



## **Three Rivers District Council**

### **Value for Money Conclusion 2009/10**

**November 2010**

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# 1 Executive Summary

## Background and purpose of the report

- 1.1 Under the Audit Commission's Code of Audit Practice we are required to reach a conclusion on whether Three Rivers District Council ('the Council') has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion'). On the basis of the work completed we issued an **unqualified** Value for Money conclusion on 24 September 2010.
- 1.2 We described in our Audit Plan (March 2010) the areas of audit work that provide us with the assurance that contributes to our annual VFM conclusion. This report sets out our findings from these pieces of work:
- our assessment of the Council's Use of Resources ('UoR'), using the three themes within the Audit Commission's assessment framework and Key Lines of Enquiry ('KLoE'),
  - specific work on locally identified audit risks, which contribute to our VFM conclusion by feeding into our UoR assessment (now abolished - see below)

This report sets out our findings from these pieces of work to arrive at the unqualified conclusion.

## Key findings and action required by the Council

- 1.3 The wider requirements of the Use of Resources (UoR) assessment have recently been abolished and will not be formally scored for this year. However, we set out in this report discussions of each theme and areas for improvement based on the work we had completed at the time the arrangements ceased.
- 1.4 The headline findings are as follows:
- The Council remains proactive in service planning based on stakeholder feedback and continues to utilise various forums to obtain feedback on services the public prioritise so the Council may direct resources into those areas.
  - Improved performance monitoring in the past two years has aided timely and efficient accounts closure further magnified by the fact that during the audit the finance functions of Three Rivers DC and Watford BC were reconfigured to be provided from one location and reflected in the ISA260, report on the accounts which contained no material adjusting entries.
  - The Council's use of natural resources was considered for the first time this year. We noted that the Council had proactively put in place a detailed Sustainability Service plan with an associated action plan.

- Member training remains an area of strength, a 3 year member training support plan is in place for all members and the Resources Policy and Scrutiny Committee have recommended that after this period the need for training is assessed on an individual basis.
- 1.5 The key actions for the Council, relevant to the areas covered by our VFM conclusion, are as follows:
- The Council should continue to put data sharing protocols in place to encompass all partners.
  - With the transition to IFRS accounting there will be significant changes to the way fixed assets are accounted for. The Council needs to maintain the momentum that has been built up to have adequate systems and processes in place ensuring the transition is a smooth process. Restating the 2009/10 accounts to an IFRS basis will assist in this process. The Council has been pro-active in seeking early transition advice.
  - The reporting of how the Council has performed to members of the public is based upon a set of indicators that also demonstrate the direction of travel. Although the report is visually impacting, there is limited amount of information regarding the Council finances and how the Council Tax raised has been allocated and what has been achieved in the year.

## Way forward

- 1.6 As the Use of Resources framework has now been abolished the key areas of improvement identified will not be followed up specifically through an assessment process. The Council should look to develop action plans on those areas that link directly with Corporate Priorities.
- 1.7 Given the scale of the pressures facing public bodies in the current economic climate, the Audit Commission has reviewed its work programme for 2010/11 onwards. As part of this exercise, the Commission has been discussing possible options for a new approach to local value for money (VFM) audit work with key national stakeholders. From 2010/11 we will therefore apply a new, more targeted and better value approach to our local VFM audit work. This will be based on a reduced number of reporting criteria specified by the Commission, concentrating on:
- o securing financial resilience; and
  - o prioritising resources within tighter budgets.
- 1.8 We will determine a local programme of VFM audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities. We will no longer make annual scored judgements relating to our local VFM audit work. Instead we will report the results of all the local VFM audit work and the key messages for the audited body in our annual report to those charged with governance and in a clear and accessible annual audit letter.

**Grant Thornton UK LLP**  
**November 2010**

## 2 Scope of our work

### Introduction

- 2.1 In carrying out our audit work we comply with the statutory requirements governing our duties, set out in the Audit Commission Act 1998, in accordance with the Code of Audit Practice (the Code). The Code requires us to issue a conclusion on whether Three Rivers District Council ('the Council') has proper arrangements in place for securing economy, efficiency and effectiveness in the use of its resources ('VFM conclusion').
- 2.2 Our VFM conclusion is informed by our use of resources work which, in Councils, is based on the Audit Commission Use of Resources (UoR) assessment. However, prior to conclusion of our work the new Coalition Government abolished the Comprehensive Area Assessment (CAA), which included the requirement for a scored UoR assessment.
- 2.3 Notwithstanding this, although we are not able to report scores for 2009/10 it is important to provide feedback on the work that we have completed to date. We set out below improvements identified since the previous year and assessed where there are opportunities to address areas of weakness.

### Approach to the audit

- 2.4 The assessment was carried out between December 2009 and May 2010. We reviewed the Council's arrangements against eight KLoEs within the three UoR themes prescribed by the Audit Commission. Our work was based on review of written evidence and meetings with senior management and officers.
- 2.5 The key findings in each of the themes, and areas for improvement, are set out below.

### Acknowledgements

- 2.6 We would like to record our appreciation for the co-operation and assistance provided to us by the Council's management and officers during the course of our audit.

## Use of this report

- 2.7 This report has been prepared solely for use by the Council to discharge our responsibilities under the Audit Commission Code of Audit Practice and relevant auditing standards and should not be used for any other purpose. No responsibility is assumed by us to any other person.
- 2.8 This report includes only those matters that have come to our attention as a result of performance of the audit. An audit of Use of Resources is not designed to identify all matters that may be relevant to those charged with governance. Accordingly the audit does not ordinarily identify all such matters.

## 3 Managing finances

3.1 The managing finances assessment covers the following areas:

- planning finances to deliver priorities and sound financial health
- sound understanding of costs and performance / achieving efficiencies
- timely and reliable financial reporting and meeting stakeholder needs.

Our assessment of the Council's performance in these areas is set out below.

### **Planning finances to deliver priorities and sound financial health**

3.2 The Council has fully integrated financial and service planning processes. The Council has a 3 year strategic plan in place, which is reviewed by the management board and the Executive Committee annually, the objectives of the strategic plan are cascaded down into service plans. The service plans are subject to further scrutiny, once approved are incorporated into the budget, and monitored as part of the monthly budget scrutiny. The Council has budgeted for a £1.9million revenue gap in 2010/11 and plans to utilise the Council's balances over the short term to address the shortfall. This will, however, need to be updated for the detailed impact of the Spending Review announced in October 2010 and the frontloading of the reduction of revenue support grant in 2011/12.

3.3 The Council has continued to maintain its high level of engagement with stakeholders and hard to reach groups. The Council consult stakeholders on the budget via on line surveys and the 'citizens panel', comprising of local tax payers, and ask stakeholders to prioritise services and express an opinion as to the acceptable level of council tax increase to pay for the services. Each service plan produced by the Council now has a section on customer insight, which provides details of stakeholding groups consulted and resulted in the Council receiving a customer service excellence award.

3.4 In 2009/10 the Council entered into an agreement with Watford BC to share Revenues and benefits, finance, IT, and human resources services. Through the service re-design the Councils expect to produce significant savings.

3.5 Treasury Management training, delivered by Sector, the Council's treasury management advisors, was provided for members on 30 September 2009. Financial training has also been provided on the financial statements and the impact of International Financial Reporting Standards (IFRS).

3.6 A process of ongoing scrutiny exists for the financial plans and management arrangements across the Council. This is achieved through a fully resourced annual internal audit plan, an effective Audit Committee (supported by ongoing training), regular Section 151 update meetings, Resource Policy and Scrutiny committee

challenging financial assumptions through the scrutiny of key decision reports on financial performance and the MTFS.

- 3.7 The Council has shifted resources to help meet its priorities and has been able to demonstrate outcomes. It needs to ensure that there is a clear focus to use money to support priority areas of spend. This is increasingly important given the recent spending review.

**Sound understanding of costs and performance/achieving efficiencies**

- 3.8 The Council refreshed and updated their value for money strategy in February 2010 and have produced a more defined detailed strategy. The new strategy concentrates on measuring the service against quality standards, benchmarking the service against comparative data and ensuring the resources are allocated to the Councils priorities, as defined by their strategic plan. .

- 3.9 The Council has commenced the process of benchmarking data of all services but have not performed reviews on all services, the process of which is to continue into 2010/11 before full coverage is achieved. Once achieved this will aid the Council in more informed decision making.

- 3.10 For all major investment decisions and service changes the Council undertakes full scenario analysis in order to evaluate the options for consideration, the risks that need to be mitigated, external factors that may have an influence and the whole life costs/benefits that are expected to result. Recent examples include the decision by the Council as to whether to retain the housing stock and get fit for the decent homes standard or whether to transfer the housing stock, under the large scale voluntary transfer agreement, to a housing association. The Council opted for the transfer option as the option of having the stock fit for decent homes standard would have cost £197million over 30 years. Whole life costing was also utilised in the decision to combine Three Rivers DC and the Watford BC services, such as revenues and benefits, into one shared service.

**Timely and reliable financial reporting and meeting stakeholder needs**

- 3.11 The Council tests the financial and budgetary control system on an annual basis using its internal audit function. The financial system provides profiled budgets, and is closed down promptly. The Council has a track record of producing reliable and accurate financial information, including a good quality of projected information in Medium Term Financial Strategy (MTFS) and Strategic plans. This is supported by the conclusions of Internal Audit Service and from work done during our own audit planning process. Budget monitoring reports produced from the main accounting system demonstrate an appropriate level of detail.

- 3.12 The Council produce detailed budget monitoring packs with variance analysis accompanied by explanations of the variance to budget. The area where improvement can be made would be the reporting of performance to the public and stakeholders. Presently, the Council produce an annual report that provides a list of performance measures together with a direction of travel. However, the information in the annual report does not include any financial information for the user.

- 3.13 The Council's accounts were submitted for audit in accordance with the required timetable. The Council provided a set of accounts and notes to the accounts supported by working papers in both paper and electronic format, all queries were responded to on a timely basis. The auditors provided an unqualified opinion on the accounts. From review of the ISA 260, there was no evidence of non-compliance with accounting standards or agreed accounting policies and no delays were experienced in the audit process. The Council is on track for the implementation of IFRS and during 2009/10 there were 2 surveys carried out to check the progress of IFRS, marked in a traffic light format. The Council were rated as 'Amber' and are on track for the implementation of IFRS.
- 3.14 The improved performance monitoring noted in the last two years has aided a timely and efficient accounts closure. The timely provision of financial information throughout the year enables a clear understanding of the financial position. The accounts provided for 2009/10 were good, with clear working papers provided as requested. Going forward, the Council has engaged in significant discussions around IFRS and its likely impacts.

## 4 Governing the business

4.1 Governing the business theme considers four areas:

- commission and procure quality services tailored to local need
- produce relevant and reliable data and information to support decision making and manage performance
- promotion and demonstrating the principles and values of good governance
- managing risks and maintaining a sound system of internal control.

Our assessment of the Council's performance is set out below.

### **Commission and procure quality services tailored to local need**

4.2 The Procurement Strategy outlines the Council's main procurement aims and where appropriate it links these to the Sustainable Community Strategy. The Strategic plan has been modified to include other strategies including the sustainability action plan, which in turn is devolved into service plans making for a clearer understanding of relationships.

4.3 Hertfordshire Pathfinder continues, with the objective being to break down the barriers between authorities and work together to commission the future provision of services together, resulting in greater resilience, improved working practices, improved customer focus and the delivery of savings. The Council has engaged stakeholders for consultation on the commissioning of services, which was demonstrated in the feedback results of the outdoor gym's situated in Ebury play area and Leavesden country park. In addition, feedback on services is obtained through the customer satisfaction survey covering all services of the Council.

4.4 The Council is an active participant in working in partnership with Watford BC and in 2009/10 combined the services of Revenues and Benefits, human resources, Finance and IT in a move to reduce the overall cost of service and seek to make efficiencies where possible to provide a lower cost service for the local tax payer..

### **Produce quality data and information to support decision making**

4.5 The Council's Data Quality Strategy has been in place for a full calendar year and is informed by internal audit activity. The Council has developed data sharing protocols with partners but a protocol is not yet in place with the County Council.

4.6 To confirm the data quality of the Council we relied upon the prior year data quality testing, which encompassed housing benefits data quality testing which did not highlight any significant issues. Furthermore, the results of the testing of national

indicators performed by internal audit and reported in September 2009 found no significant errors with the data quality.

- 4.7 Service plans include partnership targets and Local Area Agreement Targets where relevant. Performance targets are reported quarterly, including for all key partners, such as the shared service joint committee, as well as the Local Area Agreement and LSP Priorities, are reported to the Policy and Scrutiny Committees.

**Promote and demonstrate principles and values of good governance**

- 4.8 The Council has a strong track record of good standards of conduct, which are assessed annually by the Standards Committee. Members have a training support plan, which sets out a 3 year programme for members commencing at induction and leading to more specialist skills later in their term of office, it is considered that there is a good level of focus on member training. Members declined the opportunity for individual appraisals but the Policy and Resources committee have recognised the need for member training needs to be assessed on an individual basis.
- 4.9 The Council maintains its vision and has an open outward facing culture, with a clear focus on the needs of the local community. The Council performs extensive satisfaction and feedback surveys throughout the year to ensure they are meeting stakeholder needs. This is reflected in the Place survey, which indicates overall satisfaction of the Council, which rated Three Rivers DC at 54.4% a( the average rating was 45.4)and this was the highest rated District Council in Hertfordshire.
- 4.10 The Council has extended the application of its governance principles to include its strategic partners, initially through its partnership risk assessment process, which in turn contributes to the terms of reference when new partnerships are entered into. The Council is working to strengthen its governance arrangements in its partnerships, such as Hertfordshire Waste Partnership through participation on the relevant partnership boards. The Council has been able to demonstrate an effective contribution to partnership groups via the published group minutes.

**Manage risks and maintain a sound system of internal control**

- 4.11 The Council manages its current and future strategic risks through a risk management strategy that is approved and reported to the Audit Committee. All operational risks are reviewed by Audit Committee annually.
- 4.12 The ongoing focus on risk management is evidenced by agendas of partnership groups (e.g. Local Strategic Partnership, Community Safety Partnership, and the District Children's Trust Partnership). The assurance framework also incorporates a risk assessment of all partnerships. Operational Risks are included in all Service Plans, which are reviewed by relevant Policy and Scrutiny Committees half-yearly and on a rolling programme by the Officer Risk Management Group. Risk Management training is included in induction for all new staff.
- 4.13 The Council is achieving year on year outcomes against counter fraud objectives. Fraud risk assessments carried out by Internal Audit in recent years have not found significant issues with anti-fraud arrangements. Reports to the LSP use the Council's

standard template incorporating risk management implications where potential fraud and corruption risks would be reported. Benefit Fraud Risk is evaluated via an annual report and the Partnership risk assessment process picks up key fraud risk areas. The Housing Benefit Fraud team raised the following overpayments in 2008-09, Rent Allowance £118,798, Rent Rebate £15,728, Council Tax - £35,639, the Council receive and act upon National Anti Fraud Network alerts and supplied evidence of successful prosecutions for Housing Benefit fraud.

- 4.14 The Council is effective at enforcing the implementation of audit recommendations, reviewing outstanding actions at each meeting and holding responsible officers to account. The conclusions of the 2009-10 external audit, and work to date in 2010-11 indicate that the system of internal control remains.

## 5 Managing resources

### **Making effective use of natural resources**

- 5.1 This KLOE was assessed for the first time in 2009/10 across three areas of activity:
- understanding and quantifying the use of natural resources
  - managing performance to reduce its impact on the environment
  - managing environmental risks and working effectively with partners to do so.

Our assessment is set out in the following paragraphs.

### **Understanding and quantifying the use of natural resources**

- 5.2 The Council has in place a published sustainability service plan, which forms part of the Council's overall Strategic plan. The service plan is supported by an action plan, which sets out the objectives the Council has in place to tackle climate change and safeguard natural resources. This will enable the setting of realistic targets that are consistent with both their objectives and the means and resources available.
- 5.3 The Council has systems in place to quantify the following:
- Energy consumption
  - Carbon measurement
  - Water consumption
  - Levels of Council waste/recycling

### **Managing performance to reduce the Council's impact on the environment**

- 5.4 The performance measures are contained within the sustainability action plan and will be reviewed by the sustainable environment policy and scrutiny committee and the executive committee. The committee reviewed and then set the 2010/11 targets prior to the commencement of the financial year. The measures are designed to deliver the Sustainability action plan, which the Council consulted the public for feedback with a positive response. Going forward the Council will focus on monitoring the targets to identify the main areas of impact and put in place appropriate prioritised initiatives to support the delivery of the sustainability action plan.
- 5.5 Staff are encouraged to commit to the Council's approach to reducing its impact on the environment, which could become more formalised by presenting mandatory courses for staff every year.

**Managing the environmental risks faced and working effectively with partners**

- 5.6 The Council is attempting to manage the environmental risks it faces through the local development framework, which was refreshed in March 2010, and introduced an appraisal framework to allow sustainability impact assessments to be performed on all major projects going forward. The Council can minimise further environmental risks by looking at increased partnership working in achieving their objectives.
- 5.7 Three Rivers are part of the Hertfordshire and Essex Energy Partnership (HEEP) which offers grants towards a wide range of energy saving measures, including cavity wall insulation and loft insulation.

## Appendix A Action Plan

This action plan includes recommendations intended to assist the Council in improving its performance in key areas of its activity. Our priority system grades the most significant recommendations as High priority (on a scale of High to Low).

Ref.	Recommendation	Priority	Management response	Implementation details
3.12	The reporting of financial performance to stakeholders requires strengthening.	Medium	Agreed. Further consideration will be given to the financial information included in the Annual Report	June 2011
3.13	The Council should maintain momentum gained for the transition to IFRS reporting.	Medium	Agreed. The 2009/10 accounts will be restated by December 2010 and plans exist for a fully compliant set of 2010/11 accounts	June 2011
4.5	The Council should continue to put data sharing protocols in place to encompass all partners	Medium	A further approach will be made to our partners (particularly the County Council) to put protocols in place.	September 2011



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