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Three Rivers District Council

Review of the Council's arrangements for securing financial resilience

November 2011

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Section 1

Executive summary

1. Executive summary

2. Key Indicators

3. Strategic Financial Planning

4. Financial Governance

5. Financial Control

Introduction

Context

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

The associated report published Government Departmental Expenditure Limits (DEs) 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 underspends on budget in each of the last three years. Benchmarked key indicators of performance indicate that the Council hold a high level of useable reserves compared to their nearest neighbours. Further analysis found that the Council was able to meet their net revenue expenditure more than twice over from the amount of usable reserves. 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 MTFS period. 	 Green
Strategic Financial Planning	<ul style="list-style-type: none"> The Council was able to undertake the most recent MTFS process with an effective lead in time and the process had a high level of stakeholder engagement. Savings programme performance for 2011/12 is that from the £611,990 of budgeted savings targeted, the Council has identified £387,790 of savings as at the end of period 6 of 2011/12 which is ahead of target. 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 MTFS during its delivery, in particular in relation to the impact of price inflation in the medium term, and the outcome of the Government's funding settlement for the final two years of the plan. In addition, work is still required to ensure savings assumptions in the latter years of the plan are effectively developed and the savings realised. 	 Green

Key:

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

Overview of Arrangements

Area	Summary observations	Summary level risk assessment
Financial Governance	<ul style="list-style-type: none"> The monthly budget packs are produced and placed on the intranet for the committee members to review. The packs contain detail of variance analysis and identifying the reason for the variance but there is no document that outlines any remedial action to correct the variances or commentary from the previous months variances identified to analyse whether the remedial action has corrected the variance. The Council sought and obtained the views of the political groups in approval of the 2011-14 Strategic plan. The monthly finance position report provides analysis of income from fees and charges by volume and value per month, commentary is provided but the presentation of the information could be improved with the introduction of target annual values per income stream. The narrative is quite detailed and the introduction of target values will further strengthen the presentation of information. The Council did ensure that the appropriate financial skills were in place across the organisation but since the transfer to a shared service centre, certain processes have lapsed, in particular the process of reconciliation between systems. The delivery of the accounts on 14 July 2011, was after deadline and the combination of these elements has led to concern around the deliverability of the shared service finance function. 	 Amber
Financial Control	<ul style="list-style-type: none"> The Council currently hold £7.933million, as at 31 March 2011, in general fund balances to support the MTFS, which is above the expected level of balances a district council would be expected to hold. As at June 2011 there were 41 internal audit recommendations, excluding the information technology recommendations, that remain outstanding. The finance team has been in place in Three Rivers DC for a number of years and we have experienced no issues in the production of accounts in the previous years but this year proved not to be as effective as in previous years with the delay in the provision of information that stretched the sign off date from 7 September 2011 to 30 September 2011. The Council should consider adopting a purchaser provider relationship with the finance function and ensuring that no slippage in deadlines occurs and all products and reconciliations are carried out on a regular basis by agreed deadlines. The Council received unqualified accounts and value for money opinions on 30 September, in line with the national deadline of 30 September 2011. 	 Amber

Key:

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

Recommendations

Area of review	Recommendations	Responsibility	Timescale	Comment
Financial Governance	The monthly budget reporting packs would benefit from the introduction of a commentary from the previous months variances identified to analyse whether the remedial action has corrected the variance.			
	The council should address the issues raised by the independent assessment of the IT strategy in place across both Three Rivers DC and Watford BC.			
	The presentation of income charges could be improved with the introduction of target annual values per income stream.			
	A complete set of draft accounts with accompanying notes should be provided to audit by national deadline.			

Recommendations

Area of review	Recommendations	Responsibility	Timescale	Comment
Financial Control	All high level/essential internal audit recommendations should be implemented within 6 months of their adoption.			
	Efforts should be made within the finance team to find additional capacity to meet deadlines.			
	The Council should consider adopting a purchaser provider relationship with the finance function and ensuring that no slippage in deadlines occurs and all products and reconciliations are carried out on a regular basis by agreed deadlines.			

Section 2

Key Indicators

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

Introduction

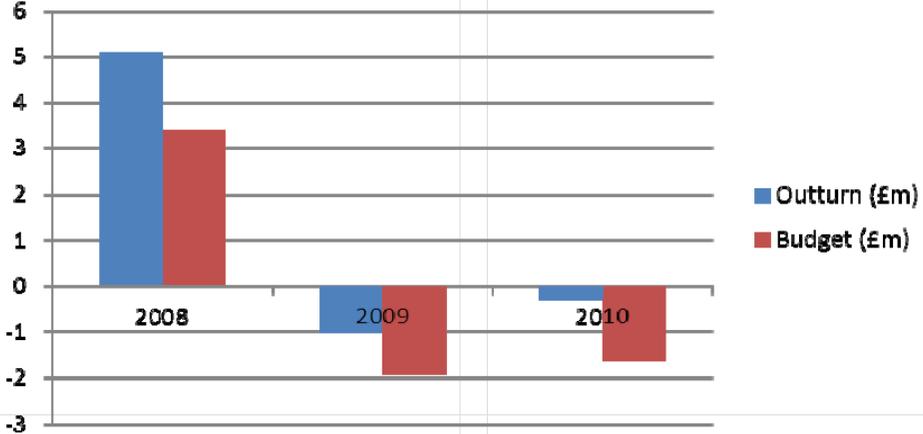
This section of the report includes analysis of key indicators of financial performance, benchmarked where this data is available. These indicators include:

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

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

- Brentwood Borough Council
- Broxbourne Borough Council
- Chiltern District Council
- East Hampshire District Council
- East Hertfordshire District Council
- Epping Forest District Council
- Epsom and Ewell Borough Council
- Hertsmere Borough Council
- Horsham District Council
- Mid Sussex District Council
- Reigate & Banstead Borough Council
- Sevenoaks District Council
- South Buckinghamshire District Council
- Spelthorne Borough Council
- Surrey Heath Borough Council
- Tandridge District Council
- Waverley Borough Council

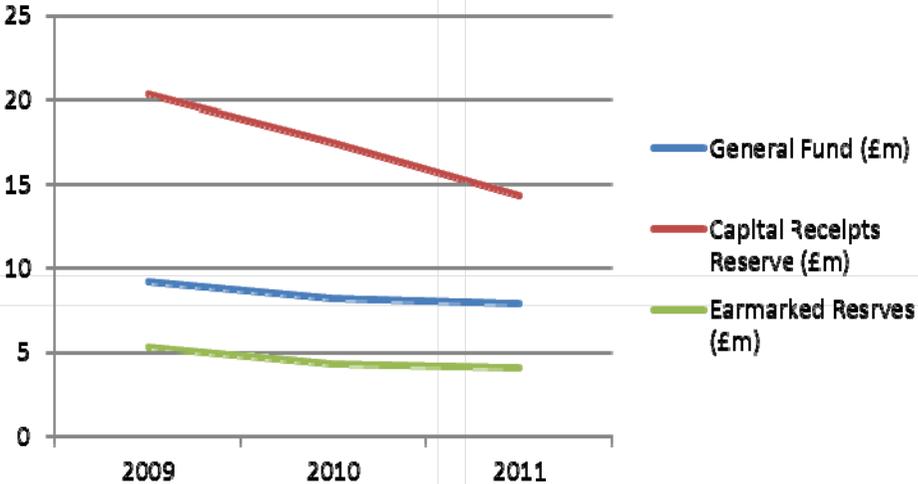
Overview of performance

Area of Focus	Summary observations	High level risk assessment												
Performance Against Budget	 <table border="1"> <caption>Performance Against Budget Data</caption> <thead> <tr> <th>Year</th> <th>Outturn (£m)</th> <th>Budget (£m)</th> </tr> </thead> <tbody> <tr> <td>2008</td> <td>5.1</td> <td>3.4</td> </tr> <tr> <td>2009</td> <td>-0.8</td> <td>-1.8</td> </tr> <tr> <td>2010</td> <td>-0.5</td> <td>-1.5</td> </tr> </tbody> </table> <ul style="list-style-type: none"> The Council has a good track record in managing expenditure against budget, achieving underspends of budget in each of the last three years. Per the 2010/11 certified statement of accounts, the underspend against budget was attributable to service expenditure reduction and increase in income charges. The most significant variances include a VAT refund of £201k and a reduction in ICT costs in relation to software costs. Of the services that have been loaded into the shared service unit, it is the revenues and benefits service that has not provided a saving from original budget. Of the £502k overspend from original budget, £549k of the loss was attributable to revenues and benefits service. 	Year	Outturn (£m)	Budget (£m)	2008	5.1	3.4	2009	-0.8	-1.8	2010	-0.5	-1.5	<p style="text-align: center;">●</p> <p style="text-align: center;">Green</p>
Year	Outturn (£m)	Budget (£m)												
2008	5.1	3.4												
2009	-0.8	-1.8												
2010	-0.5	-1.5												

Key:

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

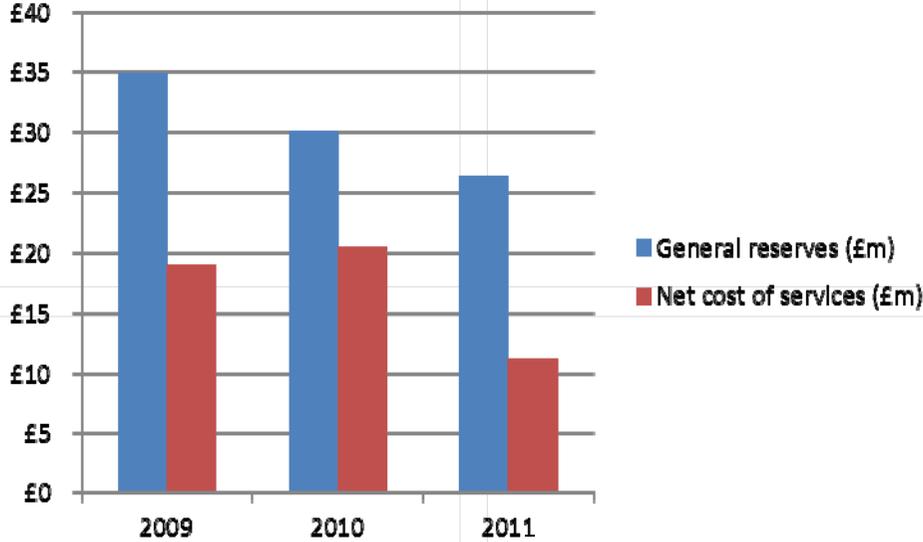
Overview of performance

Area of Focus	Summary observations	High level risk assessment																
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="667 598 1585 1082"> <caption>Reserve Balances (£m)</caption> <thead> <tr> <th>Year</th> <th>General Fund (£m)</th> <th>Capital Receipts Reserve (£m)</th> <th>Earmarked Reserves (£m)</th> </tr> </thead> <tbody> <tr> <td>2009</td> <td>~9.5</td> <td>20.338</td> <td>~5.5</td> </tr> <tr> <td>2010</td> <td>~8.5</td> <td>~17.5</td> <td>~4.5</td> </tr> <tr> <td>2011</td> <td>~8.0</td> <td>14.357</td> <td>~4.0</td> </tr> </tbody> </table> <ul style="list-style-type: none"> The balance of the capital receipts reserve has fallen from £20.338m in 2008/09 to £14.357m in 2010/11, a drop of 30%. In 2010/11, for example, £4.545m was used to fund total capital expenditure of £5.773m and in the current economic climate it is difficult to sell assets to provide additional funding, hence the reducing level of the reserve. In 2010/11 the Council received only £1.44m of capital receipts, which does not cover the capital expenditure. The level of capital reserve remains healthy and there is no immediate short term requirement for the Council to start borrowing to finance capital expenditure. 	Year	General Fund (£m)	Capital Receipts Reserve (£m)	Earmarked Reserves (£m)	2009	~9.5	20.338	~5.5	2010	~8.5	~17.5	~4.5	2011	~8.0	14.357	~4.0	<p style="text-align: center;">● Green</p>
Year	General Fund (£m)	Capital Receipts Reserve (£m)	Earmarked Reserves (£m)															
2009	~9.5	20.338	~5.5															
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Key:

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- No causes for concern

Overview of performance

Area of Focus	Summary observations	High level risk assessment												
<p>Reserve Balances (continued)</p>	<ul style="list-style-type: none"> The chart below show the level of general reserves against the net cost of services balance. The first graph shows this in actual terms.  <table border="1" data-bbox="645 587 1568 1129"> <caption>General reserves vs Net cost of services (£m)</caption> <thead> <tr> <th>Year</th> <th>General reserves (£m)</th> <th>Net cost of services (£m)</th> </tr> </thead> <tbody> <tr> <td>2009</td> <td>£35</td> <td>£19</td> </tr> <tr> <td>2010</td> <td>£30</td> <td>£21</td> </tr> <tr> <td>2011</td> <td>£27</td> <td>£12</td> </tr> </tbody> </table> <ul style="list-style-type: none"> This highlights that whilst the level of reserves has fallen over the previous three years, the level of reserves is more than capable of covering the net cost of service expenditure. This evidences that the Council is maintaining reserves at a more than reasonable level and has the ability to cover net expenditure twice over in 2010/11. 	Year	General reserves (£m)	Net cost of services (£m)	2009	£35	£19	2010	£30	£21	2011	£27	£12	<p style="text-align: center;">● Green</p>
Year	General reserves (£m)	Net cost of services (£m)												
2009	£35	£19												
2010	£30	£21												
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Key: ● 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																																		
<p>Reserve Balances (continued)</p>	<ul style="list-style-type: none"> The Audit Commission made comparative data available for 2009/10. This has been used to generate the graph below showing the ratio of usable reserves to gross revenue expenditure with a comparison against those authorities the Audit Commission considers to be 'nearest neighbours'. <div data-bbox="526 619 1825 1181" data-label="Figure"> <h3 style="text-align: center;">Useable reserves: GRE - 2009/10</h3> <table border="1"> <caption>Estimated data from 'Useable reserves: GRE - 2009/10' chart</caption> <thead> <tr> <th>Authority</th> <th>Ratio (Estimated)</th> </tr> </thead> <tbody> <tr><td>Borough of Broxbourne</td><td>0.78</td></tr> <tr><td>South Bucks District...</td><td>0.75</td></tr> <tr><td>Reigate and Banstead...</td><td>0.62</td></tr> <tr><td>Three Rivers District...</td><td>0.60</td></tr> <tr><td>Hertsmere Borough...</td><td>0.50</td></tr> <tr><td>Epping Forest District...</td><td>0.45</td></tr> <tr><td>Epsom and Ewell...</td><td>0.42</td></tr> <tr><td>Sevensoaks District...</td><td>0.40</td></tr> <tr><td>Chiltern District Council</td><td>0.38</td></tr> <tr><td>Spelthorne Borough...</td><td>0.35</td></tr> <tr><td>East Hampshire...</td><td>0.32</td></tr> <tr><td>Waverley Borough...</td><td>0.30</td></tr> <tr><td>Surrey Heath Borough...</td><td>0.28</td></tr> <tr><td>East Hertfordshire...</td><td>0.28</td></tr> <tr><td>Brentwood Borough...</td><td>0.28</td></tr> <tr><td>Tandridge District...</td><td>0.25</td></tr> </tbody> </table> </div> <ul style="list-style-type: none"> This shows the Council holds an above average level of reserves compared to their 'nearest neighbours'. 	Authority	Ratio (Estimated)	Borough of Broxbourne	0.78	South Bucks District...	0.75	Reigate and Banstead...	0.62	Three Rivers District...	0.60	Hertsmere Borough...	0.50	Epping Forest District...	0.45	Epsom and Ewell...	0.42	Sevensoaks District...	0.40	Chiltern District Council	0.38	Spelthorne Borough...	0.35	East Hampshire...	0.32	Waverley Borough...	0.30	Surrey Heath Borough...	0.28	East Hertfordshire...	0.28	Brentwood Borough...	0.28	Tandridge District...	0.25	<p style="text-align: center;">● Green</p>
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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. The Council was anticipating utilising £1.6m to support the budget in 2010/11, however due to improved service performance combined with a savings programme resulted in the actual amount expended being under £300k. The MTFS for the next 3 years budgets for £753k of general fund reserves to be utilised, which is less than the total favourable variance on the use of general fund reserves in 2010/11 of £1.26m The MTFS recognises the importance of maintaining sufficient balances to deal with unforeseen events and to cover the potential risk of not achieving required savings levels. 	 Green

Key:

- 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								
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="645 592 1518 1038" style="text-align: center;"> <h3>Working capital ratio</h3> <table border="1" style="margin: auto;"> <caption>Working capital ratio data</caption> <thead> <tr> <th>Year</th> <th>Working capital ratio</th> </tr> </thead> <tbody> <tr> <td>2009</td> <td>11.8</td> </tr> <tr> <td>2010</td> <td>6.8</td> </tr> <tr> <td>2011</td> <td>6.2</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, Three Rivers 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 1.09:1 which would not be considered unreasonable. 	Year	Working capital ratio	2009	11.8	2010	6.8	2011	6.2	 Green
Year	Working capital ratio									
2009	11.8									
2010	6.8									
2011	6.2									

Key: ● High risk area
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 ● No causes for concern

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="616 622 1803 1157" data-label="Figure"> <p style="text-align: center;">Working capital ratio - 2009/10</p> <table border="1"> <caption>Working capital ratio - 2009/10</caption> <thead> <tr> <th>Authority</th> <th>Working Capital Ratio (approx.)</th> <th>Risk Status</th> </tr> </thead> <tbody> <tr><td>East Hertfordshire</td><td>10.2</td><td>Potential risks</td></tr> <tr><td>South Bucks District</td><td>9.5</td><td>Potential risks</td></tr> <tr><td>Epping Forest District</td><td>7.2</td><td>Potential risks</td></tr> <tr><td>Borough of Broxbourne</td><td>6.8</td><td>Potential risks</td></tr> <tr><td>Surrey Heath Borough</td><td>6.8</td><td>Potential risks</td></tr> <tr><td>Three Rivers District</td><td>6.8</td><td>No causes for concern</td></tr> <tr><td>East Hampshire District</td><td>6.2</td><td>Potential risks</td></tr> <tr><td>Chiltern District Council</td><td>5.5</td><td>Potential risks</td></tr> <tr><td>Sevenoaks District</td><td>4.8</td><td>Potential risks</td></tr> <tr><td>Hertsmere Borough</td><td>3.5</td><td>Potential risks</td></tr> <tr><td>Epsom and Ewell</td><td>3.5</td><td>Potential risks</td></tr> <tr><td>Waverley Borough</td><td>3.5</td><td>Potential risks</td></tr> <tr><td>Spelthorne Borough</td><td>3.0</td><td>Potential risks</td></tr> <tr><td>Reigate and Banstead</td><td>2.8</td><td>Potential risks</td></tr> <tr><td>Tandridge District</td><td>2.5</td><td>Potential risks</td></tr> <tr><td>Brentwood Borough</td><td>1.8</td><td>Potential risks</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 (approx.)	Risk Status	East Hertfordshire	10.2	Potential risks	South Bucks District	9.5	Potential risks	Epping Forest District	7.2	Potential risks	Borough of Broxbourne	6.8	Potential risks	Surrey Heath Borough	6.8	Potential risks	Three Rivers District	6.8	No causes for concern	East Hampshire District	6.2	Potential risks	Chiltern District Council	5.5	Potential risks	Sevenoaks District	4.8	Potential risks	Hertsmere Borough	3.5	Potential risks	Epsom and Ewell	3.5	Potential risks	Waverley Borough	3.5	Potential risks	Spelthorne Borough	3.0	Potential risks	Reigate and Banstead	2.8	Potential risks	Tandridge District	2.5	Potential risks	Brentwood Borough	1.8	Potential risks	
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Key: ● High risk area
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 ● No causes for concern

Overview of performance

Area of Focus	Summary observations	High level risk assessment								
Workforce	<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="645 579 1570 1117" data-label="Figure"> <p style="text-align: center;">Average number of sickness absence days</p> <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>public sector</td> <td>8.0</td> </tr> <tr> <td>TRDC</td> <td>6.6</td> </tr> <tr> <td>private sector</td> <td>6.0</td> </tr> </tbody> </table> </div> <ul style="list-style-type: none"> The Council has managed to reduce the average sickness absence days from 7.9 days per employee in 2009/10 to 6.6 days per employee, although some of the reduction will be reflective of the reduction in the workforce due to the commencement of the shared service arrangement with Watford BC. 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	public sector	8.0	TRDC	6.6	private sector	6.0	<p style="text-align: center;">● Green</p>
Category	Average number of sickness absence days									
public sector	8.0									
TRDC	6.6									
private sector	6.0									

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 MTFS</p>	<ul style="list-style-type: none"> • An updated Medium Term Financial Strategy (MTFS) has been prepared that runs to 2013/14, which includes a 10 year high level income and expenditure analysis with associated impact upon the reserve balances and was presented to Executive in January 2011 for approval. • The MTFS is set up so to establish the Council's strategy for the next three 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 resulting in 20% reduction in revenue over the next 3 years. By anticipating the potential reductions at an early stage the Council was able to prepare proposals for significant cost reductions from 2011/12 onwards. • Review of the MTFS makes it clear that the plan is applying resources so as to achieve the Council's priorities. When the MTFS was refreshed in November 2010 the Council utilised data from the citizens panel survey regarding the responses to the Council on their priorities with regard to service delivery, cost and quality of service. • 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 projects are in line with these priorities and all projects are phased appropriately and in line with available resources. 	<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 MTFS is monitored on a monthly basis together with the impact on the reserve balances for the next 3 years. Part of dealing with the cost pressures faced by the Council is the achievement of savings targets. These savings are seen as being of importance as the Council wants to maintain a strong level of general balances. The Council, however, have a very healthy level of general reserves to fall back on should the efficiency savings not reach expected levels. The proposed savings targets are shown below: <div data-bbox="840 574 1713 1037" data-label="Figure"> <p style="text-align: center;">Proposed efficiency savings (£m)</p> <table border="1"> <caption>Proposed efficiency savings (£m)</caption> <thead> <tr> <th>Year</th> <th>Proposed efficiency savings (£m)</th> </tr> </thead> <tbody> <tr> <td>2011/12</td> <td>0.62</td> </tr> <tr> <td>2012/13</td> <td>0.85</td> </tr> <tr> <td>2013/14</td> <td>0.85</td> </tr> </tbody> </table> </div> <ul style="list-style-type: none"> In terms of the savings required, the Council is felt to be in a strong position given the significant progress made with the 2011/12 savings package. As this shows, the greater the level of recurring savings that can be found, the less the impact on subsequent years. 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. 	Year	Proposed efficiency savings (£m)	2011/12	0.62	2012/13	0.85	2013/14	0.85	<p style="text-align: center;">● Green</p>
Year	Proposed efficiency savings (£m)									
2011/12	0.62									
2012/13	0.85									
2013/14	0.85									

Medium Term Financial Strategy

Area of Focus	Summary observations	High level risk assessment
<p>Scope of the MTFS</p>	<ul style="list-style-type: none"> • The Council's current MTFS covers the period up to 2014/15 in detail and also includes a 10 year forward looking summary MTFS for revenue and capital budgets. • 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, Three Rivers saw a reduction in their formula grant for 11/12 of £933k (17.4%) and a further reduction of £695k (14.8%). Future years will need to be reviewed as there is increased clarity over central government funding. • The Annual Budget and MTFS presented to the Executive in February 2011 covers savings and growth targets for the 2011/12 budget process. • The budget for 2011/12 was approved by the Executive in January 2011 as part of the approval of the strategic plan 2011-2014. • 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>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 MTFS is being monitored closely and any changes being taken into account. The Council prepare a 3 year forward snapshot of the MTFS and impact on balances and take this to every cycle of committee meetings. • The MTFS is updated each year as part of the annual planning cycle. All changes are monitored on an on-going basis. The MTFS presented to the Executive and Cabinet 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 Resources policy and scrutiny committee cycles, the Council identify a number of potential operational risks, which are risk rated and subsequently monitored. Review of the risks has found that there are no risks that would require the inclusion to the MTFS. • 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 or utilise further reserve balances. • The current performance of the Revenues and Benefits section, £549k overspend against original budget in 2010/11, could impact the level of savings the Council has to generate over the next 3 years, any deterioration in performance could result in additional savings having to be generated. • Ultimately, it is felt that all savings included within the plan should be achievable. However, the Council monitor the reserve movements, as part of the monthly budget monitoring pack. In 2010/11 the Council achieved a £1.2m positive variance on the expected level of reserves as at the year end and consequently this has boosted the level of reserves to nearly £8m, which places the Council in a very good position to achieve their MTFS. • Savings programme performance for 2011/12 is that from the £611,990 of budgeted savings targeted, the Council has identified £387,790 of savings as at the end of period 6 of 2011/12 which is ahead of target. 	<p style="text-align: center;">  Green </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, the committees receive monthly budget monitoring reports to highlight and enable the scrutiny of budget performance. The report is then presented to the Executive. The monthly budget packs are produced and placed on the intranet for the committee members to review. The packs contain detail of variance analysis and identifying the reason for the variance but there is no document that outlines any remedial action to correct the variances or commentary from the previous months variances identified to analyse whether the remedial action has corrected the variance. The Council planned that the appropriate financial skills were in place across the organisation but since the transfer to a shared service centre, certain processes have lapsed, in particular the process of reconciliation between systems. The delivery of the accounts on 14 July 2011, was after deadline and the combination of these elements has led to concern around the deliverability of the shared service finance function. The Council has demonstrated a very open environment of open challenge by canvassing the political groups on the strategic plan and the assumptions of the MTFS and proposed efficiency plans. Both parties returned a paper to the 22 February Council meeting in February 2011 outlining their approval and agreement/disagreement with the various parts of the MTFS. The MTFS assumptions were approved by both political parties with no major objections. There are comprehensive policies and procedures in place for all members and officers, which outline responsibilities. The Council's dedication to member training is considered an area of strength. The IT arrangements were assessed by an external consultant who concluded that there were major infrastructure issues to address as well as insufficient data storage capacity, failure of back ups of data and the current path of web traffic requires re-routing. Significant change and investment is needed to improve IT arrangements. 	<p style="text-align: center;">  Amber </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
Stakeholder Engagement	<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, members and the Citizens panel. • In November 2009 the Council engaged the services of an external provider to perform the budget consultation survey, a survey that involved the postal canvassing of 1,201 citizens panel members to consult on; <ul style="list-style-type: none"> ➤ Changes in the Three Rivers DC service provision ➤ Changes in council tax for Three Rivers DC • The consultation involved presenting the Panel a list of 26 services and respondents were asked if they thought it was: <ul style="list-style-type: none"> ➤ Spending more on services ➤ Maintaining services as they are ➤ Reducing spending on services • The heads of service and management board updated the Strategic plan, which incorporates the MTFs, for 2010 - 13 and 2011 - 14 in August 2010, which was presented to and approved by the Executive in September 2010. • Heads of service produced a cost reduction pro-forma templates to review services, which takes into account the view from the citizens panel and assesses the impact of the budget reduction with regard to. <ul style="list-style-type: none"> ➤ Service delivery ➤ Cost ➤ Quality of service • The Council sought the views of both the political groups in approval of the 2011-14 Strategic plan. • Member training remains an area of strength for the Council and members have a 3 year training programme but the Resources Policy and Scrutiny committee assess member needs on an individual basis. 	 Green

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>	<p>The Executive receive monthly budget 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:</p> <ul style="list-style-type: none"> • Revenue summary income and expenditure account • Revenue - explanation of variances • Capital investment programme • Capital investment programme - variances • Capital - funding available • Capital - 3 year MTFS • Financial & Budgetary risks • Income from fees and charges • Reserves and balances <p>The Council have recognised the importance of a clear understanding of financial information. The Council has now strengthened its reporting pack to include:</p> <ul style="list-style-type: none"> • Key budget indicators - which focuses on income streams and the payroll cost • Cost reductions and efficiencies, broken down by service and activity 	<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"> • The monthly finance position reports presented to the Executive include significant detail of variances over the next 3 years broken down by service, the narrative included within the report provides a reason for the variance together with corrective action to be taken to address the variance. • The statement of accounts includes detail on performance against budget and provides explanations for all significant movements. • The monthly finance position report provides analysis of income from fees and charges by volume and value per month, commentary is provided but the presentation of the information could be improved with the introduction of target annual values per income stream. The narrative is quite detailed and the introduction of target values will further strengthen the presentation of information. 	<p style="text-align: center;">  Amber </p>

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"> The Council have, as part of their budget setting, identified savings for 2010/11 totalling £82k combined with service efficiencies throughout the year resulted in the Council returning a positive variance of £1.27m on the budgeted deficit. The result was a reduction to the general fund balance of £299k as opposed to the originally budgeted reduction of £1.58m. Over £2.3m of savings have been included within the budget for the next 3 years from 2011/12 to 2013/14, these are described as efficiencies and are reviewed on a monthly basis, a practice which commenced in month 5 of 2011/12. The Council currently hold £7.933million, as at 31 March 2011, in general fund balances to support the MTFS, which is above the expected level of balances a district council would be expected to hold. The Council are expecting to utilise £753k of general fund balances to support expenditure in the next 3 years, which will impact their general reserves position reducing to just over £7m. This is a very healthy position for the Council to be in. Overall performance against budget confirms that the Council has a good track record of delivering the budget. The focus of income budget monitoring is to record the income received in the month. The comparison would further benefit from preparing monthly income targets and comparing against the actual income recorded providing reasons for variance. 	 Green
Finance Department resourcing and qualifications / experience	<ul style="list-style-type: none"> The current finance department is adequately resourced consisting of 19 employees, with 7 employees being CCAB qualified and another 4 employees having taken relevant exams to allow them to enter the path of progression to CCAB level. The pipeline to ensure continuity of professional competence is evident. The finance team have been in place in Three Rivers DC for a number of years and we have experienced no issues in the production of accounts in the previous years but this year proved not to be as effective as in previous years with the delay in the provision of information that stretched the sign off date from 7 September 2011 to 30 September 2011. We felt that this year the shared service finance team, that provided the accounts for both Three Rivers DC and Watford BC was impacted with the requirements of both Councils for a year, timetabling issues and consequently could not provide the same level of effective service of previous years, this is reflected in the number of reconciliations between systems that are no longer performed in a timely manner. The shared service finance function delivered the complete set of accounts with notes 14 days after the national deadline. The age profile of the key finance employees that produce the accounts is nearing retirement age and the Council will have to think about the future continuity of the service and identify replacement resources. 	 Amber

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"> • In April 2010 a new financial management system was implemented for both Three Rivers DC and their partner in shared services Watford BC. Time has been invested in harmonising the systems but teething issues are to be expected. • The most recent Internal Audit report on the shared main accounting and budgetary control system was produced in respect of reconciliations and issued as a draft report dated 16 March 2011. This report assigned 'Limited Assurance' to the reconciliation process, which means unsatisfactory controls or inconsistent application putting some control objectives at risk. • The lack of reconciliations being prepared on a timely basis was further supported by the annual internal audit report 2010/11 that made this point one of the 5 key issues reported on. • The Council would benefit from adopting a purchaser provider relationship with the finance function and ensuring that no slippage in deadlines occurs and all products and reconciliations are carried out on a regular basis. by agreed deadlines. 	<p style="text-align: center;">● Amber</p>
<p>Internal audit arrangements including compliance with CIPFA Code of Practice for Internal Audit</p>	<ul style="list-style-type: none"> • The current internal audit function provides internal audit services to both Watford Borough Council and Three Rivers District Council . • For the year 2010/11, Internal Audit was an in-house function having taken over from the prior external providers Deloitte. Performance of the function has been strong over the past few years and the level of plan completion was good. • The Internal Audit annual report of 2010/11 gave satisfactory assurance of the adequacy and effectiveness of the control environment of the Council, • Annual reviews of the Internal Audit function at Three Rivers have not highlighted any significant issues in relation to the CIPFA Code of Practice for Internal Audit. • The budgeted number of days allocated for Three Rivers DC for 2011/12 is 258 days, which includes the Three Rivers DC specific audits as well as the shared service allocation of days. The number of days, although on the high side for a District Council, should ensure a very robust and challenging audit for the council services. • An analysis of implemented recommendations issued by internal audit from the analysis of the analysis taken to the audit committee on 16 June 2011 found that there had been an increase in the number of recommendations implemented, from 2008/09 - 2010/11 334 recommendations have been implemented and 41 recommendations are outstanding not including the ICT recommendations issued. The progress of implementation of the recommendations needs to continue in what will be a challenging year. 	<p style="text-align: center;">● Amber</p>

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 2011. • The Council had implemented all outstanding external audit recommendations in 2010/11. • The Council received unqualified accounts and value for money opinions on 30 September, in line with the national deadline of 30 September 2011. • The Council's Annual Governance Statement required a significant control risk regarding IT to be separately disclosed from control risk surrounding shared services and shown in isolation to reflect the issues the Council is experiencing with information technology. 	<p style="text-align: center;">  Green </p>

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