



Watford Borough Council

Use of Resources 2008

January 2009

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1 Executive Summary

Background and purpose of the report

- 1.1 Under the Audit Commission's Code of Audit Practice we are required to reach a conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').
- 1.2 We described in our Annual Report to those Charged with Governance (September 2008) the areas of audit work that provide us with the assurance that contributes to our annual VFM conclusion. This report sets out our findings from one of these pieces of work:
- our assessment of the Council's Use of Resources, using the Audit Commission's five themes and key lines of enquiry ('KLoE') criteria.

Key messages

- 1.3 The Council has improved the Use of Resources arrangements it has in place from the prior year with an increase in the Financial Reporting KLOE to a level 2 marking and in doing so the Council has achieved level 2 marking across all five KLOE's which indicates that adequate arrangements have been made in each of these areas. The theme scores for 2007 and 2008 are summarised in the table below.

Use of Resources theme	2007 score	2008 score
Financial reporting	1	2
Financial management	2	2
Financial standing	2	2
Internal control	2	2
Value for money	2	2

- 1.4 Further details of work to support our 2008 Use of Resources assessment are given in section two.

Way forward

- 1.5 There have been significant changes to the Use of Resources assessment criteria for 2009, as part of the new Comprehensive Area Assessment. The new assessment framework is more demanding than the current one, is broader in scope and embraces wider resources issues such as people and workforce planning, and the use of natural resources. It also places more emphasis on outcomes for local people. The KLoE are more strategic and focus explicitly on value for money achievements rather than processes. The Council has a reasonable track record on process, but demonstrating outcomes will be a significantly greater challenge. The role of members and the quality of their scrutiny in affecting outcomes will be the subject of detailed review in the new framework.
- 1.6 In reporting areas for development identified from our 2008 assessment, we have highlighted those where it will be important for the Council to demonstrate effective arrangements in 2009.
- 1.7 We will continue to work with the Council during the year to help prepare for the 2009 Use of Resources assessment.
- 1.8 We would like to take this opportunity to remind the Audit Committee of the need to monitor implementation of the recommendations arising out of this report (see Appendix A).

Use of this report

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

Acknowledgements

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

Grant Thornton UK LLP
8 January 2009

2 Use of Resources

Introduction

- 2.1 We summarise in this section matters arising from our Use of Resources key lines of enquiry (KLoE) assessment for 2008.
- 2.2 In carrying out our audit work we comply with the statutory requirements governing our duties, set out in the Audit Commission Act 1998, in accordance with the Code of Audit Practice (the Code).
- 2.3 The Code requires us to issue a conclusion on whether the Council has proper arrangements in place for securing economy, efficiency and effectiveness in the use of its resources.

Approach to the audit

- 2.4 The assessment was carried out between July and October 2008. We reviewed the Council's arrangements against eleven KLoE's within the five themes prescribed by the Audit Commission.
- 2.5 Our work was based on review of the Council's supporting evidence and meetings with key officers. We also considered and updated the findings from our September 2008 value for money conclusion.

Key audit findings

- 2.6 The overall conclusion that we issued, in September 2008, was that the Council has at least adequate arrangements for ensuring value for money in its use of resources. This was derived from the conclusions that we reached on the Council's management arrangements in a number of areas. We described the components of the use of resources conclusion and reported key messages in our Annual report to those charged with governance.
- 2.7 We have now concluded our 2008 KLoE assessment and submitted the scores to the Audit Commission for national quality control. The scores were confirmed by the Audit Commission on 8 December 2008.
- 2.8 The 2008 KLoE scores, with comparative 2007 scores, are shown in the table overleaf.

Theme and KLoE	Score 2007	Score 2008
Financial reporting		
Annual accounts	1	2
External accountability	2	2
	1	2
Financial management		
Medium term financial planning	2	2
Managing performance against budgets	2	2
Managing assets	3	2
	2	2
Financial standing	2	2
Internal control		
Managing significant business risks	2	2
Maintaining a sound system of internal control	2	2
Ensuring probity	3	2
	2	2
Value for money (VFM)		
Current achievement of VFM	2	2
Managing and improving VFM	3	3
	2	2

Explanation of scores for 2008	
1	Inadequate - below minimum standards
2	Performing adequately - meeting minimum requirements
3	Performing well - above minimum requirements
4	Performing strongly - standard setting performance

- 2.9 The key findings in each of the themes, and areas for improvement, are set out below.

Financial reporting

- 2.10 We assessed the Council as meeting level 2 requirements in this area, an improvement on the score issued in the prior year.
- 2.11 The Council prepared good working papers for our accounts audit, and Council officers were pro-active in speaking with us to resolve the key issues arising from the 2007 Statement of Recommended Practice ("the SoRP"). This led to minimal errors in the Statement of Accounts and the new disclosure requirements of the 2007 SoRP being adopted to a high standard.
- 2.12 As reported in the Annual Report to those Charged with Governance, we were satisfied by the responsiveness by officers to our audit queries and the willingness to make amendments that we identified to improve the clarity of the accounts by processing suggested presentational adjustments.
- 2.13 The Council achieved all but one of the level 3 criteria regarding KLOE 1.1 the production of the accounts, relating to the additional requests from the auditor being responded to on a timely basis. This related to information supporting £1m of long term debtors not being provided on a timely basis.
- 2.12 The Council has continued to make summary financial information available through their website. The Council produce an annual report that presents the summary financial information in a format that communicates the information to the public in an understandable format.
- 2.14 'Preparation of accounts' and 'publishing reports' remain as key components in the 2009 Use of Resources assessment (KLoE 1.3). It will remain important for the Council to:
- continue to prepare good quality working papers to support the annual accounts and to respond to audit queries in a timely manner.

Financial management

- 2.15 We assessed the Council as achieving level 2 requirements for the assessment of the Council's Medium Term Financial Strategy ['MTFS'], the same score as awarded in the prior year.
- 2.16 The Council has a MTFS in place that looks forward to 2011. The 2008/09 MTFS was updated in January 2008. The budget is subject to regular reporting with the production of the monthly finance digest distributed to all members and officers. The Council have an affordable capital programme in place and utilise prudential indicators when assessing project affordability. These processes are embedded in the Council.

- 2.17 Managing performance against the budget is largely process driven and requires the Council to have a series of budget management and monitoring techniques in place. The Council retained the level 2 scoring it was awarded by the prior year auditors.
- 2.18 The Council was able to demonstrate that it had embedded its budget monitoring arrangements, and that such processes had been in place throughout the year. The Council provide a monthly reporting pack to members and officers, which provides analysis of budget to actual as well as projecting year end performance and providing explanations on variances. The pack also includes non financial and financial information including 2 pages of reconciliations carried out by a named individual and indicating whether these have been performed. The Council regularly test their financial systems and ensured their budgets are approved prior to the commencement of the financial year.
- 2.19 The Council's score for management of their asset base deteriorated from the marking awarded by the prior year auditors from a level 3 marking to a level 2 marking. This was mainly because we did not see any evidence to demonstrate that the Council performs option appraisals when considering its capital projects.
- 2.20 The Council does have an up to date corporate capital strategy linked to its corporate objectives and medium-term financial strategy, and an up to date asset register coupled with a robust capital project bidding process.
- 2.21 'Integrated financial planning,' 'medium to long term financial planning,' 'financial governance and leadership' and 'financial monitoring and forecasting' remain as key components in the 2009 Use of Resources assessment (KLoE 1.1 and 1.3). Consequently, it will remain important for the Council to continue the development of its financial management arrangements and to ensure that these are integrated with other corporate processes, to consider the service and financial plans of key partners and stakeholders and to demonstrate improved outcomes as a result of these processes.

Financial standing

- 2.22 The Council has retained its level 2 scoring from the prior year.
- 2.23 The Council continues to have sound financial standing with reserves being in line with the plans set out in the medium term financial strategy. The Council recorded a £370.858m loss on its Income and Expenditure account, which was due to the Council completing a large scale voluntary transfer of its housing stock on 12 September 2007. The Council under spent against its general fund balance by £523,000, mainly because a higher than expected sum for the transfer of the housing stock was received. The Council added £2.223m to earmarked reserves during the year, including the allocation of £1m to a pension funding reserve. The Council recognises that significant challenges remain in protecting its financial standing in the future with a clear commitment to continue to enhance shared working and drive out further efficiencies.
- 2.24 The Council did not lose any money in the Icelandic banking crisis.

- 2.25 The Council achieved all bar one of the level 3 criteria, The council's targets for income collection and recovery of arrears stretch performance and their achievement is monitored with appropriate corrective action taken during the year to achieve the targets. The Council produce stretch targets but could not provide sufficient evidence of corrective action taken to address variances from these targets. We expect this to be addressed in the forthcoming year.
- 2.26 'Managing spending' forms part of KLoE 1.1 in the 2009 assessment. We will continue to assess the Council on its financial standing but with an increased forward looking focus on management of financial balance along with the delivery of strategic priorities.

Internal control

- 2.27 The Council has retained its level 2 marking for managing significant business risks. The Council has a risk management strategy in place, maintains a risk register of corporate risks, developing mitigating actions, assigning named individuals to each risk and reports to committee include a risk assessment section highlighting if there are risks to the Council of the proposed policy.
- 2.28 The key area of improvement identified, in order for the Council to progress to a level 3 marking, is to ensure that all staff are given appropriate training and guidance to enable them to take responsibility for managing risk in their own working environment. The Council provided workshops to train the staff but the workshop was not assessed as detailed enough to be considered for a level 3 marking.
- 2.29 We have assessed the Council's arrangements for maintaining a sound system of internal control as performing adequately (level 2). The Council has conducted an annual review of the effectiveness of its governance framework, including the system of internal control and reported on this in the governance statement. The assurance framework is built up on a risk assessment at a departmental level. There are plans in place to address the risks, there are procedure notes in place for all systems and has a business continuity plan is in place.
- 2.30 The Council has achieved a Level 2 judgement for the 'Ensuring Probity' KLOE, this is a deterioration in scoring from the prior year assessment. The Council has codes of conduct in place for both members and officers, along with whistle-blowing policies and procedures and counter fraud and corruption policies.
- 2.31 Arrangements for anti-fraud and corruption and promotion of good conduct continue to be developed at the Council and there is a relatively strong anti-fraud culture apparent throughout the organisation.
- 2.32 The preventative arrangements at the Council, such as the whistle-blowing policy and anti-fraud and corruption policy are given prominence on the Council's intranet site.
- 2.33 Arrangements continue to be strong in relation to benefit fraud prevention and the National Fraud Initiative.

- 2.34 For the Council to achieve a level 3 marking in this area the Council would need to provide evidence that the Council undertook a review of the effectiveness of its Standards Committee. In addition the Council should consider the budget allocated to internal audit regarding the amount of time that can be allocated to fraud and corruption, there was evidence that indicates that fraud and corruption work may not be adequately resourced as internal audit failed to deliver all its planned days in this area in 2007/8.
- 2.35 'Principles of good governance,' 'ethical framework and culture,' 'partnership governance,' 'risk management,' 'counter fraud and corruption' and 'system of internal control' remain as key components in the 2009 Use of Resources assessment (KLoE 2.3 and 2.4).
- 2.36 We will continue to assess the Council on these and other aspects of internal control but with an increased focus on the effectiveness and outcomes of arrangements, including the demonstration of a strong and improving culture of governance, conduct, risk management and internal control. The role of members and the effectiveness of Scrutiny Committees and the Audit Committee will be a key part of the new process.

Value for money

- 2.37 We assessed the Council as retaining a level 2 in the achievement of value for money ("VFM"), this is consistent with the score awarded in the prior year. Our analysis of the Council's performance indicators against 'nearest neighbour' councils demonstrated above average performance for the majority of key services. However, we also noted that the cost of services continues to be significantly high in comparison to the 'nearest neighbours'. In our view, service performance has not yet reached a level of excellence that would fully compensate for the high costs incurred, in value for money terms.
- 2.38 The comparatively high level of cost is partly due to the Council's strategy in prior years, increasing investment in services in order to drive improvements in performance. The current strategy is to continue to improve services, while maintaining the current level of cost. Council Tax increases have been kept below inflation for the past three years. But the overall level of spending remains comparatively high. The Council also has the highest levels of Council tax per head and the highest level of expenditure per head within the comparative set.
- 2.39 We noted that performance indicators have demonstrated significant improvements over the last three years. Waste, Planning and Parks services all demonstrated significant improvements in performance while also delivering a degree of cost saving. Street Cleaning performance was found to be around the median, having improved from an unfavourable position in the prior year. Sports and Recreation and Benefits Administration continued to offer comparatively low levels of performance at high cost, although we noted that initiatives were underway to address these areas.
- 2.40 The challenge for the Council is to continue to improve services, with any additional investment coming from efficiency savings elsewhere in the budget. In order to move towards a comparatively 'good' level of value for money, the Council will need

to maintain the rate of improvement in performance demonstrated over the past three years, with additional focus on weaker service areas. Tight control over Council tax increases is likely to provide a gradual improvement in the comparative position in regard to costs. However, the Council should also look to identify opportunities for greater cost efficiency where this does not inhibit service performance.

- 2.41 It should be noted that the new Comprehensive Area Assessment (CAA) for 2008/09 increases the emphasis on outcomes rather than management arrangements and therefore the comparative analysis of cost and performance will become increasingly important as evidence that value for money is being delivered.
- 2.42 The Council has strong arrangements for managing and improving VFM and has been awarded a level 3 scoring, a score consistent with that awarded in the prior year.
- 2.43 The Council has implemented a VFM Strategy, which sets out clear policies and targets for the achievement of value for money. This includes a framework for regular review.
- 2.44 The Council has an effective system of financial and performance monitoring through a comprehensive suite of management reports. It has also demonstrated the embedded use of comparatives and trends, and has a robust review and challenge process. The year end financial management reports, budget statements, and the MTFP provide ample evidence that the mandatory efficiency saving of 2.5% per year over 3 years has been planned and delivered.
- 2.45 A procurement strategy has been developed and is being implemented. The strategy outlines the Council's approach to key procurement partnerships. The Council has continued to develop collaborative procurement approaches in parallel with the shared services arrangements. Joint procurement contracts are in place with partners including Welwyn & Hatfield, and Three River's district councils. Procurement decisions are based on a combination of cost and non-cost related criteria. For example the Watford Leisure Centre project demonstrates a variety of non-cost related factors in the business case.
- 2.46 The Council have a good track record of investing to improve value for money in problem areas. For example, Sports and Recreation has been a poor performer at substantial cost in recent years and this had driven the project to deliver a new sports centre which was completed in 2007/08. The Council has also demonstrated a strategic approach to obtaining external funding, where appropriate. For example the current Health Campus project is part funded by West Hertfordshire NHS Trust and the local PCT.
- 2.47 There is no distinct VFM KLoE in the 2009 Use of Resources assessment, as arrangements for, and achievement of, VFM will be measured across all of the other KLoE's. The Council will, therefore, need to continue to demonstrate that it is improving VFM for the local community.

Use of resources 2009

- 2.48 From 2009, the use of resources assessment considers how well organisations are managing and using their resources to deliver better value for money and better and sustainable outcomes for local people. The assessment is structured into three themes that focus on the importance of sound and strategic financial management, strategic commissioning and good governance, and the effective management of natural resources, assets and people.
- 2.49 The assessment will use the Audit Commission's current four point scale and there will be clear expectations around the demonstration of improved outcomes in order to perform well.
- 2.50 Further details of the 2009 framework can be found at Appendix B.

Appendix 'A' Action Plan

This action plan includes recommendations intended to assist the Council in achieving compliance with the requirements of performing well within the Use of Resources framework in 2009. Our priority system grades the most significant recommendations as priority 1. This action plan should be considered alongside the changes to the 2009 assessment described in Appendix B.

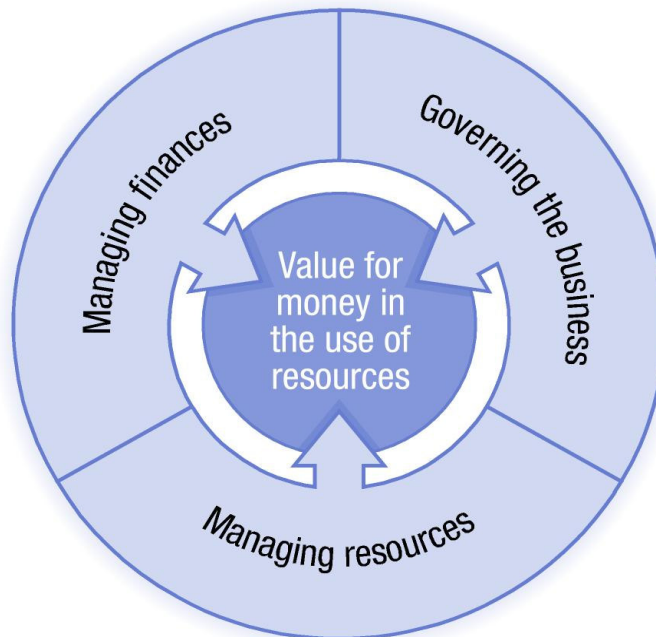
Ref	Recommendation	Priority	Management response	Responsibility	Timetable
1	Ensure that all additional requests from the auditor are responded to on a timely basis.	2	This is always our intention. The specific incident referred to refers to records that have been mislaid. Attempts are currently being made to obtain these	Nigel Kennedy/ Carol Chen	31/03/2009
2	The annual report or similar document should include information and analysis about the council's environmental footprint.	2	Agreed we will ensure that this is done for this year	Nigel Kennedy/Kath Robson	31/03/2009
3	Demonstrate that option appraisal regarding capital project bidding is performed	1	Agreed – to review the capital bidding process	Nigel Kennedy	31/03/2009

Ref	Recommendation	Priority	Management response	Responsibility	Timetable
4	Demonstration of corrective action taken to address variances identified when comparing debt collection performance against stretch targets.	2	Agreed to improve the information in this area	Sue Townsend	31/03/2009
5	Ensure that staff are given appropriate training and guidance to enable them to take responsibility for managing risk in their own working environment	1	Agreed – shared resource with Hertsmere BC is currently undertaking this work for the Council.	Barry Austin	31/03/2009
6	Review the effectiveness of the Standards Committee on an annual basis.	2	Happy to take a report to Council on the effectiveness of the Standards Committee.	Carol Chen	March Council
7	The Council should look to identify opportunities for greater cost efficiency where this does not inhibit service performance.	2	Agreed to look at during the year	Leadership Team and Kath Robson	31/03/2009

Appendix B Use of Resources from 2009

The use of resources assessment forms part of the joint inspectorates' framework for Comprehensive Area Assessment (CAA), which takes effect from 2009. The inspectorates, including the Audit Commission, propose that CAA will consist of two assessments - of the area and of the organisations in an area. The area assessment will look at how well local public services are delivering better results for local people against local priorities and how likely they are to improve in future.

From 2009, the use of resources assessment considers how well organisations are managing and using their resources to deliver better value for money and better and sustainable outcomes for local people. The assessment is structured into three themes that focus on the importance of sound and strategic financial management, strategic commissioning and good governance, and the effective management of natural resources, assets and people. The three themes are illustrated below.



The new use of resources assessment framework is more demanding than the previous assessment. It is broader in scope and embraces wider resources issues such as people and workforce planning, and the use of natural resources. It also places more emphasis on outcomes of local people. The KLoE are more strategic and focus much more explicitly on value for money achievements rather than processes. The KLoEs in each of the three themes are set out in the table overleaf.

Managing finances	Governing the business	Managing resources
1.1 Financial planning and financial health	2.1 Commissioning and procurement	3.1 Natural resources
1.2 Understanding costs and performance	2.2 Data Quality and use of information	3.2 Asset management
1.3 Financial monitoring and reporting	2.3 Good governance and ethical behaviour	3.3 Workforce planning
	2.4 Risk management and internal control	

Each theme comprises of a number of underlying KLoE which are common to all organisations subject to a use of resources assessment under the CAA. This promotes consistency and demonstrates that all organisations within and CAA area are assessed in the same way and to the same standards.

The use of resources assessment will use the Audit Commission's current four point scale with 4 representing the highest level of performance, as follows:

Level	Performance and principles implicit in the KLoEs
1	<p>Inadequate</p> <p>Below minimum acceptable levels of performance. Consistent with an "except for / qualified" use of resources conclusion.</p>
2	<p>Performs adequately</p> <p>Consistent with established professional practice, meeting statutory requirements, operating effectively.</p> <p>Sufficient to address the KLoE demonstrating, for example: organisational leadership and commitment, partnership working, appropriate capacity and skills, informed by priorities with supporting action plans as appropriate.</p> <p>Arrangements that achieve minimum accepted levels of performance.</p>
3	<p>Performs well</p> <p>Implemented effective arrangements that are forward looking and proactive in developing improvement opportunities and include more sophisticated measuring and assessment techniques.</p> <p>Outputs and outcomes demonstrate effective arrangements that have the intended impact, and where appropriate show evidence of effective partnership working.</p> <p>Evidence of performing consistently above minimum acceptable levels and achieving value for money.</p>

Level	Performance and principles implicit in the KLoEs
4	<p>Performs excellently</p> <p>Demonstrating innovation or best practice.</p> <p>Demonstrating strong outcomes for the community including through partnership working.</p> <p>Evidence of performing well above minimum acceptable levels and achieving excellent value for money.</p>



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