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Watford Borough 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 (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 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, which includes capital receipts, compared to their nearest neighbours. Further analysis found that the Council was able to meet their net revenue expenditure more than once over from the amount of usable reserves available to the Council. Sickness levels remain above both the private and public 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"> Savings programme performance for 2011/12 is that from the £1.8m of budgeted savings targeted, the Council has achieved £1.457m of savings. 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 Council have recently signed a memorandum of understanding with Capital Shopping Centres ['CSC'] and are anticipating transferring the ownership of Charter Place and the subsequent redevelopment costs required to CSC and in return the Council hope to receive guaranteed rental income of £1.8 per annum. This minimises the risk to the Council of declining rents in very austere times 	 Green

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

Overview of Arrangements

Area	Summary observations	Summary level risk assessment
Financial Governance	<ul style="list-style-type: none"> The Council 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 monthly budget 'Finance Digest' packs are produced and circulated for the committee members and employees to review and contain detail of variance analysis by service and identifying the reason for the variance. The Council also provides within its data packs the key risk areas for the Council including housing benefit expenditure, commercial rents and trade refuse income that are analysed on budget to outturn position but identify remedial action that is required. The monthly finance position reporting of income is limited, the Council provide analysis of percentage of NNDR and council tax collected with target values but there is no detailed analysis of other income streams notably property and commercial rent , which will account for £6.2m of budgeted income in 2012/13. 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 £237,757 to £371,784. As at June 2012 the status of implementation of the internal audit recommendations were that 94% of the recommendations from 2010/11 and 83% of recommendations from 2011/12 had been implemented. 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 Watford BC 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 26 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 further analysis of other income streams such as property and commercial income included within the monthly budget reporting pack the 'Finance Digest'.			
Key Indicators	The Council should consider their current absence management procedures in the light of the 2011/12 staff absence levels.			

Recommendations

Area of review	Recommendations	Responsibility	Timescale	Comment
Financial Control	The Housing Benefit service should reduce the time taken to process new claims and change in circumstances to be more in line with DWP national averages.			
	The Housing Benefit service to process the notification of regulation amendments from the DWP and to reduce the level of LA error overpayments.			
	The Council should 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 presentation of income charges could be improved with the further analysis of other income streams such as property and commercial income included within the monthly budget reporting pack the 'Finance Digest'.	Head of Strategic Finance	By April 2012	This has not been implemented and the recommendation remains outstanding.	● 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
Key indicators of performance	The Council should consider their current absence management procedures in the light of the 2010/11 staff absence levels	Head of HR Shared Services	By April 2012	There has been a slight decrease in the average number of sickness days per full time equivalent, from 8.7 to 8.2 days, which is an improvement but still remains above the average for Councils at 7 days. Further work needs to be performed to lower the average sickness absence.	● Amber

2010/11 Financial Resilience recommendation follow up (continued)

Area of Review	Recommendation	Responsibility	Timescale	Update	RAG rating
Financial control	The Council should consider providing a detailed analysis of the progress of internal audit recommendations to the audit committee on a bi-annual basis.	Head of Strategic Finance	By April 2012	A full report of internal audit recommendations was provided to the audit committee on 27 June 2012. Analysis of the recommendations found that there were 12 out of 32 high/essential recommendations awaiting to be implemented.	● 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.	Head of Strategic Finance	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
5. Financial Control

Introduction

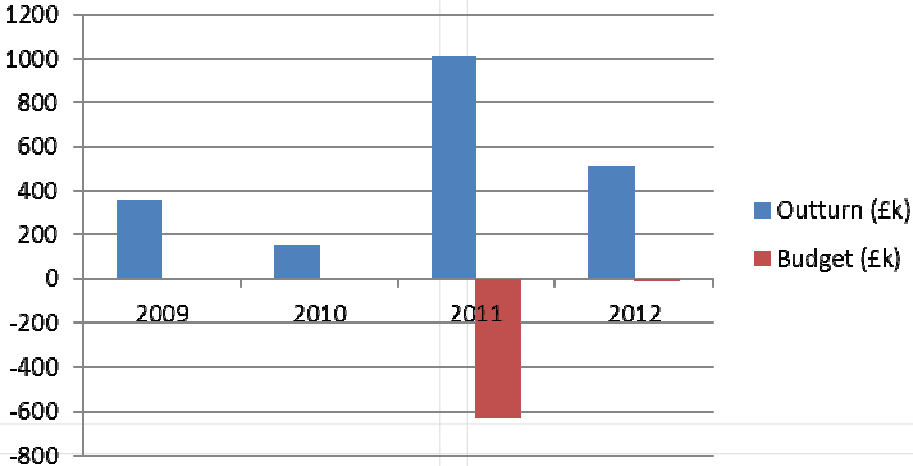
This section of the report includes analysis of key indicators of financial performance, benchmarked where this data is available. These indicators include:

- 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.

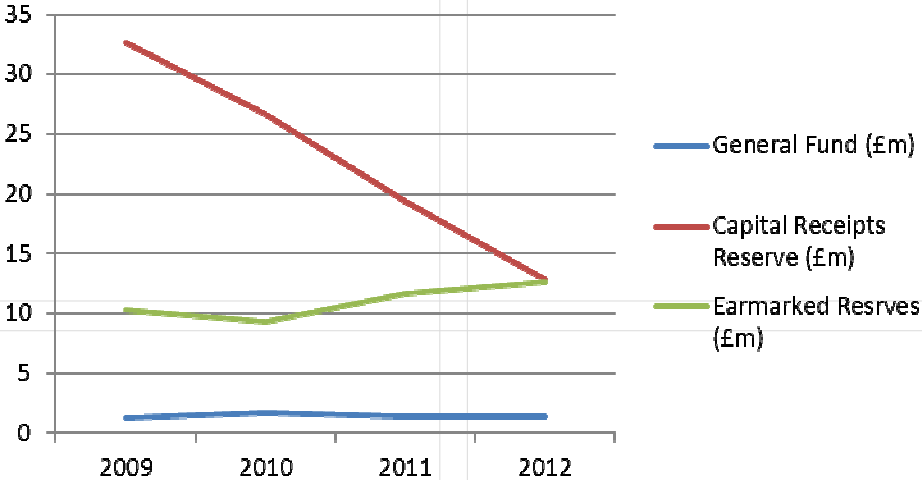
- Broxbourne Borough Council
- Cheltenham Borough Council
- Dacorum Borough Council
- Dartford Borough Council
- Gloucester City Council
- Hertsmere Borough Council
- North Hertfordshire District Council
- Rushmoor Borough Council
- Spelthorne Borough Council
- Stevenage Borough Council
- Tunbridge Wells Borough Council
- Warwick District Council
- Welwyn Hatfield Borough Council
- Woking Borough Council
- Worcester City 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</caption> <thead> <tr> <th>Year</th> <th>Outturn (£k)</th> <th>Budget (£k)</th> </tr> </thead> <tbody> <tr> <td>2009</td> <td>350</td> <td>-100</td> </tr> <tr> <td>2010</td> <td>150</td> <td>-100</td> </tr> <tr> <td>2011</td> <td>1000</td> <td>-500</td> </tr> <tr> <td>2012</td> <td>500</td> <td>-100</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 four years. Per the 2011/12 certified statement of accounts, the Council were budgeting a £13,000 loss and recorded a £493,000 surplus. The most significant variances include a £700,000 shortfall on commercial rent income, which was more than offset by the New Homes bonus grant of £542,000 the Council received coupled with additional recycling credits and investment income of £272,000. There has been an improvement in the shared service budgetary performance from the prior year. In 2010/11 the shared service recorded an overspend of £502,000 against original budget, a review of the actual costs compared to budget for 2011/12 found that the overspend was £248,000 representing a 50% reduction on the overspend from the prior year, the majority of which is funded by Watford. 	Year	Outturn (£k)	Budget (£k)	2009	350	-100	2010	150	-100	2011	1000	-500	2012	500	-100	<p style="text-align: center;">● Green</p>
Year	Outturn (£k)	Budget (£k)															
2009	350	-100															
2010	150	-100															
2011	1000	-500															
2012	500	-100															

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

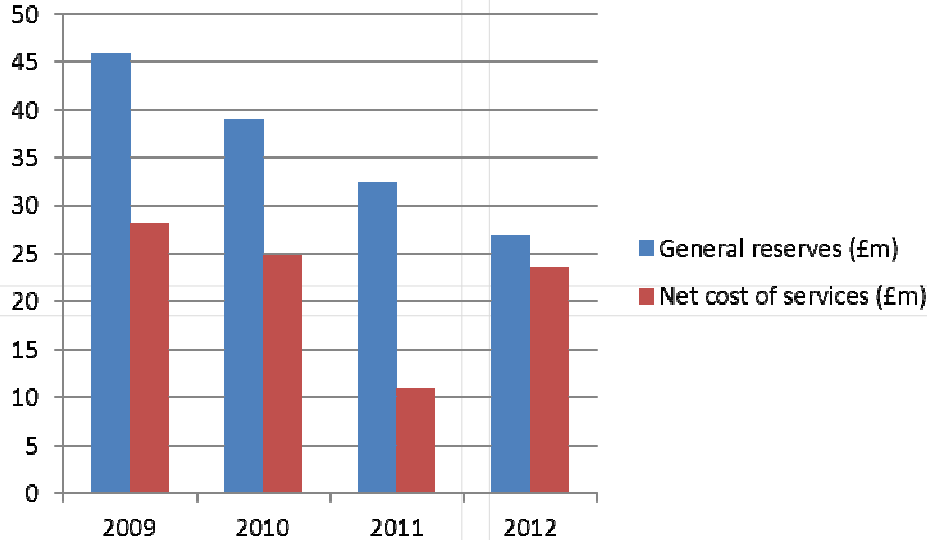
Overview of performance

Area of Focus	Summary observations	High level risk assessment																				
<p>Reserve Balances</p>	<ul style="list-style-type: none"> The Council's total usable reserves have reduced from £38.888m to £26.889m 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="667 571 1585 1053"> <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>1.5</td> <td>33.0</td> <td>10.0</td> </tr> <tr> <td>2010</td> <td>1.5</td> <td>27.0</td> <td>9.0</td> </tr> <tr> <td>2011</td> <td>1.5</td> <td>19.0</td> <td>11.0</td> </tr> <tr> <td>2012</td> <td>1.5</td> <td>13.0</td> <td>12.0</td> </tr> </tbody> </table> <ul style="list-style-type: none"> The balance of the capital receipts reserve has fallen from £32.635m in 2008/09 to £12.872m in 2011/12, a drop of 60%. In 2011/12, the Council utilised £8.4m to finance capital expenditure of £10.4m and in the current economic climate it is difficult to sell assets to provide additional funding. 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	1.5	33.0	10.0	2010	1.5	27.0	9.0	2011	1.5	19.0	11.0	2012	1.5	13.0	12.0	<p style="text-align: center;"> ● Green </p>
Year	General Fund (£m)	Capital Receipts Reserve (£m)	Earmarked Reserves (£m)																			
2009	1.5	33.0	10.0																			
2010	1.5	27.0	9.0																			
2011	1.5	19.0	11.0																			
2012	1.5	13.0	12.0																			

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 chart below show the level of total usable 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>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>46</td> <td>28</td> </tr> <tr> <td>2010</td> <td>39</td> <td>25</td> </tr> <tr> <td>2011</td> <td>32</td> <td>11</td> </tr> <tr> <td>2012</td> <td>27</td> <td>24</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 are more than capable of covering the net cost of service expenditure. However, we note that whilst there is more than 100% coverage of the net expenditure it is noted that this is not at the same comfort level as last year, this was attributable to a £15.775m credit of non distributable costs in the prior year, the situation should be continually reviewed. We note that the total usable reserves amount includes both revenue and capital reserves, revenue reserves and not capital reserves are utilised to support revenue expenditure This evidences that the Council is maintaining reserves at a more than reasonable level and had the ability to cover net expenditure in 2011/12. 	Year	General reserves (£m)	Net cost of services (£m)	2009	46	28	2010	39	25	2011	32	11	2012	27	24	<p style="text-align: center;">● Green</p>
Year	General reserves (£m)	Net cost of services (£m)															
2009	46	28															
2010	39	25															
2011	32	11															
2012	27	24															


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 2010/11. 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="515 654 1792 1149" style="text-align: center;"> <h3>Useable reserves: GRE - 2010/11</h3> <table border="1"> <caption>Useable reserves: GRE - 2010/11</caption> <thead> <tr> <th>Authority</th> <th>Ratio (approx.)</th> </tr> </thead> <tbody> <tr><td>Borough of...</td><td>0.80</td></tr> <tr><td>Rushmoor Borough...</td><td>0.50</td></tr> <tr><td>Watford Borough...</td><td>0.42</td></tr> <tr><td>Hertsmere Borough...</td><td>0.38</td></tr> <tr><td>Tunbridge Wells...</td><td>0.35</td></tr> <tr><td>Spelthorne Borough...</td><td>0.25</td></tr> <tr><td>Dartford Borough...</td><td>0.15</td></tr> <tr><td>Cheltenham...</td><td>0.12</td></tr> <tr><td>Worcester City...</td><td>0.10</td></tr> <tr><td>Welwyn Hatfield...</td><td>0.10</td></tr> <tr><td>Warwick District...</td><td>0.10</td></tr> <tr><td>North Hertfordshire...</td><td>0.10</td></tr> <tr><td>Woking Borough...</td><td>0.10</td></tr> <tr><td>Dacorum Borough...</td><td>0.10</td></tr> <tr><td>Gloucester City...</td><td>0.08</td></tr> <tr><td>Stevenage Borough...</td><td>0.05</td></tr> <tr><td>Council</td><td>0.45</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 (approx.)	Borough of...	0.80	Rushmoor Borough...	0.50	Watford Borough...	0.42	Hertsmere Borough...	0.38	Tunbridge Wells...	0.35	Spelthorne Borough...	0.25	Dartford Borough...	0.15	Cheltenham...	0.12	Worcester City...	0.10	Welwyn Hatfield...	0.10	Warwick District...	0.10	North Hertfordshire...	0.10	Woking Borough...	0.10	Dacorum Borough...	0.10	Gloucester City...	0.08	Stevenage Borough...	0.05	Council	0.45	<p style="text-align: center;">● Green</p>
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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"> The level of General fund reserves has remained fairly stable over the past 3 years recording over £1m+ per annum, which is a deliberate Council policy decision. By keeping the level of general fund reserves low, the Council could potentially be exposed to one off charges such as a provision or unanticipated items of expenditure, although we recognise that the scale of other reserves in place leaves the Council very well placed to cope with one off items of expenditure. 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. It has been reported to the Council through our ISA260 report that the level of Earmarked reserves continues to increase, from £9.2m in 2009/10 to £12.6m in 2011/12, even though the total of usable reserves has decreased from the prior year. From an accountancy point of view this appears as though the Council is saving money in advance of need, from a financial resilience perspective it strengthens the Council's position. The Council do not maintain high levels of general fund balances but plan and revisit the MTFS and budgets at least twice a year to update the planning and budget assumptions. In any event if the Council did require an injection of cash then they can call on the £29m in short term investments. 	 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 risen sharply from the prior year to 2011/12.. <div data-bbox="645 639 1579 1069" data-label="Figure"> <p style="text-align: center;">Working capital ratio</p> <table border="1"> <caption>Working capital ratio data</caption> <thead> <tr> <th>Year</th> <th>Working capital ratio</th> </tr> </thead> <tbody> <tr> <td>2009</td> <td>4.5</td> </tr> <tr> <td>2010</td> <td>3.8</td> </tr> <tr> <td>2011</td> <td>3.8</td> </tr> <tr> <td>2012</td> <td>5.5</td> </tr> </tbody> </table> </div> <ul style="list-style-type: none"> This indicates that the Council's liquidity has remained virtually constant, 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 has 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, Watford 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 1.07:1 which would not be considered unreasonable. 	Year	Working capital ratio	2009	4.5	2010	3.8	2011	3.8	2012	5.5	<p style="text-align: center;"> ● Green </p>
Year	Working capital ratio											
2009	4.5											
2010	3.8											
2011	3.8											
2012	5.5											

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="548 622 1825 1117" style="text-align: center;"> <h3>Working capital ratio - 2010/11</h3> <table border="1" style="margin: 10px auto; border-collapse: collapse;"> <caption>Working capital ratio - 2010/11 (Estimated)</caption> <thead> <tr> <th>Authority</th> <th>Ratio</th> </tr> </thead> <tbody> <tr><td>Borough of...</td><td>8.0</td></tr> <tr><td>Tunbridge Wells...</td><td>6.5</td></tr> <tr><td>Warwick District...</td><td>6.0</td></tr> <tr><td>Rushmoor Borough...</td><td>5.8</td></tr> <tr><td>North Hertfordshire...</td><td>5.5</td></tr> <tr><td>Watford Borough...</td><td>5.2</td></tr> <tr><td>Dacorum Borough...</td><td>3.8</td></tr> <tr><td>Spelthorne Borough...</td><td>3.5</td></tr> <tr><td>Hertsmeare Borough...</td><td>3.2</td></tr> <tr><td>Welwyn Hatfield...</td><td>3.2</td></tr> <tr><td>Stevenage Borough...</td><td>2.5</td></tr> <tr><td>Dartford Borough...</td><td>2.2</td></tr> <tr><td>Worcester City...</td><td>2.2</td></tr> <tr><td>Woking Borough...</td><td>2.0</td></tr> <tr><td>Cheltenham...</td><td>1.5</td></tr> <tr><td>Gloucester City...</td><td>1.2</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	Ratio	Borough of...	8.0	Tunbridge Wells...	6.5	Warwick District...	6.0	Rushmoor Borough...	5.8	North Hertfordshire...	5.5	Watford Borough...	5.2	Dacorum Borough...	3.8	Spelthorne Borough...	3.5	Hertsmeare Borough...	3.2	Welwyn Hatfield...	3.2	Stevenage Borough...	2.5	Dartford Borough...	2.2	Worcester City...	2.2	Woking Borough...	2.0	Cheltenham...	1.5	Gloucester City...	1.2	 <p>Green</p>
Authority	Ratio																																			
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Hertsmeare Borough...	3.2																																			
Welwyn Hatfield...	3.2																																			
Stevenage Borough...	2.5																																			
Dartford Borough...	2.2																																			
Worcester City...	2.2																																			
Woking Borough...	2.0																																			
Cheltenham...	1.5																																			
Gloucester City...	1.2																																			

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								
Workforce	<ul style="list-style-type: none"> The graph below shows that performance of the Council for the last 3 years: <div data-bbox="645 539 1579 1069" data-label="Figure"> <p style="text-align: center;">Average number of sickness days per FTE</p> <table border="1"> <caption>Average number of sickness days per FTE</caption> <thead> <tr> <th>Year</th> <th>Average number of sickness days per FTE</th> </tr> </thead> <tbody> <tr> <td>2009/10</td> <td>8.5</td> </tr> <tr> <td>2010/11</td> <td>8.7</td> </tr> <tr> <td>2011/12</td> <td>8.2</td> </tr> </tbody> </table> </div> <ul style="list-style-type: none"> The average level of sickness days has shown improvement with the Council reducing the average sickness days by 0.5 day, which brings the Council in line with the public sector average. There is still room for improvement to bring the average sickness absence in line with the private sector, 5.9 days, and other Councils who record an average of less than 7 days per FTE. 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 days per FTE	2009/10	8.5	2010/11	8.7	2011/12	8.2	<div data-bbox="1966 805 2020 853" data-label="Image"> </div> <p style="text-align: center;">Amber</p>
Year	Average number of sickness days per FTE									
2009/10	8.5									
2010/11	8.7									
2011/12	8.2									

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 that identifies key risks with associated impact upon the reserve balances and was presented to Cabinet in July 2011 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, as part of the Finance Digest, 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 proposed savings targets are shown below: <div data-bbox="645 639 1444 1053" 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>Fiscal Year</th> <th>Proposed efficiency savings (£m)</th> </tr> </thead> <tbody> <tr> <td>2011/12</td> <td>2.0</td> </tr> <tr> <td>2012/13</td> <td>1.0</td> </tr> <tr> <td>2013/14</td> <td>0.25</td> </tr> </tbody> </table> </div> <ul style="list-style-type: none"> The Council has not put in place any future proposed efficiency savings in the MTFS but has identified that there will be a further £2million of further efficiencies to achieve. The Council have identified the potential for outsourcing of street cleansing, parks and open spaces and refuse collection that would save the Council £750,000 per annum going forward. The Council has benefited from the introduction of the New Homes Bonus , which resulted in the Council receiving a bonus of £420,000 in 2011/12. The Council is predicting to receive a further £2.7million of new homes bonus over the next 4 years, which more than accounts for the efficiency savings above. The Council have recently signed a memorandum of understanding with Capital Shopping Centres ['CSC'] to transfer the ownership of Charter Place and the subsequent redevelopment costs required to CSC and in return the Council hope to receive guaranteed rental income of £1.8 per annum. This minimises the risk to the Council of declining rents in very austere times. 	Fiscal Year	Proposed efficiency savings (£m)	2011/12	2.0	2012/13	1.0	2013/14	0.25	<p style="text-align: center;">  Green </p>
Fiscal Year	Proposed efficiency savings (£m)									
2011/12	2.0									
2012/13	1.0									
2013/14	0.25									


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 2015/16 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. 	<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

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 both on a monthly basis, as part of the high level review of the general fund included within the Finance Digest. • In the prior year we found that the Council had a very responsive plan in place that we agreed that this was rated as green and from review of minutes, quarterly meetings and correspondence indicates that there has been no indication for us to change our assessment from the prior year. • 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. • Further potential impacts to the savings plan going forward include the localisation of council tax and the fact that the Council has identified that a £780,000 cut in funding, through a 10% cut in council tax subsidy, has to be made up from the current council tax base. The Council has consulted with members of the public and has identified a number of measures with regard to the council tax charging regime to generate revenue and reduce the impact of the cut on council tax subsidy. • Savings programme performance for 2011/12 is that from the £1.808m originally identified, the council has achieved £1.437m of savings representing 80% of target. The fact that the Council has over £13million in earmarked reserves, which the Council can call upon if their savings target falls short removes this as a risk to the Council achieving their planned savings. 	<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 copies of the 'Finance Digest' on a monthly basis to highlight and enable the scrutiny of budget performance. The report is then presented to the Cabinet. The monthly budget packs are produced they are circulated to the committee members and employees to review. The packs contain detail of variance analysis by service and identifying the reason for the variance, key risk analysis that highlights the variance and explains the current assessment of outturn position and identifies the mitigating action taken. A recommendation was 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 in the process of being addressed. 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 in setting the budget. • The Council, in the prior year, performed the budget consultation survey, a survey that involved canvassing the public on: <ul style="list-style-type: none"> ➢ Expectations with regard to the level and timing that savings need to be made ➢ Opinion on sharing services or delivering services differently ➢ Statutory & non-statutory service ➢ Support for voluntary sector ➢ Opinions on council becoming more commercially focused • The Council have incorporated the views of the public into their MTFS planning and , in addition, performed a robust exercise that involved the heads of service and their teams assessing Council services on the following criteria: <ul style="list-style-type: none"> ➢ Cost of service ➢ Value of service in terms of customer feedback ➢ Benchmarking or comparison information ➢ Options for delivering the service area • The results were challenged by an independent team from a different service to ensure the savings were sufficiently robust. • Both the results of the budget consultation and the prioritisation programme feed into the annual budget and Corporate Plan for 2011/12 - 2014/15. • Further stakeholder engagement is expected in the new year regarding the £4.3million redevelopment of the top of the High Street. • 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. 	<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>Review of accuracy of Committee reporting</p>	<ul style="list-style-type: none"> • The Executive receive monthly 'Finance Digest' 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 - detailed variance by service area • Salaries analysis • Key risk analysis • Capital investment programme summary and detail by service • Treasury management performance • NNDR & Council tax collection rates compared to target collection rates • Creditor payment monitoring • Debtor analysis • Key business indicators actual compared to target • The Council have maintained their strong commitment to reporting of financial information and have preserved their target audience of employees and members. 	<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 NNDR, council tax and includes target budget values of % of total annual amount collected per month. In addition, the council report the invoices raised from 1/4/10 by service. We raised a prior year recommendation requesting that the Council should consider the reporting of the collection of car parking income, fees & charges and commercial rents on a monthly basis with targeted amounts to collect. We noted that the Council has a shortfall of £700,000 of commercial rental income in the 2011/12 statement of accounts and the MTFS is being revisited in September 2012 within regard to car parking income and rental income, a pinch point for the Council, yet there is no analysis of the amounts collected. 	<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"> Over £2.1m of savings have been included within the budget for the next 3 years from 2012/13 to 2014/15, these were identified as part of the service prioritisation scheme described earlier. The final central government grant settlement has resulted in a further £2m of savings have yet to be identified for the 2014/15 giving an overall savings target of £5m to be achieved by 2014/15. 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 £237,757 to £371,784, representing a 56% increase on the prior year. 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 are not expecting to utilise any general fund balances to support expenditure in the next 3 years, any variations to budget will be drawn down from the Economic Impact reserve currently standing at £1.54m. Overall performance against budget confirms that the Council has a good track record of delivering the budget delivering a £493,000 surplus against budget including transferring £2.1million to reserves. The Council are currently reviewing their income charging policies and are embarking upon an exercise to actively benchmark against income charging by other providers. This will ensure the Council are fully charging for all the services they provide and ensure that any subsidy given to the service is a deliberate policy decision. The Council still has not commenced with the introduction of targets when analysing income as part of the Finance Digest reporting, which formed part of the recommendations in the prior year report. The Council recorded £7.6million of income relating to property and the market in their 2011/12 accounts. 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. 	 Amber

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

Internal arrangements


Area of focus	Summary observations	High level risk assessment
<p>Finance Department resourcing and qualifications / experience</p>	<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 is due to be certified by Grant Thornton UK LP on 27 September 2012, 3 days ahead of deadline and a 2 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 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 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. 	<p style="text-align: center;">  Green </p>

Internal and external assurances

Area of focus	Summary observations	High level risk assessment
<p>Summary of key financial accounting systems</p>	<ul style="list-style-type: none"> ● The most recent Internal Audit report on the 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 £237,757 to £371,784, representing a 56% increase on the prior year. Subsidy rules are such that Councils do not receive subsidy for LA error overpayments. ● 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). ● 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. 	<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 . This is the second year that the in-house team has been providing the internal audit service. ● The Internal Audit annual report of 2011/12 provided an unqualified opinion of the adequacy and effectiveness of the control environment of the Council, ● Annual reviews of the Internal Audit function at Watford BC have not highlighted any significant issues in relation to the CIPFA Code of Practice for Internal Audit. ● The budgeted number of days allocated for Watford BC for 2012/13 is 211 days, which includes the Watford BC specific audits as well as the shared service allocation of days. The number of days, remains 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 25 September 2013 found that the percentage of recommendations implemented relating to 2010/11 and 2011/12 stood at 94% and 83% 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. 	<p style="text-align: center;">  Green </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. • From the 8 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 27 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. 	<p style="text-align: center;">  Green </p>

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