place through management development arrangements and staff regularly attend CIPFA courses. In addition to this, where there are any significant issues the authority will bring in an external provider. An example of this is the IFRS restatement process where opportunities were taken to transfer knowledge across to the authority. It is considered important to keep the wider team well informed and up to speed on issues. 	 Green

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

Internal and external assurances

Area of focus	Summary observations	High level risk assessment
<p>Summary of key financial accounting systems</p>	<ul style="list-style-type: none"> The most recent Internal Audit report on the main accounting and budgetary control system was produced as a final report dated 23 March 2011. This report assigned 'Substantial Assurance' to the systems and procedures which underpin the Main Accounting System process. This does not highlight any significant areas of concern. Currently the Council are using Powersolve as their accounting system. The system is dated, not user friendly and consequently not widely used beyond the finance team. This system is provided by Civica and discussions are currently being undertaken about an upgrade to the system to the most up to date version. Potentially this could happen any time from April 2012, and a move to an updated version would enhance the support that Civica are able to provide. Given the age and small user base of the current system, the Council needs to ensure that it implements an upgrade/migration to a new system in a timely manner. 	 Amber
<p>Internal audit arrangements including compliance with CIPFA Code of Practice for Internal Audit</p>	<ul style="list-style-type: none"> For the year 2010/11, Internal Audit was an in-house function at the Council. Performance of the function has been strong over the past few years and the level of plan completion was good. The Internal Audit report of 2010/11 stated that "the overall level of assurance awarded for systems reviewed is 'good', meaning that all major controls are in place but some minor controls may be absent, performance indicators are good and no errors were detected." Annual reviews of the Internal Audit function at East Herts have not highlighted any significant issues in relation to the CIPFA Code of Practice for Internal Audit. It will be vital that this is continued with the introduction of the Shared Internal Audit Service (SIAS). SIAS has been formed amongst the following bodies: <ul style="list-style-type: none"> Stevenage Borough Council East Herts District Council Hertsmere Borough Council North Herts District Council Welwyn Hatfield Borough Council Hertfordshire County Council The shared service is anticipated to reduce the daily rate of audit from £271 to £240. It is anticipated that that sharing services will increase resilience in internal audit and give a greater economy of scale to allow for access to specialist audit skills. However, to all members of the shared service, it is vital that quality is high and that each member is provided with sufficient levels of IA work and assurance. The Council must ensure that suitable monitoring arrangements are put in place to maintain a high standard of Internal Audit support. 	 Green

Key: ● High risk area
● Potential risks and/or weaknesses in this area
● No causes for concern

Internal and external assurances

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

Key:
● High risk area
● Potential risks and/or weaknesses in this area
● No causes for concern