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Three Rivers District Council

Review of the Council's arrangements for securing financial resilience

October 2012

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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 (DELs) for the four-year spending review period: 2011/12 to 2014/15. CLG funding was reduced by 26% over the period.

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

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

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

Our Approach

Value for Money Conclusion

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

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

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

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

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

Further detail on each of these areas is provided in the sections of the report that follow. In overall terms the conclusion from this report is that the Council has adequate arrangements in place for achieving financial resilience.

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

Green

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

Amber

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

Red

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

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

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

Overview of Arrangements

Area	Summary observations	Summary level risk assessment
Key Indicators of Performance	<ul style="list-style-type: none"> The Council has a good track record of financial management, achieving small underspends on budget in each of the last four 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 one and a half times over from the amount of usable reserves.. Sickness levels have continued to show 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. 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. The efficiency savings are of an achievable level and as reported to the Executive Committee in early September 2012 and the Council is on track to achieve the level of efficiency savings set at the beginning of the year. The Council can always call on the General Fund Reserve balance of £8.164million to make up any shortfall to the level of savings achieved. 	 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 and internet for the public 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 ensured that the appropriate financial skills were in place across the organisation that resulted in the a good quality set of accounts and related notes being received ahead of the 30 June deadline and the performance of the finance team resulted in the accounts being certified ahead of the national deadline of 30 September 2012. 	 Green
Financial Control	<ul style="list-style-type: none"> The Benefits service has not been processing the notification of regulation amendments from the DWP since July 2011, as a result the quantum of LA error overpayments has risen from £147,985 to £196,715. An analysis of the status of recommendations issued by internal audit to the audit committee on 27 September 2012 found that the percentage of recommendations implemented relating to 2010/11 and 2011/12 stood at 92% and 82% respectively. This is an improvement upon the previous year. Internal audit provided an opinion of limited assurance over the process for reconciling Revenues and Benefits, income to the e-financials system and to formalise the processes for producing the year end bank reconciliation. The Benefits shared service team processing speed for new claims and change of circumstances was well below the national average with new claims being processed in 37 days (DWP national average 23.90 days) and change in circumstances being processed in 29.3 days (DWP national average 10.3 days). The finance team that prepared the accounts for Three Rivers DC provided a good quality set of draft accounts and related notes supported by a comprehensive working papers file that was an improvement on the prior year and led to the Council receiving an unqualified accounts and value for money opinions on 28 September 2012, in line with the national deadline of 30 September 2012. A review of shared service budgetary control found that the Council has corrected the prior year overspend compared to budget and reduced the overspend from £500,000 in 2010/11 to £248,000 in 2011/12. 	 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 presentation of income charges could be improved with the introduction of target annual values per income stream			
	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.			
Financial Control	Housing benefit service to reduce the time taken to process new claims and change in circumstances to be more in line with DWP national averages.			
	Housing Benefit service to process the notification of regulation amendments from the DWP and to reduce the level of LA error overpayments.			
	Council to ensure all control reconciliations are performed on a regular periodic basis.			

2010/11 Financial Resilience recommendation follow up

Area of Review	Recommendation	Responsibility	Timescale	Update	RAG rating
Financial Governance	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.	Head of ICT	12-18 months	The Council are currently going through a process of addressing the issues with ICT via upgrading the infrastructure and assessing the future delivery of the service to ensure that a robust service with minimal delays is provided.	● Amber
	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.	Finance Manager (NP)	By September 2012	Recommendation has not been implemented.	● Amber
	The presentation of income charges could be improved with the introduction of target annual values per income stream.	Finance Manager (NP)	By February 2013	Recommendation is not due for implementation.	● Amber
	A complete set of draft accounts with accompanying notes should be provided to audit by the national deadline.	Head of Finance Shared Services	By June 2012	A complete set of accounts with accompanying notes was provided on 27th June 2012, ahead of national deadline.	● Green

2010/11 Financial Resilience recommendation follow up

Area of Review	Recommendation	Responsibility	Timescale	Update	RAG rating
Financial control	All high level / essential internal audit recommendations should be implemented within 6 months of their adoption.	All managers	By December 2012	A full report of internal audit recommendations was provided to the audit committee on 27 September 2012. Analysis of the recommendations found that there were 8 out of 20 high/essential recommendations awaiting to be implemented and only 2 had exceeded their agreed implementation date.	● Green
	Efforts should be made within the finance team to find additional capacity to meet deadlines.	Head of Finance Shared Services	By June 2012	The finance team has achieved all major statutory deadlines delivering 3 complete sets of accounts with related notes ahead of the statutory deadlines.	● Green
	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.	Director of Corporate Resources and Governance	Not to be adopted	Both Watford Borough and Three Rivers District Councils are looking to employ a shared S151 officer next year, there are currently no plans to put in place a separate Operations Director	● Amber

Section 2

Key Indicators

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

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

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

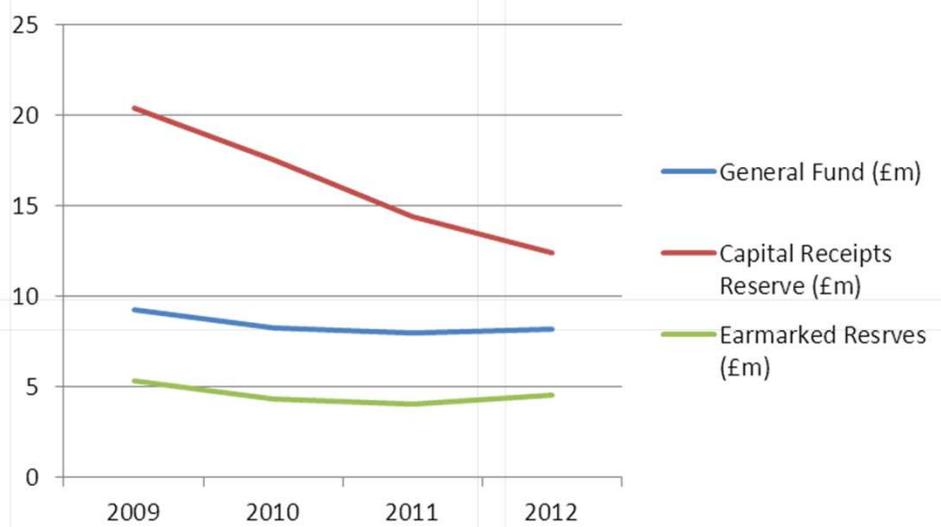
Overview of performance

Area of Focus	Summary observations	High level risk assessment															
<p>Performance Against Budget</p>	<table border="1"> <caption>Performance Against Budget Data (Estimated)</caption> <thead> <tr> <th>Year</th> <th>Outturn (£m)</th> <th>Budget (£m)</th> </tr> </thead> <tbody> <tr> <td>2009</td> <td>5.1</td> <td>3.4</td> </tr> <tr> <td>2010</td> <td>-0.5</td> <td>-1.8</td> </tr> <tr> <td>2011</td> <td>-0.2</td> <td>-1.5</td> </tr> <tr> <td>2012</td> <td>0.2</td> <td>-0.2</td> </tr> </tbody> </table>	Year	Outturn (£m)	Budget (£m)	2009	5.1	3.4	2010	-0.5	-1.8	2011	-0.2	-1.5	2012	0.2	-0.2	<p style="text-align: center;">●</p> <p style="text-align: center;">Green</p>
Year	Outturn (£m)	Budget (£m)															
2009	5.1	3.4															
2010	-0.5	-1.8															
2011	-0.2	-1.5															
2012	0.2	-0.2															
	<ul style="list-style-type: none"> The Council has a good track record in managing expenditure against budget, achieving small underspends of budget in each of the last four years. Per the 2010/11 certified statement of accounts, the underspend against budget was attributable to the general fund brought forward balance being £1.487million higher than when the budget was set. The most significant variances include a £492,000 the Council received from the New Homes bonus and a further £290,000 received from third parties. Of the services that have been included within the shared service unit, it is the revenues and benefits service that has not provided a saving from original budget. Of the £248,000 overspend from original budget, £359,000 of the loss was attributable to revenues and benefits service. 																

Key:

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

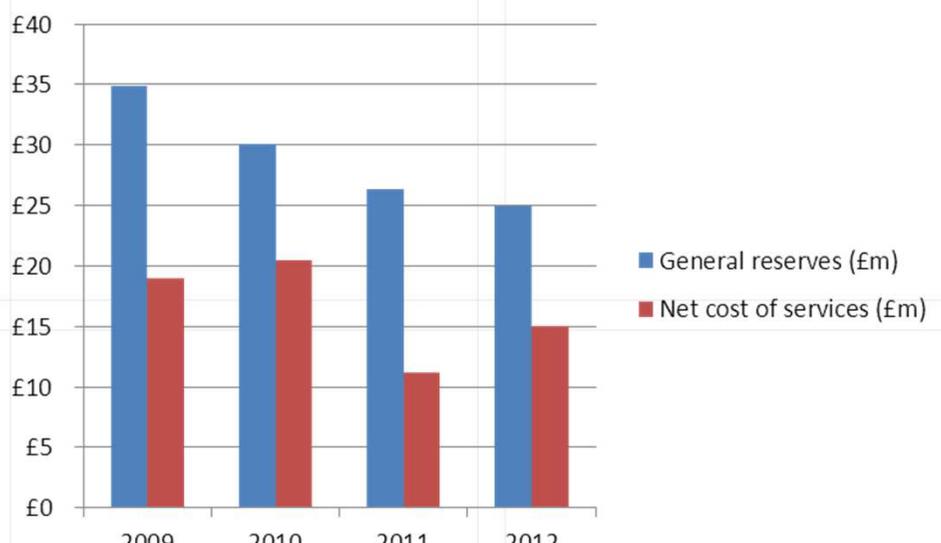
Overview of performance

Area of Focus	Summary observations	High level risk assessment																				
<p>Reserve Balances</p>	<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="627 574 1568 1101"> <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>20.5</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>8.2</td> <td>14.5</td> <td>4.2</td> </tr> <tr> <td>2012</td> <td>8.5</td> <td>12.5</td> <td>4.5</td> </tr> </tbody> </table> <ul style="list-style-type: none"> The balance of the capital receipts reserve has fallen from £17.486m in 2009/10 to £12.365m in 2011/12, a drop of 30%, but remain at a reasonably healthy level. 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	20.5	5.5	2010	8.5	17.5	4.5	2011	8.2	14.5	4.2	2012	8.5	12.5	4.5	<p style="text-align: center;">● Green</p>
Year	General Fund (£m)	Capital Receipts Reserve (£m)	Earmarked Reserves (£m)																			
2009	9.5	20.5	5.5																			
2010	8.5	17.5	4.5																			
2011	8.2	14.5	4.2																			
2012	8.5	12.5	4.5																			

Key:

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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 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="627 574 1568 1117"> <caption>Reserve Balances Data (Estimated from Chart)</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>26</td> <td>11</td> </tr> <tr> <td>2012</td> <td>25</td> <td>15</td> </tr> </tbody> </table> <ul style="list-style-type: none"> This highlights that whilst the level of reserves has fallen over the previous four 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 by a ratio of 1.66:1 in 2011/12. The net cost of services has risen from the prior year, which is primarily due to the fall of non distributable costs by £7million which are netted off against expenditure. 	Year	General reserves (£m)	Net cost of services (£m)	2009	35	19	2010	30	21	2011	26	11	2012	25	15	<p style="text-align: center;">  Green </p>
Year	General reserves (£m)	Net cost of services (£m)															
2009	35	19															
2010	30	21															
2011	26	11															
2012	25	15															

Key:

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

Overview of performance

Area of Focus	Summary observations	High level risk assessment																																				
<p>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="510 635 1803 1157" data-label="Figure"> <p style="text-align: center;">Useable reserves: GRE - 2010/11</p> <table border="1"> <caption>Useable reserves: GRE - 2010/11</caption> <thead> <tr> <th>Authority</th> <th>Ratio (Approximate)</th> </tr> </thead> <tbody> <tr><td>Borough of Broxbourne</td><td>0.80</td></tr> <tr><td>South Bucks District...</td><td>0.68</td></tr> <tr><td>Surrey Heath Borough...</td><td>0.52</td></tr> <tr><td>Three Rivers District...</td><td>0.50</td></tr> <tr><td>Chiltern District Council</td><td>0.40</td></tr> <tr><td>Epsom and Ewell...</td><td>0.38</td></tr> <tr><td>Sevenoaks District...</td><td>0.38</td></tr> <tr><td>Hertsmere Borough...</td><td>0.38</td></tr> <tr><td>Reigate and Banstead...</td><td>0.32</td></tr> <tr><td>East Hampshire...</td><td>0.28</td></tr> <tr><td>Spelthorne Borough...</td><td>0.25</td></tr> <tr><td>East Hertfordshire...</td><td>0.20</td></tr> <tr><td>Epping Forest District...</td><td>0.18</td></tr> <tr><td>Brentwood Borough...</td><td>0.18</td></tr> <tr><td>Waverley Borough...</td><td>0.15</td></tr> <tr><td>Tandridge District...</td><td>0.12</td></tr> <tr><td>Tandridge District...</td><td>0.10</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 (Approximate)	Borough of Broxbourne	0.80	South Bucks District...	0.68	Surrey Heath Borough...	0.52	Three Rivers District...	0.50	Chiltern District Council	0.40	Epsom and Ewell...	0.38	Sevenoaks District...	0.38	Hertsmere Borough...	0.38	Reigate and Banstead...	0.32	East Hampshire...	0.28	Spelthorne Borough...	0.25	East Hertfordshire...	0.20	Epping Forest District...	0.18	Brentwood Borough...	0.18	Waverley Borough...	0.15	Tandridge District...	0.12	Tandridge District...	0.10	<p style="text-align: center;">● Green</p>
Authority	Ratio (Approximate)																																					
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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 (continued)	<ul style="list-style-type: none"> It remains important 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 £257,000 of GF reserves to support the budget in 2011/12, however due to improved service performance combined with a savings programme resulted in the Council contributing £231,000 to the General Fund balance, which now stands at £8.164million. The MTFS for the next 3 years budgets for £1.281million of general fund reserves to be utilised, which would result in the Council,'s reserves reducing to £6.883million. 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
- No causes for concern

Overview of performance

Area of Focus	Summary observations	High level risk assessment										
<p>Liquidity</p>	<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 four years 2008/09 to 2011/12. <div data-bbox="645 608 1574 1054" style="text-align: center;"> <h3>Working capital ratio</h3> <table border="1" style="margin-left: auto; margin-right: 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> <tr> <td>2012</td> <td>5.2</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 over 5:1. 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 1.14:1 which would not be considered unreasonable. 	Year	Working capital ratio	2009	11.8	2010	6.8	2011	6.2	2012	5.2	 <p>Green</p>
Year	Working capital ratio											
2009	11.8											
2010	6.8											
2011	6.2											
2012	5.2											

Key:

- High risk area
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- No causes for concern

Overview of performance

Area of Focus	Summary observations	High level risk assessment																																		
<p>Liquidity (continued)</p>	<ul style="list-style-type: none"> As with usable reserves, the Audit Commission made comparative data available for 2010/11. 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="504 598 1848 1141" style="text-align: center;"> <h3>Working capital ratio - 2010/11</h3> <table border="1"> <caption>Working capital ratio - 2010/11 (Estimated values)</caption> <thead> <tr> <th>Council</th> <th>Working Capital Ratio</th> </tr> </thead> <tbody> <tr><td>Chiltern District Council</td><td>8.2</td></tr> <tr><td>Borough of Broxbourne</td><td>8.1</td></tr> <tr><td>South Bucks District...</td><td>7.9</td></tr> <tr><td>East Hertfordshire...</td><td>7.0</td></tr> <tr><td>Surrey Heath Borough...</td><td>6.5</td></tr> <tr><td>Epping Forest District...</td><td>6.4</td></tr> <tr><td>Sevenoaks District Council</td><td>6.3</td></tr> <tr><td>Three Rivers District...</td><td>6.1</td></tr> <tr><td>East Hampshire District...</td><td>6.0</td></tr> <tr><td>Waverley Borough...</td><td>4.3</td></tr> <tr><td>Epsom and Ewell...</td><td>4.2</td></tr> <tr><td>Reigate and Banstead...</td><td>3.7</td></tr> <tr><td>Spelthorne Borough...</td><td>3.4</td></tr> <tr><td>Hertsmere Borough...</td><td>3.3</td></tr> <tr><td>Tandridge District Council</td><td>2.8</td></tr> <tr><td>Brentwood Borough...</td><td>1.8</td></tr> </tbody> </table> </div> <ul style="list-style-type: none"> The Council is maintaining a positive working capital ratio and looks to be in a strong position, as evidenced by the comparison above. However, it is clear that working capital will come under increasing pressure as a result of the Spending Review and will need to be carefully monitored. 	Council	Working Capital Ratio	Chiltern District Council	8.2	Borough of Broxbourne	8.1	South Bucks District...	7.9	East Hertfordshire...	7.0	Surrey Heath Borough...	6.5	Epping Forest District...	6.4	Sevenoaks District Council	6.3	Three Rivers District...	6.1	East Hampshire District...	6.0	Waverley Borough...	4.3	Epsom and Ewell...	4.2	Reigate and Banstead...	3.7	Spelthorne Borough...	3.4	Hertsmere Borough...	3.3	Tandridge District Council	2.8	Brentwood Borough...	1.8	<p style="text-align: center;">● Green</p>
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Overview of performance

Area of Focus	Summary observations	High level risk assessment								
<p>Workforce</p>	<ul style="list-style-type: none"> The graph below shows that performance at the Council reflects well against both public sector and private sector averages: <div data-bbox="645 579 1570 1117" data-label="Figure"> <p style="text-align: center;">Average number of sickness absence days per FTE</p> <table border="1"> <caption>Average number of sickness absence days per FTE</caption> <thead> <tr> <th>Year</th> <th>Average number of sickness absence days per FTE</th> </tr> </thead> <tbody> <tr> <td>2009/10</td> <td>7.8</td> </tr> <tr> <td>2010/11</td> <td>6.6</td> </tr> <tr> <td>2011/12</td> <td>6.18</td> </tr> </tbody> </table> </div> <ul style="list-style-type: none"> The Council has managed to reduce the average sickness absence days from 6.6 days per employee in 2010/11 to 6.18 days per employee, representing further improvement on the prior year and brings the Council in line with the private sector. 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'. 	Year	Average number of sickness absence days per FTE	2009/10	7.8	2010/11	6.6	2011/12	6.18	<p style="text-align: center;">● Green</p>
Year	Average number of sickness absence days per FTE									
2009/10	7.8									
2010/11	6.6									
2011/12	6.18									

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 2014/15, 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 2012 for approval. In the prior year we rated the focus of the MTFS as green and from review of minutes and quarterly meetings with management there are no indications that there has been a deterioration in the focus of the MTFS. 	<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="627 638 1523 1069" 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>Financial Year</th> <th>Proposed efficiency savings (£m)</th> </tr> </thead> <tbody> <tr> <td>2012/13</td> <td>0.378</td> </tr> <tr> <td>2013/14</td> <td>0.345</td> </tr> <tr> <td>2014/15</td> <td>0.348</td> </tr> </tbody> </table> </div> <ul style="list-style-type: none"> As this shows, the greater the level of recurring savings that can be found, the less the impact on subsequent years. The efficiency savings are of an achievable level and as reported to committee in August the Council is on track to achieve the level of efficiency savings set at the beginning of the year. The Council can always call on the General Fund Reserve balance of £8.164million to make up any shortfall to the level of savings achieved. 	Financial Year	Proposed efficiency savings (£m)	2012/13	0.378	2013/14	0.345	2014/15	0.348	<p style="text-align: center;"> ● Green </p>
Financial Year	Proposed efficiency savings (£m)									
2012/13	0.378									
2013/14	0.345									
2014/15	0.348									

Key:

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

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. In the prior year we agreed that the scope of the MTFS was rated as green and from review of minutes, quarterly meetings and correspondence indicates that there has been no indication for us to amend our assessment from the prior year. 	<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 in September 2012. • As part of the Resources policy and scrutiny committee cycles, the Council identify a number of potential operational risks with the most recent being the localisation of council tax risk, 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. • 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 2011/12 the Council achieved a £257,000 positive variance on the expected level of reserves as at the year end and consequently this has boosted the level of reserves to over £8m, which places the Council in a very good position to achieve their MTFS. • Savings programme performance for 2012/13 is that from the £378,740 of budgeted savings targeted, the Council has identified that all savings are on target to be achieved by the year end.. 	<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.

The Number of internal and external recommendations that are 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 are provided with on line access to the 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 Executive committee members to review and internet for the public to view. 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. Concerns were raised in the prior year regarding the deliverability of the shared service function and the lapse in the process of reconciliation between systems. A full set of accounts with related notes was delivered on the 27 June 2012 that were of a good quality and subsequent audit of the accounts resulted in no adjusting entries being processed to the accounts. Furthermore, the lack of reconciliations is being addressed. 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 remains an area of strength. We identified the need to review the arrangements in respect of the ICT Shared Service for both Watford BC and Three Rivers DC, in particular to understand the plans for implementing recommendations from external consultants and audit, internal and external, and to assess the proposed scope for reviewing the future viability of the service. We are satisfied with the progress the Council has made. 	<p style="text-align: center;">  Green </p>

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

Understanding and engagement

Area of focus	Summary observations	High level risk assessment
<p>Stakeholder Engagement</p>	<ul style="list-style-type: none"> • Review of the budget setting process indicates that there is considerable engagement in the process both from senior officers, 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 • 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. 	<div style="text-align: center;">  <p>Green</p> </div>

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

Monitoring and review

Area	Summary observations	High level risk assessment
<p>Review of accuracy of Committee reporting</p>	<ul style="list-style-type: none"> • The Executive receive monthly 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: <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 • The Council have recognised the importance of a clear understanding of financial information. The Council has now strengthened its reporting pack to include: <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 	<div style="text-align: center;">  <p>Green</p> </div>

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

Monitoring and review

Area	Summary observations	High level risk assessment
<p>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;">  Green </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
<p>Performance against Savings Plans</p>	<ul style="list-style-type: none"> The Council have, as part of their budget setting, identified savings for 2011/12 and service efficiencies throughout the year resulted in the Council returning a positive variance of £231,000 on the budgeted deficit. The result was an increase to the general fund balance, which now stands at a healthy £8.164million. There has been an issue with the housing benefit service did not process notification of regulation amendments from the Department for Work and Pensions ['DWP'] (ATLAS) have not been actioned since July 2011. A comparison of LA error overpayments between current and prior years housing and council tax benefit claims has found that the quantum of overpayments rose sharply from £147,985 to £196,715, which is a minimal increase when compared to other Hertfordshire Districts. Subsidy rules are such that Councils do not receive subsidy for LA error overpayments. This amount, although it may be recovered over a period of years from claimants, initially will not be refunded by the DWP and will result in the amount being added to the savings target going forward. The Benefits shared service has had to request and be granted an additional £285,000 funding in order to address the budgeted overspend estimated for 2012/13. The Benefits shared service has engaged 2 external providers in an effort to deal with the increased caseload and to reduce the processing time for new claims and change of circumstances. The service has budgeted to pay the external contractors £174,200 and have budgeted a further £104,000 on temporary staff. The Council currently hold £8.164million, as at 31 March 2012, in general fund balances to support the MTFs, which is above the average level of balances a district council would be expected to hold. The Council are expecting to utilise £1.381million of general fund balances to support expenditure in the next 3 years, which will impact their general reserves position reducing to just over £6.7million. 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. A review of the shared service budgetary control found that in the prior year a comparison of original budget to actual costs found that the Committee had recorded a £500,000 overspend in 2010/11. A review of the shared service actual costs compared to original budget for 2011/12 found that the shared service returned a £248,000 overspend, a 50% reduction of the prior year overspend. The reduction in expenditure has corrected the downward trend of overspending against budget and has put the Committee on a path of upwards trajectory. Further analysis of the overspend found that the Revenue and Benefits service accounted for a £390,000 loss, which means the shared service delivered a £142,000 surplus before revenues and benefits was accounted for. 	<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
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 statement of accounts was certified by Grant Thornton UK LP on 28 September 2012, 2 days ahead of deadline and a 1 day improvement on the prior year. Concerns were raised in the prior year regarding the deliverability of the shared service function and the lapse in the process of reconciliation between systems. A full set of accounts with related notes were delivered on the 26 June 2012 that were of a good quality and subsequent audit of the accounts resulted in no adjusting entries being processed to the accounts. Furthermore, the lack of reconciliations has now been addressed. 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. The officer who compiles the accounts is due to retire in 2014 but arrangements have been put in place to ensure that a successor is in place, who will have 4 years experience in compiling local government accounts by 2014. 	 Green
Summary of key financial accounting systems	<ul style="list-style-type: none"> 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 in 2011/12. This report assigned 'Limited Assurance' to the reconciliation process, which means unsatisfactory controls or inconsistent application putting some control objectives at risk and specifically highlighted weaknesses in the following reconciliations: <ul style="list-style-type: none"> ➤ Academy Revenues and Benefits to e-financials ➤ Axis income system to e-financials The lack of reconciliations being prepared on a timely basis was further supported by the annual internal audit report 2011/12 that made this point one of the 4 key issues reported on. There has been an issue with the housing benefit service did not process notification of regulation amendments from the Department for Work and Pensions ['DWP'] (ATLAS) have not been actioned since July 2011. A comparison of LA error overpayments between current and prior years housing and council tax benefit claims has found that the quantum of overpayments rose sharply from £147,895 to £196,715, representing a 33% increase on the prior year. Subsidy rules are such that Councils do not receive subsidy for LA error overpayments. The increase in LA Error overpayments is not as great as that of other Hertfordshire District's, the Council has been shielded by the demographic of Rickmansworth. Furthermore, the performance of the Benefits service found that the processing speed of the service was below the national average by some distance with new claims being processed in 37.0 days (23.90days DWP average) and change in circumstances were being processed in 29.3 days (10.3 days is the DWP average). 	 Amber

Internal and external assurances

Area of focus	Summary observations	High level risk assessment
Internal audit arrangements including compliance with CIPFA Code of Practice for Internal Audit	<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 and the function completed their 2011/12 work programme in June/July 2012. The Internal Audit annual report of 2010/11 gave satisfactory assurance of the adequacy and effectiveness of the control environment of the Council, The budgeted number of days allocated for Three Rivers DC for 2011/12 is 220 days, which includes the Three Rivers DC specific audits as well as the shared service allocation of days, and represents a fall of 38 days from the prior period. 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 the status of recommendations issued by internal audit to the audit committee on 27 September 2012 found that the percentage of recommendations implemented relating to 2010/11 and 2011/12 stood at 92% and 82% respectively. This is an improvement upon the previous year. The recommendations that remain outstanding relate mainly to the ICT unit and long term plans are in place to address the issue and we are satisfied with the progress made to date. 	 Green
External audit arrangements and programme of activities	<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 2012. From the 7 external audit recommendations raised in the prior year, all but 2 recommendations have been implemented and these relate to the ICT shared service which are long term recommendations. We are satisfied with the progress the Council has made in this area. The Council received a unqualified accounts and value for money opinions on 28 September, ahead of the national deadline of 30 September 2012. The Council's Annual Governance Statement was not amended and the council had correctly included all the required significant control risks. 	 Green

Key:

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