Report on Value for Money for Southwark Council

Year ended 31 March 2014
Report date 16 September 2014

Susan M Exton
Director
T  0207 728 3191
E  sue.m.exton@uk.gt.com

Elizabeth Olive
Senior Manager
T  0207 728 3329
E  elizabeth.l.olive@uk.gt.com

Sophia Brown
Assistant Manager
T  0207 728 3179
E  sophia.y.brown@uk.gt.com
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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Introduction

What is this report?
This report summarises the findings from our work supporting our Value for Money (VfM) conclusion, which is required as part of the statutory external audit responsibilities.

It complements our Audit Findings Report, by providing additional detail on the themes that underpin our VfM conclusion.

Value for Money Conclusion
The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:
• secure economy, efficiency and effectiveness in its use of resources
• ensure proper stewardship and governance
• review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VfM conclusion based on two criteria specified by the Audit Commission, which support our reporting responsibilities under the Code.

These criteria are:

The Council has proper arrangements in place for securing financial resilience: the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future (defined by the Audit Commission as "twelve months from the date of issue of the report").

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness: the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

The Code require auditors to identify significant risks to the VfM conclusion and to plan sufficient work to evaluate the impact of those risks, if any.

Our approach
The approach involves:
• desktop analysis of relevant documentation
• meetings with key internal stakeholders
• a risk assessment to identify any significant risks.

Our approach is designed to assess:
• arrangements in place related to the specified criteria
• performance during 2013/14 and what that says about those arrangements
• any significant risks that we have identified.
Introduction

What is this context?

Nationally

The 2010 Spending Review set the Coalition Government’s financial settlement for the four years to 2014/15, and the 2013 Review then covered 2015/16. By the end of this period, central funding to local government will have reduced by 35%.

2013/14 is the third year of councils having to deliver efficiency savings in response to the 2010 Spending Review and, given the 2013 Review and the budget statement in 2014, this will need to continue for the foreseeable future. Delivering these efficiency savings and maintaining financial resilience is becoming increasingly difficult, even for top-performing councils. The challenges include:

- responding to welfare reform; and
- the drive towards more integrated health and social care.

Demand for many demography-driven council services is expected to rise, whereas demand for some income-earning services is falling.

To fulfil their statutory requirements, councils must continue to provide certain services. But the opposing trends in funding and demand will create a sizeable funding gap even if carefully managed. In short, the sector is working through its greatest financial challenge of recent times.

Locally

Southwark Council is made up of 21 wards in South East London. The Council serves the 288,300 people who live in Southwark and the diverse population is growing. The average age of residents in the borough is relatively young, with nearly 60 per cent of the residents aged under 35. The Council is one of the largest social landlords in Europe with a housing stock of around 39,000 tenanted properties and 15,000 leasehold homes. It is the landlord to around 30% of the population of Southwark.

Similar to all other public sector bodies, Southwark is facing a significant financial challenge to deliver its current level of services with reducing funding. The Council is aware that it is one of the most challenging financial periods which means new ways of working need to be identified. The Council has made general fund savings of £28m in 2012/13 and £25m in 2013/14 and has identified a further £25m of savings and efficiencies in the 2014/15 year. Over the three year period 2011/12 to 2013/14 the Council has made some 25% savings from its budget.

Now, more than ever, it is important that councils have sound arrangements for securing Value for Money.
Executive Summary

Overall Risk Assessment
The following significant risks were identified during our VfM planning, which we needed to respond to in the course of our work:

- Review the achievement of savings identified in the medium term resources strategy for 2013/14 and the robustness of plans to support the savings identified in the 2014/15 budget, including income generation plans;
- Review arrangements for governance and delivery of new responsibilities and budget following the transfer of public health to the Council, including joint plans for the Better Care Fund;
- Review arrangements for succession planning of key personnel;
- Review arrangements for contract management; and
- Follow up recommendations made in the 2012/13 Audit Findings Report.

Overall VfM conclusion
On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

Key findings
Securing financial resilience
We have undertaken a review which considered the Council's arrangements against key indicators of financial performance and the three expected characteristics of proper arrangements, as defined by the Audit Commission:

- strategic financial planning
- financial governance
- financial control.

Overall our work highlighted the Council has sound processes in place for financial planning, governance and control. It continues to face significant financial pressures to balance its budgets and undertook a detailed budget consultation to help address the financial gaps and challenges in delivering services differently in 2014/15. The Council needs to consider longer term financial planning for the future.

Challenging economy, efficiency and effectiveness
We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

Overall our work has not highlighted any significant weaknesses that impact on our conclusion.
### Overview of arrangements

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<th>Risk area</th>
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<th>High level risk assessment</th>
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| **Key Indicators of Financial Performance** | • We have reviewed six key indicators of performance, using published financial ratios from the Audit Commission and the Council's own data, and undertaken benchmarking against the Council's nearest neighbour group which includes 15 other London Boroughs. The review considered the following: liquidity; borrowing; workforce; performance against budgets; reserve balances; and schools balances.  
• The Council's performance against these financial ratios is generally good. The working capital ratio is positive and the level of reserves is sufficient against the gross revenue expenditure. The level of long term borrowing is low compared to its asset base which continues to give the Council wider options in the future to take on additional borrowing.  
• The Council has increased its collection rates for council tax and NNDR as a result of actively pursuing non-payers and proactively working to assist those struggling to pay and in need of additional support. | [Green](#) (2012-13 Green) |

| Strategic Financial Planning | • The Council has sound strategic financial planning arrangements in place. The Council's Medium Term Resource Strategy has been set for the period 2014/15 to 2016/17. This is a high level strategy that sets out the focus for the financial and corporate priorities on a departmental basis.  
• The Council's financial plan is set on an annual basis for only one financial year. The Council needs to set a three year budget to ensure longer term plans with multi-agency working can be entered into and delivered. The 2015/16 budget is currently being set and the Council is confident that it can meet the budget savings without cutting frontline services. However, there are concerns for the sector as a whole that it is looking increasingly difficult over the medium term future for setting budgets without cutting services.  
• There are good links between the annual financial planning and the Council's key priorities.  
• There was an extensive consultation of the MTRS budget period over the summer of 2013 and the Council has responded to residents in setting the 2014/15 budget. | [Green](#) (2012-13 Green) |

### Executive Summary

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

- **Green**: Adequate arrangements appear to be in place
- **Amber**: Adequate arrangements, with areas for development
- **Red**: Inadequate arrangements

Adequate arrangements appear to be in place with areas for development provided they are addressed in due course.

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The Council's performance against these financial ratios is generally good. The working capital ratio is positive and the level of reserves is sufficient against the gross revenue expenditure. The level of long term borrowing is low compared to its asset base which continues to give the Council wider options in the future to take on additional borrowing.

The Council has increased its collection rates for council tax and NNDR as a result of actively pursuing non-payers and proactively working to assist those struggling to pay and in need of additional support.

The Council has sound strategic financial planning arrangements in place. The Council's Medium Term Resource Strategy has been set for the period 2014/15 to 2016/17. This is a high level strategy that sets out the focus for the financial and corporate priorities on a departmental basis.

The Council's financial plan is set on an annual basis for only one financial year. The Council needs to set a three year budget to ensure longer term plans with multi-agency working can be entered into and delivered. The 2015/16 budget is currently being set and the Council is confident that it can meet the budget savings without cutting frontline services. However, there are concerns for the sector as a whole that it is looking increasingly difficult over the medium term future for setting budgets without cutting services.

There are good links between the annual financial planning and the Council's key priorities.

There was an extensive consultation of the MTRS budget period over the summer of 2013 and the Council has responded to residents in setting the 2014/15 budget.
The Council has sound financial governance arrangements. There is a robust process for setting the budget and identifying annual savings. Cabinet members are engaged and have a good understanding of the financial environment the Council operates in. Training has been provided for new members of the Audit and Governance Committee to ensure they are well equipped to carry out the responsibilities of the committee. Financial health indicators are reported as part of the detailed quarterly revenue and capital budget monitoring to Cabinet although these generally report the financial position at the end of the month and are not forward looking.

The Council has well established financial control arrangements in place. Savings totalling £93m have been made since 2011/12 with a further £30m identified in the 2014/15 budget. This is a significant achievement in the current economic climate and the challenges the Council faces. The capital programme slippage in 2013/14 totalled £37m, which was re-phased into the 2014/15 budget. The level of slippage has reduced since the prior year but this is still significant against an original budget of £100m. This has increased the pressure on delivery in the current financial year and improvements need to be made to monitoring the capital spend. The Council has an effective internal audit team which is well placed to help the Council move forward. The finance team is reviewing its capacity as key staff are stretched and two key members of staff are leaving the Council. Risk management arrangements are sound. However, reporting of the corporate risk register could be improved as this is only reported on an annual basis to the Audit & Governance Committee. We have noted that the work programme of the committee is kept under review and following the new administration the latest version of the corporate risk register was reported to them.
## Executive Summary

### Next Steps

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<td><strong>Key Indicators of Financial Performance</strong></td>
<td>The Council should ensure that the proactive work for collection of council tax and NNDR continues to be effective to increase collection rates. The Capital Programme should be closely monitored to ensure potential slippage is re-phased effectively.</td>
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<td><strong>Strategic Financial Planning</strong></td>
<td>The Council should strengthen financial planning for the longer term by extending the annual budget into a rolling 3-5 year budget.</td>
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<td><strong>Financial Governance</strong></td>
<td>Given the tougher financial climate in the future, the Council should consider whether the regularity and level of financial information reported to Cabinet, including reserves and balances, budget virements and savings targets, is appropriate. The Council should ensure the overall financial position is estimated so all departments understand what they are trying to achieve when deciding what areas of the budget to cut.</td>
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<td><strong>Financial Control</strong></td>
<td>The Council needs to ensure the finance team has the sufficient skills and capacity to deliver the support required to departments in the toughening financial environment.</td>
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## Key Indicators of Financial Performance

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| **Liquidity** | • The Council's working capital ratio is 1.14 for 2012/13 which is a decrease from 1.57 in 2011/12. There has been a downward trend in the ratio since 2007/08 although unlike some of its nearest neighbours the Council has maintained a positive current asset to current liabilities ratio. Benchmarking against 16 LB's that are part of the FR exercise shows Southwark has the fourth lowest ratio. The working capital ratio based on the draft unaudited financial statements is 1.11. Current assets total £305,495k and current liabilities total £274,282k.  
  • The Council monitors its collection of council tax and business rates throughout the year and reports the annual performance in a report to Cabinet. The collection rates as at 31 December 2013 are:  
    • council tax: 80.9% which is a slight decrease from the same time in the prior year by 0.6%. The year end position at the end of December predicted to meet the target of 96.5%. By year end, the collection of council tax has increased and the Council reported a surplus of £2.7m in the 2013/14 accounts. This is due to a combination of better performance by the collection team and the growth in residential properties being greater than the estimate made for the financial year. In line with the MTRS, the council tax increases have been contained within the rate of inflation and are below the London average;  
    • business rates: the collection of business rates has remained at a similar level to last year. However, there is a year end deficit on the Collection Fund as the Council had to include a provision of £38m in the 2013/14 accounts for the outstanding appeals against Valuation Office decisions.                                                                 | Green      |
| **Borrowing** | • The Council has a long term borrowing to tax revenue ratio of 2.09 which is an increase from 1.76 in 2011/12. This indicates that long term borrowing exceeds tax revenue by two times the rate. Historically, the ratio has fluctuated within a small range, from 2.31 to 2.49, over the period 2007/08 to 2010/11. For the comparison year, 2012/13, the Council is third in comparison to the benchmark group which shows they have a high level of borrowing against the revenue raised from tax, although all but two of its nearest neighbours also exceed the ratio of one (meaning that long term borrowing exceeds council tax revenue). The Council redeemed borrowing in 2013/14 in line with its Treasury Management Strategy which will further improve the ratio.  
  • The Council's ratio of long-term borrowing to long-term assets is 0.20 for 2012/13. This shows that the Council's long term borrowing represents one fifth of its long term assets. This is a result of the Council's large housing stock increasing the size of its asset base compared to non-housing authorities. The Council is exploring plans to utilise the value of its housing stock against longer term borrowing to meet the challenges posed by the housing commission inspection and the housing growth plans for the borough of building 11,000 new homes over the next 25 years.  
  • The Council has approved a set of prudential indicators based on the CIPFA guidance which monitor the level of debt and capital financing requirements of the Council. These are reported to Cabinet as part of the outturn report for 2013/14. The report does not indicate any areas of concern for the current year as all targets have been met.                                                                 | Green      |
Key Indicators of Financial Performance

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| **Workforce** | • Southwark’s sickness absence levels have steadily decreased over the period 2007/08 to 2012/13 from 10 days per FTE to 7.6 days per FTE. The sickness absence level throughout 2013/14 has remained at a similar rate.  
• The Council’s absence levels have been lower than the average for local government and the public sector over the review period. As a comparison using available benchmarking data, for 2012/13, the average rates were: LG 8.8; public sector 8.7; and private sector 7.6 days.  
• The Council reports its sickness absence data internally in the annual workforce report. However, the levels of sickness are not reported to members. The Council should consider reporting this information to members if the level of sickness absence increase. | Green     |
| **Performance against budgets (Revenue Capital & Savings)** | • The Council has continued its strong historical financial performance by achieving its budget with a favourable variance, and especially since grant reductions have taken place.  
• The 2013/14 General Fund net revenue budget of £327.8m was underspent by £103k (0.03% of net expenditure) as reported to Cabinet in the outturn report on 22 July 2014. The 2013/14 budget included a contribution from reserves totalling £6.3m giving a total budget of £334.1m. The Council identified £31m budget reductions for the general fund and HRA. The planned savings were delivered overall by all departments although many departments offset adverse variances identified during the year by compensating variances.  
• The HRA shows an underlying positive variance outturn although the budget is distorted by non-routine items in 2013/14. These are the additional support for the investment programme and the early redemption of £80.1m debt during the year which required the draw-down of earmarked reserves of around £8m. The earmarked HRA reserve is £235m as at 31 March 2014 so we do not have any concerns over this movement.  
• The general fund capital budget for 2013/14 was £100m and the outturn position was £63m which is a variance of £37m and 37% of the total budgeted spend for the year. Cabinet has approved the re-phasing of the slippage into the 2014/15 general fund capital budget. The Council needs to focus on its capital programme to ensure that budgeted works re-phased into 2014/15 are delivered and service managers need to closely monitor projects and report slippage at an early stage so the year end outturn position is a less significant variance. The re-phasing required in the capital programme has resulted in the continued amber rating for 2013/14.  
• The Housing Investment Programme capital budget for 2013/14 was £127m and the outturn position was £118m which is a smaller variance of £8.5m and 9% slippage than the general fund budget. The Council is better at managing large scale projects. | Amber     |
Reserves balances

- The Council has maintained the level of general fund reserve, in line with its financial plans, at £18.125m at year end. This amounts to 5.4% of the 2013/14 net revenue budget of £328m and 5.7% of the current year’s budget of £317m. Maintaining the level of general fund reserve at this level was approved by Council Assembly.
- There was a significant movement in the earmarked general fund reserves in 2012/13 and this has stabilised in 2013/14 at a smaller increase of £3.874m. This is identified in the financial statements and explained in the outturn report presented to Cabinet in July 2014. The Council is transparent in the contribution of balances to underwrite the base budget in the year.
- The Council’s useable reserves are equal to around 14% of gross revenue expenditure. The level of reserves has remained relatively stable over the last five years moving from 8% to 10% over the period 2008/09 to 2012/13 with the level of reserves being at the lowest in 2009/10 at 6%. Given the particularly challenging financial environment in which the Council is operating, it needs to continually review its reserves against the financial risks it faces and increase the level to bring more into line with comparable authorities, if appropriate and possible. Of the 16 councils in the nearest neighbour group, there are eight councils with higher levels of reserves.

Schools balances

- The Council has a schools balances to dedicated schools grant (DSG) ratio of 9% (0.09) which is the same as the average for the nearest neighbours group in 2012/13. Southwark is one of five London Councils in the benchmarking group of 16 that have this ratio. There continues to be no consistent pattern over the ratios across authorities as levels of schools balances have increased and decreased without any specific trend.
- The 2013/14 accounts show an increase in the combined schools balances and DSG reserve of £9.050m resulting in a year balance of £32.638m. The Council is conscious of this increase and is monitoring of these balances to ensure they remain at a reasonable level. The final grant outturn for the DSG was £8.2m underspend. The reasons for this have been reported to the Cabinet.
- The 2013/14 accounts showed a total carry forward to 2014/15 of £12.9m which is a significant increase from £7.3m carry forward in the previous financial year. The underspend relates to the central expenditure DSG which should be used for the provision of a range of educational services on an authority-wide basis.
Focus of the MTRS

- The Council's Medium Term Resources Strategy (MTRS) for the period 2011/12 to 2013/14 has been updated as part of the 2014/15 planning process and the current MTRS covers the period 2014/15 – 2016/17. This was agreed by Council Assembly on 26 February 2014.
- The purpose of the MTRS is to enable the Council to make best use of the resources available, including financial, human, and technological, and to enable the continued provision of value for money services that meet the needs of residents, businesses and other stakeholders. It is the council's medium term financial planning document.
- The MTRS provides a framework of underlying principles by which resources may be allocated across the council and other relevant considerations that need to be taken into account. It sets out the key outcomes and priorities of each strategy.
- However, the budget setting process by the Council for 2014/15, and the planning for 2015/16, is a one year budget only. The Council is not forecasting over a three to five medium term period which is recognised as good practice to achieve future financial stability. The Council has recognised the need to set a balanced three year budget as a key outcome in the MTRS but as it is not planning to achieve this in the 2015/16 annual budget setting the assessment remains as ‘amber’. The reason for not extending the budget is due to the general election next summer and the potential impact that could have on grants issued to councils. It does not feel that reasonable financial planning can be taken at this point over the medium term. This has been agreed with members.
- The Cabinet continues to focus on the agreed seven principles to underpin the council's budget decisions. The principles seek to limit the impact of budget cuts on the most vulnerable. Transparency and fairness form part of the principles and are an underlying principle in the Council Plan. The Council undertakes an equality analysis on its budget proposals in each department which ensures that the focus on residents remains a priority.
- The Council Assembly approved the annual budget for 2014/15 at the same meeting as the MTRS in February 2014. The balanced budget included savings of £34.6m to be made in the financial year. Of the total savings, only £0.5m of this has been assessed as impacting directly on the services provided by the Council which is a decrease from the prior year and rare in the current financial climate. A paper was considered by members before approving the budget which included the savings identified by each department.
- The Council has an extensive capital programme which links to the significant regeneration objectives in the Council Plan and its modernisation agenda. The general fund capital programme covers the period 2013/14 to 2023/24 and was approved by Cabinet on 18 March 2014. However, the main detail of the plan is set out for 2014/15 and 2015/16 with the remaining period of the plan being 2016/17+. The total spend of the general fund capital programme over the period is £498m although the financing of this ten year plan is only £459m so the Council needs to ensure it can finance its longer term plans.

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<td>Amber</td>
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### Area of focus

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<tr>
<td><strong>Adequacy of planning assumptions</strong></td>
<td>Green</td>
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<td>• The Council's assumptions relating to national budget announcements and other funding pressures are built into the MTRS, with the Council providing a clear assessment of how it is has interpreted this in relation to the residents of Southwark. For example, due to the continued pressures on household income, the Council has frozen council tax for the sixth year in 2014/15 even though many local authorities have increased council tax.</td>
<td>(2012-13 Green)</td>
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<td>• The corporate priorities in the Fairer Future vision includes free meals and swim/gym facilities which is targeted at helping the residents of Southwark. The Council has reported how it delivered its promises in 2013/14 without significant cuts to the budget.</td>
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<td>• The 2014/15 budget includes income generation activities totalling £1.78m in the financial year which demonstrates the Council’s vision to grow income where possible. It also includes £9.4m new growth and commitments, many of which are in the children's social care area.</td>
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<td>• The assumptions around the national budget announcements and pressures are built into the resources report, with the Council providing an assessment of how it is has interpreted this in relation to the residents of Southwark. It undertook an extensive consultation on its budget during 2013 and analysed the results as part of the 2014/15 budget setting.</td>
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<td>• The 2014/15 budget report includes a high level analysis of the impact of the spending cuts and council tax setting compared to the rest of London and the Local Government sector as a whole. However, it is recognised by the Council that improvements can be made to the benchmarking undertaken to focus on external comparisons and for a greater level of scenario planning and sensitivity analysis to be used for the budget setting process over the medium term period.</td>
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<td><strong>Scope of the MTRS and links to Annual Planning</strong></td>
<td>Green</td>
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<td>• The Council has maintained the links between the MTRS, Council Plan and the Fairer Future vision. The Policy and Resources Strategy 2014/15 to 2016/17 has been prepared in line with these plans as part of the business management framework. As part of this framework, the MTRS has been prepared in line with two further levels: departmental and service plans; and the business unit, team and individual business plans.</td>
<td>(2012-13 Green)</td>
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<td>• Section two of the MTRS includes the following key strategy areas: Financial Management and Control Strategy; Workforce Strategy; Asset Management Plan; Voluntary and Community Sector Strategy; Contracts and Procurement Strategy; and Technology Strategy. These sections include context, key outcomes and the key principles of what the Council is trying to achieve in the financial planning period. The strategies set in the context of a number of key themes, each structured to support all major policy objectives and priorities as set out in the Council Plan.</td>
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<td>• Each department sets their individual budget based on the overall plans of the Council which are linked to the departmental objectives for the financial year. A detailed report setting out the departmental service budget and subjective analysis was presented to Cabinet as part of the annual budget setting for 2014/15. This shows the inflation, commitments and savings movements from the 2013/14 to the 2014/15 budget. Scenario planning is undertaken locally by the lead finance officers in the departments but is not undertaken by the central finance team.</td>
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<td>• The Council has identified four key budget thematic as part of the 2015/16 budget setting process. These are: managing demand; doing things differently; digital by default; and multi-agency working.</td>
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## Strategic Financial Planning

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| Review process        | • The MTRS is reviewed and updated annually to ensure the strategy themes remain in line with the Council priorities. As the Council moves to the three year budget as part of the annual planning cycle it will become more important for the MTRS to be reviewed in detail to ensure it remains fit for purpose.  
  • A budget challenge panel process was introduced in 2010 and due to the effectiveness of the panel process this has been continued every year. The panel comprises of the Leader, Cabinet Member for Finance, Strategy and Performance, Chief Executive and Strategic Director for Finance and Corporate Services. The panel meets with the departmental heads and relevant Portfolio Holder to review the budget proposals for the forthcoming financial year. This is currently underway for the 2015/16 budget setting process. The review looks at risks, political acceptability, and whether sufficient links have been made to priorities of the department. There are normally two to three presentations to the panel by a department to address the challenges posed back to them during the meeting. Although these sessions require significant time input from the panel members and officers attending the meeting it is seen as a critical part of the annual budget setting framework to ensure the financial challenges are met. This is considered good practice for the budget setting process.  
  • The annual budget goes through a number of iterations before final approval at Council Assembly in February. The level of scrutiny by departmental management meetings has given sufficient assurance to the Strategic Directors and Cabinet Members who present the challenge panel.  
  • The Council reviews its financial performance monthly by officers and reports this on a quarterly basis to Cabinet.                                                                                     | Green (2012-13 Green) |
| Responsiveness of the Plan | • The Council undertook an extensive budget consultation for the 2014/15 budget setting. It ran a series of ‘community conversations’ across the borough over the summer of 2013. The interactive sessions allowed residents to have their say in how money should be allocated and which services will be subject to budget cuts in the future. In addition, there was an online budget simulator that challenged people to make 7% savings in the base budget to reflect the challenge the members and officers faced. The effective use of the consultation has increased the rating this year to green.  
  • The budget reflected the priorities and concerns raised in the consultation which mainly focussed on the need to protect spending on children and older people. For the 2014/15 budget, the Council did not make any significant cuts in these areas although it has recognised that it is getting more difficult not to impact on frontline services in 2016/17 and beyond.  
  • The Council continues to undertake high level scenario planning for specific areas of spend and uses this to inform decision making. However, it is still recognised that further work is required on scenario planning as it is not always clear or focussed on the medium term which is essential as the budget gap will become more difficult to balance without longer term projects to deliver services.  
  • Members and officers have a clear understanding and awareness of the challenges the Council faces and that new ways of working need to be developed. There has been a collective acknowledgement that services will need to be delivered differently in the future although little joint working has progressed during the 2013/14 year or as part of the 2014/15 budget setting process. | Green (2012-13 Amber) |
## Understanding of the financial environment

- The Cabinet and Chief Officer Team have a sound understanding of the financial environment the Council operates within. The introduction to the annual budget report sets out the national and local pressures. Members and officers have recognised the need for integrated thinking to meet these pressures, not only within the Council, but with its stakeholders as it looks to deliver services differently to meet the future demands.

- The Council understands the challenges facing Southwark residents. Through the budget consultation, it sought views about potential cuts to the 2014/15 budget and protected the areas that concerned the public the greatest.

- The Cabinet receives quarterly revenue and capital budget monitoring reports which include detailed variance analysis and explanations on a department basis for the general fund budget. Reasons for variances are clearly explained which allows members to challenge officers on the financial position, particularly overspends.

- Financial awareness training is provided to budget holders and departmental finance staff have supported the management teams to meet the budget in 2013/14. However, more can be done to support the departments as the financial challenge is going to increase and the budget will become increasingly difficult to deliver.

- The Council has approved and communicated to staff and members the financial regulations and standing orders in which the Council operates. These have been issued to all officers with financial management responsibilities. We have not identified any breaches in the Council’s compliance with the financial regulations during 2013/14.

## Executive & Member Engagement

- There has been changes to the Cabinet and Audit and Governance Committee following the election in May 2014. This has not impacted on the knowledge or engagement of members. The change in portfolios within the Cabinet has been a smooth transition in the finance analysis and the new finance portfolio holder has a focus on the challenge the Council faces in the future and improvements that can be made to the financial environment and reporting. Regular liaison meetings occur between the Strategic Director of Finance and Corporate Services and Cabinet Member.

- There is a strong involvement from the Cabinet and Chief Officer Team in the financial aspects of the Council, especially the budget setting process where savings plans are jointly presented to the budget panel. Members are aware of the need for greater savings in future years, and that services will need to be provided differently if the Council is to meet the demand against the increasing pressures.

- The Overview and Scrutiny Committees provide effective challenge on budget monitoring and the annual budget setting process.

- The S151 officer role is held by the Strategic Director of Finance and Corporate Services. He sits on the Chief Officer Team and leads on financial matters arising at the Council. He is also influential in the wider local government environment as the secretary of the London Society of Treasurers.
# Financial Governance

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| **Overview for controls over key cost categories** | • The budget monitoring reports are presented to Cabinet on a department basis. This is in line with the method used to produce the annual budget and savings plans for the financial year. As a result, the financial monitoring is not directly linked to the Council's strategic priorities as these are linked to the portfolios.  
• As the financial position becomes tighter in the future years, the Council needs to have a good understanding of its unit costs. Officers have recognised that there is more to do in this area as the main focus is on demand led services. Unit cost information is not reported to Cabinet in the budget monitoring reports.  
• Financial regulations are reviewed and updated as appropriate.                                                                                                                                                                                                                                                                                                                                 | Green      |
| **Budget Reporting (Revenue & Capital)**          | • The quarterly revenue and capital budget monitoring reports presented to Cabinet are at a relatively high level. They show the variances in the budget position at a departmental level but do not contain detail on the actions being taken to address any potential overspends. There have been relatively few significant variances during the financial year so this is considered sufficient for members to monitor the achievement of the budget and savings plans. However, as the financial challenge increases in the future officers and members of the Cabinet need to ensure that the level of information being presented to them is at the appropriate level to make effective decisions.  
• The quarterly reporting includes high level explanations for all budget varirements presented to the Cabinet for approval as well as budget movements for information only over £250,000. This analysis is insufficient to enable members to make an informed decision when approving the budget movements. The Council should reconsider whether this level of information is appropriate in the current financial environment.  
• Financial monitoring by budget holders is undertaken on a monthly basis. However, budget monitoring needs to be improved as significant budget movements were reported to Cabinet in the year. In addition, an error was identified in the 2013/14 financial statements that should have been identified in the capital monitoring undertaken by the department as it was a significant variation to the original budget.  
• There is a concern that the financial savings and reporting of these are on a silo departmental basis and that there is little understanding of the financial challenges faced by departments if you do not work directly in the service. The Council needs to enhance the financial knowledge of its staff to ensure they are aware of the continued challenges to deliver services.                                                                                                                                                           | Amber      |
| **Adequacy of other Committee Reporting**         | • The Cabinet meets every month, with special meetings being added during the year as required. There is a clear agenda and forward plan for the meetings. It discusses and takes decisions on the most significant issues facing the Council.  
• The Cabinet Member for Regeneration and Performance introduced quarterly performance monitoring reporting and this has been continued throughout the 2013/14 financial year. Every quarter, the Strategic Director of the department presents on the performance of their department to the Cabinet Member and Chief Executive. This has improved performance monitoring and increased the focus on priorities and achievement of the Council Plan.  
• Cash flow monitoring is undertaken on a daily basis by the treasury management team and the cash position is reported in the quarterly budget reports to the Cabinet.                                                                                                                                                                                                                           | Green      |
## Financial Control

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| **Budget setting & monitoring - revenue & capital** | • The Council has well established budget setting processes and a good track record of managing budgets on a departmental basis. It is good at reacting to tough situations and delivering against the odds when it needs to which was demonstrated when the first year of cuts was introduced. This will be an advantage for the Chief Officer Team as the savings get tougher to find and slippage is identified. For 2014/15 the Council did not have to make any tough decisions and reported to the Council Assembly as part of the budget approval that minimal cuts were required to frontline services to set the budget. Interviews with senior officers for the early budget saving proposals for 2015/16 has not raised any concerns over the need to cut services significantly as part of their departmental planning meetings.  
• However, officers have commented that they are not aware of the overall savings required by each department as part of the early budget setting work and it is only after the budget challenge meetings in September that the total savings for the financial year is known. The early budget discussions in the departments are on a % basis and then actual savings to be delivered by the department are reviewed after all departments have presented to the panel. In line with our view that the financial planning should be over the medium term period, it would aid officers to plan for longer term cuts to budgets by producing a three year budget based on analysis of the savings required over the medium term.  
• The annual budget is built from a historical baseline position adjusted for growth, inflationary pressures and savings required in the financial year. The budget is produced at a departmental level which means that there is only limited understanding of the wider budget outside of departments. The Cabinet and Chief Officer Team analyse the budget as a whole and has recognised that greater focus is needed for cross-cutting service delivery and savings in the future. The 2014/15 budget of around £347m required £6.2m from reserves to help balance the budget. This has been publicly reported and approved by Cabinet. The budget contingency has been reduced for that financial year so it is not an indication that the Council is struggling to meet its budget.  
• Strategic Directors hold departmental management teams and all staff events to inform the officers of the budget pressures and savings required in the financial year. This has given ownership of the departmental budget to the service and not just the accountants in the teams. Although not all staff understand the budget in detail there is a general awareness of money needing to be spent more carefully. All Strategic Directors were confident that key staff within their departments understood the budget and savings required.  
• The Budget Book sets out a general introduction to the financial position for the coming year, including an analysis of the funding from Central Government. The budgets are set out in detail at a departmental and divisional level and on a subjective and service level basis. It gives a description of the division and its services which helps the user to understand the business.  
• The Cabinet approved a refresh of the 10 year capital programme for the period 2013/14 to 2023/24 which secured the physical renewal of the borough by setting out plans for regeneration, housing, leisure, environment and schools in line with the community strategy, the Council’s plan and key priorities. The capital programme has continued to have significant slippage between years and the Council should ensure that this is managed more effectively to avoid re-phasing and delays in projects being achieved. | Amber (2012-13 Green) |
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| Savings plans setting & monitoring | • The Council has continued to respond well to the financial challenge and has delivered an underspend of £100k in 2013/14 against a tough financial environment in the sector. This is particularly impressive as the Council has made significant savings in the past three years and will have to do so over the next three years.  
  • The council identified £31m of budget reductions, including savings and efficiencies for the general fund (£25m) and housing revenue accounts (£6m) as part of the 2013/14 budget setting process in February 2013. The Council has delivered these savings as reported in the revenue outturn report to Cabinet on 22 July 2014.  
  • Further savings in 2014/15 of £25m have been approved in the budget set in February 2014. This comprises of £24m from proposed efficiencies and £1m of savings with the largest budget savings required from adults and children's. The budget report sets out the savings on a departmental and service basis. These are challenged by the budget panel and plans are in place at the departmental level for all savings identified. The Strategic Directors are comfortable that these savings can be delivered.  
  • There has been significant slippage in the capital programme and the Cabinet has approved that projects can be moved into the next financial year. The large scale regeneration projects are well managed but the smaller capital projects often result in re-phasing. The slippage on the capital programme outturn for 2013/14 totalled £37m which is 37% of the total budget set for the year. The level of slippage has reduced in the current financial year but close monitoring is required to ensure high profile projects continue to be delivered.  
  • The Council has slightly increased the level of reserves as at 31 March 2014. Total earmarked general fund reserves are £95.37m. The Council continues to maintain appropriate earmarked reserves. It is important for the Council to maintain and build reserves where possible in order to mitigate future risks, fulfil future commitments already made and provide resources to enable services to transform over time. The contingency budget was not required in 2013/14 so this has been used to fund the budget gap in 2014/15 that would have come from reserves. | Green  
(2012-13 Green) |
### Financial Control

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| **Key financial accounting systems**  | • The Council's general ledger system is SAP. Our audit review of the system in 2013/14 identified an internal control weakness that we reported in the Audit Findings Report and small number of minor deficiencies that have been reported to management. An action plan to improve the control environment for these findings has been agreed.  
  • A consistent view across the Council is that the financial information available from the system is not always fit for purpose or user friendly. There are a large number of checks and controls within the system although these do help officers complete the reconciliations and reviews it is not always clear that staff understand why they are carrying out the controls. This is shown by the responses by some directorates to the accounts audit.  
  • There is a sound understanding of the ledger within the financial systems team. They are able to interrogate the system and run specialist reports as needed by budget holders and directors.  
  • Internal Audit has not issued any red rated reports on the key financial systems in the year. This rating confirms that there are no significant weaknesses or issues arising in the systems not reviewed by external audit. | **Amber** (2012-13 Amber) |
| **Finance department resourcing**     | • The finance team is led by the Strategic Director of Finance and Corporate Services. Key positions have remained the same during the financial year. However, two key posts within the finance team are changing as the corporate senior finance manager and a member of the capital accounting team are leaving the Council. This will weaken the team in key areas and the Council needs to ensure that the right skills and knowledge are demonstrated by all members of the team to avoid undue pressure on a small number of individuals. This has been seen by us during the accounts audit where responsibility falls on a key individual for responses as sufficient action is not consistently taken by the departmental finance officers.  
  • The Council recognises that there is a need for the financial accountants to build relationships with the wider Council and stakeholders. The role is not only about producing the financial information but also support and improvement. Feedback from the Strategic Directors confirmed that on the whole the level of support provided by the departmental accountants is good. However, the focus in the future needs to be on the service manager/budget holder taking greater ownership for the budget and financial monitoring. | **Amber** (2012-13 Green) |
### Adequacy of Internal audit arrangements
- The Internal Audit function is led by the Head of Anti-Fraud and Internal Audit with the staffing below this level being provided by Baker Tilly.
- The Internal Audit plan is approved by the Audit and Governance Committee, with quarterly progress reports being presented to them setting out the work since the last report and recommendations made in finalised reports. Officers attend the committee to answer questions raised by the members.
- The annual report was presented to members in July 2014. The report confirmed that 100% of the audits included in the 2013/14 audit plan have been completed to a draft report stage by the time the annual report was presented. Overall, IA have followed up 166 recommendations in 2013/14. Of these, 74% been fully implemented and the remaining 26% are in progress. IA concluded that overall they were satisfied with the responses from management to their recommendations.
- The team is highly successful in its fraud investigations and won an LGC award during the 2013/14 for their success in housing tenancy fraud. This demonstrates the committed and thorough approach to tackling fraud in the borough.

### External audit conclusions
- The Audit Findings Report for 2012/13 concluded that proper arrangements had been made by the Council to secure economy, efficiency, and effectiveness in its use of resources. An unqualified opinion was given on the 2012/13 and is also proposed for 2013/14.
- Management response to issues identified during 2013/14 is sound. Findings from the 2013/14 audit work completed to date have been discussed and management has responded to recommendations made during the interim audit positively with the required action being agreed.

### Assurance framework / risk management processes
- The assurance framework is managed and maintained by the Corporate Risk and Insurance team. The team sets risk management objectives for the financial year. The Council has approved a risk management strategy which underpins the arrangements. The risk management framework uses six risk categories to capture risk. These are clearly set out for all officers to understand and select the correct category when identifying a new risk.
- The Corporate Risk Register is built up from departmental risk registers which are owned and managed by each department on the council risk software system. There is a network of departmental risk champions who ensure the risks and mitigations are updated by departmental Senior Management Teams on a regular basis. There are detailed risk management procedures on the source system. The corporate risk register records the risk, assessment score, ownership and action plan to manage and mitigate the risk.
- An annual report is presented to the Audit & Governance Committee in November with a mid-year update as necessary. At the current time, the corporate risk register is not reported to Cabinet or any other Committee so it is difficult to understand the level of information being presented to members on a regular basis to manage the key risks facing the Council.