



Watford Borough Council

Use of Resources Assessment 2008/09 - Findings & Conclusions

November 2009

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1 Executive Summary

1.1 Introduction

Under the Audit Commission's Code of Audit Practice, we are required to reach a conclusion on whether the Watford Borough Council ('the Council') has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (VFM conclusion). This report presents the results of our value for money and use of resources work in 2008/09. We have separately issued our annual report to those charged with governance (ISA260). The key messages from both of these reports will be summarised in the annual audit letter.

We described in our Audit Plan (May 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 these pieces of work:

- our assessment of the Council's Use of Resources (UoR), using the three themes within the Audit Commission's new assessment framework themes and Key Lines of Enquiry (KLOE).
- risk-based spot check work to assess the quality of data underlying a small sample of key performance indicators.

In 2009, the Audit Commission introduced a new framework and methodology for Use of Resources (UoR) assessments across local government, police forces, fire authorities and primary care trusts. The new framework emphasises outcomes over processes, and brings new areas into the assessment, such as environmental and workforce management. The new assessment presents a more robust challenge than the old framework, based on different scoring criteria. It should be noted, therefore, that changes from prior year scores do not necessarily reflect a real change in performance. Further detail about the new framework and the link to Comprehensive Area Assessment (CAA) are set out in Appendix B.

1.2 Our Conclusion

Based on the Use of Resources assessment, we gave an unqualified Value for Money conclusion. We confirmed that the Council achieved level 2 in each of the three assessment themes. A score of 2 is the prevailing score nationally for organisations subject to the assessment and this score is in line with most other district councils within the County of Hertfordshire.

In concluding this assessment we came to a rounded judgement based on the detailed criteria set by the Audit Commission. Although the Council was assessed at level 2 in each theme, we acknowledge that there is a broad range of performance among council's scoring level 2 on a national basis. Councils at level 2 range from those which meet the minimum requirements to those which are performing well with some scope for development. In our view, Watford Borough Council should be considered as a strong level 2 with significant potential to move towards level 3 performance in future years, providing that issues highlighted in this assessment are addressed. During our review, we noted areas of good practice, notably in regard to "commissioning & procurement" and "good governance" which the Council should look to build on.

The Council's UoR scores in the three themes are summarised in the table below. For a full explanation of scoring criteria, please see Appendix C. The scores can be interpreted as follows:

- A score of 1 indicates inadequate performance, requiring immediate action.
- A score of 2 indicates satisfactory performance, with room for development.
- A score of 3 indicates good performance, significantly above the average.
- A score of 4 indicates excellent performance, showing best practice leadership and innovation.

Table 1: UoR Theme Scores

Theme	2008/09 score
1 Managing finances	2
2 Governing the business	2
3 Managing resources	2
Overall UoR Score	2

To support our conclusions in the Governing the Business theme, we undertook spot-checks of two performance indicators, and found no significant data quality issues. We also considered the results of our mandatory work on housing benefits, which did not give rise to any significant data quality concerns.

1.3 Key Recommendations

Key recommended actions for the Council arising from our assessment are discussed in sections 3,4 and 5 of this report, and are presented in the action plan in Appendix A. In summary, these recommendations are to:

- Review of the way in which financial and performance data is presented to members to ensure that performance monitoring and policy decisions are supported by information which is clear, concise, and focused on the key considerations.
- Strengthen procedures which safeguard the quality of data used to monitor and report operational performance.
- In preparation for the assessment of the use of natural resources in 2009/10, the Council will need to demonstrate that a broad strategy for environmental sustainability, with supporting policies and procedures, are in place, together with demonstrable evidence of strong outcomes (for example, the achievement of strategic targets in this area).

These recommendations are focused on specific areas of improvement which would move the Council towards level 3 performance in the 2009-10 UoR assessment. Our recommendations are not comprehensive, and we would encourage the Council to review the published Key Lines of Enquiry (KLOE) for 2009/10 in order to evaluate other areas where performance could be improved.

1.4 Next Steps

We will continue to work with the Council during the year to help prepare for the 2009/10 Use of Resources assessment. For further details on next year's assessment, please see Appendix D. For further details on how level 3 performance is assessed, please see Appendix E.

The recommendations arising from our review are set out in appendix A. We would like to take the opportunity to remind the Audit Committee of the need to monitor implementation of recommendations.

1.5 Use of this Report

This report has been prepared solely for use by the Council to discharge our responsibilities under the Audit Commission Code of Audit Practice and should not be used for any other purpose. No responsibility is assumed by us to any other person.

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.

1.6 Acknowledgements

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

2 Detailed Findings

2.1 Background to the Assessment

In carrying out our audit work, we comply with the statutory requirements governing our duties, set out in the Audit Commission Act 1998, in accordance with the Code of Audit Practice (the Code). The Code requires us to issue a conclusion on whether Watford Borough Council ('the Council') has proper arrangements in place for securing economy, efficiency and effectiveness in the use of its resources (VFM conclusion). The UoR assessment forms the backbone of this process. The UoR Key Lines of Enquiry (KLoEs) are prescribed by the Audit Commission and applied at all Councils, Police Forces, Fire Authorities and NHS PCTs.

The assessment was carried out between April and August 2009. We reviewed the Council's arrangements against the KLOE framework prescribed by the Audit Commission. Our work was based on review of the Council's voluntary self-evaluation and supporting evidence, and meetings with senior management and officers.

2.2 Detailed Scores by 'KLOE'

The 2008/09 KLOE and theme scores are shown in the table below:

Table 2: UoR KLOE scores

Theme / KLOE		Score
Theme 1 - Managing finances		2
1.1	Financial planning	2
1.2	Understanding costs	2
1.3	Financial reporting	2
Theme 2 - Governing the business		2
2.1	Commissioning and procurement	3
2.2	Use of data	2*
2.3	Good governance	3
2.4	Internal control	2
Theme 3 - Other resources		2
3.1	Environmental management	N/A**
3.2	Asset management	N/A**
3.3	Workforce management	2

*Some KLOEs have an overriding impact on theme scores - see Appendix C for more details of scoring criteria and arrangements.

**Different KLOEs are specified for assessment each year and across types of organisation. See appendix D for details.

2.3 The VFM Conclusion

Under the Code of Audit Practice (the Code), auditors have a responsibility to conclude whether the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. This conclusion is the value for money (VFM) conclusion. Section 3 of the Code sets out the scope of these arrangements and the way in which auditors will undertake their work.

Auditors inform and limit their VFM conclusion by reference to relevant criteria. These criteria cover particular areas of audited bodies' arrangements, specified by the Commission under the Code. From 2008/09, the KLOE for the scored use of resources assessment also form the criteria for the VFM conclusion. The Commission will specify each year which of the use of resources KLOE will form the relevant criteria for the VFM conclusion at each type of audited body.

Auditors address a 'yes' or 'no' question for each criterion – that is the audited body either has proper arrangements or it does not. A 'no' judgement will be equivalent to level 1 performance for the use of resources assessment, and a 'yes' judgement will be equivalent to level 2 performance or above. Criteria with a 'no' judgement will automatically apply in the following year regardless of whether or not they are specified.

For bodies subject to a scored Use of Resources assessment for Comprehensive Area Assessment (CAA), the KLOE forming the relevant criteria for the 2008/09 and 2009/10 VFM conclusion are those specified at Appendix D.

On the basis of the KLOE scores assessed in 2008/09 for the Watford Borough Council, we issued an unqualified use of resources opinion.

2.4 Our Recommendations

The key findings in each of the KLOEs, and areas for improvement, are set out in the sections 3 to 5 of this report. Our recommendations focus on KLOEs that were assessed at level 2. In general terms, the Council should be able to achieve an improved assessment score in 2009/10 through a combination of the following;

- Demonstrating strong outcomes for the community and VFM improvements across the scope of the KLOE.
- Showing innovation or recognised best practice.
- Demonstrating effective partnership working leading to improved outcomes.
- Showing strong performance and value for money compared with others.
- Continue to further develop its data quality policies and procedures.

In Appendix E, we have included a brief summary of how level 3 performance will be assessed in 2009/10. This should help the Council to understand the type and level of evidence we will need to be presented with.

3 Managing Finances (KLOE Theme 1)

3.1 Theme Summary

The Council has effective procedures in place to manage finances and in regard to financial planning but the Council can improve by providing demonstrable strong outcomes as a result of this. We consider that there is potential for the Council to improve both the analysis and understanding of underlying costs to drive the VFM agenda, and that there is scope for greater clarity and integration in the information provided to those charged with governance.

3.2 KLOE 1.1

Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?

Medium Term Planning. The Council has a fully integrated financial planning process utilising financial projections on pay, inflation, and other key medium term assumptions. Longer term aims in the Corporate Plan, are delivered via the Medium Term Financial Plan (MTFP), which sets parameters for the annual plans. Detailed staff briefings are used inform service planning.

Stakeholder Consultation. The Corporate Plan includes a commitment to engage with local communities. Service Plans include equalities objectives. The Council utilises a number of stakeholder forums including the Watford One Equality Assessment Panel, consisting of people of diverse ethnic backgrounds, and the Citizens Panel, which enables residents to vote on the council priorities and services. There is clear evidence that issues arising from this process are considered in the annual financial planning cycle.

Manages Spending & Financial Standing. The Council has demonstrated a good track record of managing spending and has a sound financial position in the medium term with healthy levels of reserves. There have been no significant revenue budget overspends.

Financial Accountability & Skills. The Council has established comprehensive training for members and staff. Courses in year include: 'Finance for Non Financial Managers' presented by the Watford management team to both Three Rivers District Council and Watford Borough Council and Annual Accounts Training.

Evidence of Level 3 Performance. A number of notable outcomes have been achieved as a result of good financial planning in recent years, including very positive service outcomes:

- The Council has delivered its financial outturn for 2008-09, as planned in its MTFP budgets, including a surplus, despite the economic downturn. Regular monitoring by the budget, cabinet and scrutiny committees has led to prompt remedial action on variances. The Council has a debt free policy, minimising exposure to rising interest rates risk.
- The Council is well placed to manage the impact of the economic recession. It has substantial reserves and has ensured annual council tax rises remain below 1% for 2009/10. The Council received £1.6million in year from the VAT shelter scheme it operates in association with Watford Community Housing Trust, plus it is expected that they will receive a further £8.5m over the course of the next 8 years thus enabling Watford Borough Council to re-invest this amount in future capital projects.
- The Council's use of the MTFP as a rolling five year financial forecast has helped inform a number of key decisions and means that remedial action can be taken earlier, without waiting for annual updates. For example, the transfer of housing stock in 2007-08 reflected longer term concerns about the value for money of providing services directly, particularly in relation to meeting the decent homes standard.
- The Council's well established treasury management policy has been set to minimise the risk to investments and is reviewed annually. As a result investments have been insulated from recent falls in share prices and the risk of exposure from the impact of the Icelandic banking crisis.

Recommendation - Financial planning

The Council should ensure that it can demonstrate that:

- integrated financial and performance information is presented to members;
- that this information is subject to effective scrutiny; and that
- the results of this scrutiny process is that resources are effectively deployed to secure improved outcomes in line with the Council's priorities.

3.3 KLOE 1.2

Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?

Understands Costs. The Council demonstrates an understanding of the overall impact of its long-term costs and benefits, including environmental and social Strategic analysis. This understanding is demonstrated in corporate documents such as the 'Managing Directors Stock take' presented to cabinet- which focuses on both good and bad aspects of the Councils operations in the year. The Council also has a Community Plan which demonstrates an understanding of the wider social and environmental issues.

Analysis of costs has found that Watford Borough Council costs in relation to performance are quite high in certain areas. This was cited that the cost make up between Council's when comparing varies according to what element of cost is included within the cost base and what is not. However, this should not have the impact of resulting in Watford Borough Council costs being high.

Applies Understanding of Costs. The Council has an effective system of financial monitoring including comprehensive management reports. The Councils decision making regarding planning takes into account the social, environmental and whole life costing in arriving at the decision of whether to construct the new leisure centres.

The Council collects information on the impact of its policies on local communities, which is performed extensively through working with local partners such as the Community Safety Partnership.

Planning & Delivering Efficiencies.

The Council generated efficiencies are driven by the VFM strategy which focuses on the 5 themes of partnership, procurement, asset management, enablement and process improvement. The Council has demonstrated a good understanding of the requirements of the N179 VFM PI submission and are ranked as the second highest performing District Council in the country within this indicator. The Council has delivered cashable efficiency savings in each of the past 3 years, including £0.775m in 2007-08 and £4.5million over the past 3 years of recurrent savings and were ranked the second highest. The MTFP provides evidence that the savings of 2.5% are achieved on an annual basis.

Recommendation - Understanding costs

Comparative costs data indicates that the Council currently has high costs when compared to similar councils. The Council should complete its analysis of comparative cost data to understand why costs are high and in light of this information decide whether there are any opportunities to improve the cost of service delivery.

Recommend: The Council develops a more clear understanding of costs and performance in its decision making.

3.4 KLOE 1.3

Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?

Reliable Management Information. The Council tests the financial and budgetary control system on an annual basis using the Internal Audit function. The financial system provides profiled budgets, and is closed down promptly and reported to budget holders within a 10 day timeframe. The Council has a track record of producing reliable and accurate financial information, including a good quality of projected information in MTFP. The Budget is scrutinised by the Budget panel and Cabinet. Budget monitoring reports produced from the main accounting system demonstrate an appropriate level of detail.

Monitoring Performance. The Council has a track record of effective budgetary control, with prompt action taken by the scrutiny committees responsible for each service. There have been no significant revenue overspends in 2008/09 impacting on service provision or priorities. The Council circulate a monthly report on financial and non financial performance of the Council via a report entitled 'Finance Digest'. The quality and clarity of financial and performance reporting, via the Finance Digest, is adequate, although there is room for improvement in regard to producing more information on non financial performance specifically the reporting against stretch targets and the corrective action taken on variances. The Digest feeds into the quarterly budget monitoring process performed by the Cabinet.

Annual Accounts. The June 2009 deadline for accounts submission was met, as was the September deadline for final accounts submission and the Whole of Government Accounts return. The accounts were received prior to the audit fieldwork. The accounts were submitted to the audit committee in June with an explanatory paper from the Head of Strategic Finance, , although there is scope to strengthen the accounts scrutiny process by the audit committee. Comprehensive working papers were provided to the audit team and Council staff were available when required. The rate of response to queries was very good. The appointed auditor issued an unqualified audit opinion and there were no material errors. There were a small number of non-trivial errors and some disclosure amendments to the accounts in 2008-09.

External Reporting. The Council publishes all committee papers promptly on its website. The authority advertises the annual audit in line with statutory requirements. The Annual Audit and Inspection Letter, Use of Resources Report, Annual Report and Accounts are all made available on the website free of charge and meeting minutes and key documents are added to the website in a timely manner. Stakeholders have been engaged in regard to the availability of information.

The Annual Report contained significant explanation and context to improve accessibility for stakeholders. The Council considers equality impact assessment for all reports to committee.

Recommendation - Finance Digest

The information reported in the Finance Digest is limited in the non financial performance reporting to collection ratios and analysis of bad debts. The financial performance reporting does compare budget against stretch target and highlights variances where over a certain quantum but there was no reporting of the corrective action to be taken to correct the variance.

Recommend: Strengthening of the non financial performance information that is reported in the Finance Digest.

Recommendation - Member Scrutiny

The level of member scrutiny of the annual accounts was limited for the 2008/09 accounts to a few comments on minor areas of the accounts.

Recommend: the level of member scrutiny is strengthened to provide a more robust review of the annual accounts.

4 Governing the Business (KLOE Theme 2)

4.1 Theme Summary

The Council has a focused vision of outcomes linked to local needs and demographic considerations, and has demonstrated consultation with residents in commissioning services. Procurement and commissioning are based on robust procedures. A Data Quality Strategy is in place, although the procedures supporting it require some development. Formal protocols and policies are in the process of being developed with some partners but this continues to be an area of development for the Council.

The Council constitution articulates guiding principles of governance for all aspects of Council activity. The Council has a strong track record of good standards of conduct and is able to demonstrate a robust and well established ethical framework and culture. The Council maintains focus on its purpose and vision as in engaging with stakeholders including minority and vulnerable groups. There are no significant issues with anti-fraud arrangements. The Council has a sound system of internal control including an established and robust Internal Audit service.

It should be noted that KLOE 2.2 is a 'dominant' KLOE in the assessment and that a score of 2 in this area will restrict the overall theme score to level 2.

4.2 KLOE 2.1

Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?

Understanding Needs. The Council has a focused vision of outcomes linked to local needs and demographic considerations. This awareness is further demonstrated by their feedback and consultation exercises performed on certain key projects such as the new leisure centres, redevelopment of Cassiobury park children's playground with the latter involving the Council canvassing schoolchildren for their feedback.

Stakeholder Consultation. The Council has undertaken a number of initiatives which demonstrate significant levels of consultation with residents in commissioning services. The Council's annual budget consultation is also used as a platform for allowing the community to influence financial decisions. The Council consulted the public in the provision of 2 new leisure centres and the canvassing of the public with regard to developing the Coliseum as an entertainment venue.

Effective Use of IT. The Council makes use of information technology to support commissioning and procurement. One of its aims is to enable the authority to deliver the national e-government agenda through delivery of the service transformation programme and to make Watford Borough Council services fully accessible to the public. This has resulted in a number of improvements including the introduction of a Customer Relations Management System which enables customers to have a single point of contact for multiple requirements.

Understanding the Market. The Council demonstrates adequate understanding of the market. For Example, the Council website which includes the capacity to display Council tender notices, offering local businesses an opportunity to bid for Council contracts. Also, after contracts are signed, they are effectively managed by staff who maintain a regular communication with the suppliers via the Procurement Strategy Health Check.

Evaluates Options, Including Partnerships. The Council is about to implement a Shared service arrangement with Three Rivers District Council which covers commissioning and procurement and this is a good example of pro-active methods taken to improve VFM.

Improving VFM. The Council provided some evidence that it works towards greater VFM through use of competitive tendering and other methods. Evidence was provided of both in house and external measures that have been put in place to monitor and record the performance (through benchmarks) i.e. Grounds maintenance has joined the Regional Improvement and Efficiency Partnership benchmarking group that compares their cost against other schedule of rates.

4.3 KLOE 2.2

Does the organisation produce relevant and reliable data and information to support decision making and manage performance?

Data Quality Including Partnerships. The Council have identified instances of data sharing but formal protocols have yet to be developed with partners. The Council has a data quality strategy in place that is accessible to all staff. The Data Quality Policy is currently being developed and will provide a corporate framework for the organisation in terms of robust data quality processes. Our work on performance indicators, supported by the findings of internal audit, did not highlight significant problems with the data reported, although the Council recognises the need to further develop its data quality policies and procedures.

Quality of Management Information. The Council's standard report template provides a consistent standard for Council reports and ensures a basic level of clarity and coverage of key administrative aspects. Generally, reports are well presented, with adequate background and context, and use statistical information to substantiate points made.

Data Security and Statutory Requirements. Data is managed on systems with controlled or secured access and has a business continuity plan that is regularly tested. Access to the network is secured by password access and individual departmental system access is also controlled by user name and password. A Business Continuity Plan and Disaster Recovery service are in place and are tested annually. An updated ICT Policy is currently being developed and the weaknesses highlighted in our IT Controls report should strengthen the data security arrangements in place. There are limited procedures in place for validating third party data, however, the data is subject to overall 'sense checks' by service managers

Monitors Service Performance. The Council has appointed service managers with responsibility for managing and reviewing performance indicators including data quality. There is a need to expand these reviews beyond just the BVPIs. The Council has a good track record using reported performance information in the day to day management of services. The data used is from the same source as is used to report to the Council's executive. Quarterly performance reports are produced to demonstrate progress against measurable service targets. Members receive a variety of information regarding PIs, progress against projects, financial information, complaints analysis, risk registers, HR statistical analysis and a Quarterly Performance Report.

Spot-check of National Indicators. To support our judgements for KLOE 2.2, we undertook detailed spot-checks of a number of the Council's key performance indicators. Where we identify significant concerns around the quality of the underlying data, which would be likely to lead to a material misstatement, we report our findings to the Audit Commission. Our spot checks did not indicate any significant errors in the National Indicators we reviewed.

Housing Benefits Data Quality. We also considered the results of the data quality aspects of our work on housing benefits. From our work carried out on HB COUNT, we have not identified any issues that would have a material impact on scores for KLOE 2.2.

Recommendation - Safeguarding Data Quality

Data quality has become a critically important area over the last 5 years, particularly with regard to performance information for the services, which is reported nationally to the Department for Local Government (DCLG) and also the local performance information used to monitor progress against objectives.

A Data Quality Policy is currently being developed and will provide a corporate framework for the organisation in terms of robust data quality processes.

We recommend that the Council finalises the Data Quality Strategy and effectively embeds the processes in a manner that enables compliance to be monitored.

4.4 KLOE 2.3

Does the organisation promote and demonstrate the principles and values of good governance?

Principles of Good Governance. The Council has a constitution in place which describes the roles and responsibilities of officials and members published on the Council's website. The council ensures compliance by means of adherence to the Code of Corporate Governance published by CIPFA. The Council has a strong commitment to member development and all members have Personal Development Plan's and complete self assessments to identify development requirements. The Council has achieved the East of England charter for elected member development reflecting its commitment to development. The Council has established a Member Development Group which meets regularly to consider the training requirements for members. The Council has demonstrated the effectiveness of this arrangement through the courses that have been arranged to meet identified member needs. The Constitution includes a section on 'Guidance for the Professional Relationship between Councillors and Council Employees' which provides guide on - principles of the code - resolving differences - employee complaints and councillor complaints.

Focus on Purpose & Vision. The Corporate Plan for 2008-14 is the key document that reflects all the Council's Strategic objectives and also the goals of the Local Strategic Partnership. These objectives are designed after various workshops, surveys and consultations with the public and other stakeholders. This was reflected in the development of the playground in Cassiobury and the Leisure Centres which involved extensive consultations and surveys from the general public.

Ethical Framework. The Council is able to demonstrate a robust and well established ethical framework & culture. All members have signed up to the code of conduct as well as staff. There is a protocol for working relationships between members and officers and codes of conduct are included in contracts of employment. The Monitoring Officer is required to provide complaints information to the Standards Board for England on a quarterly basis. Members are referred to the Standards Committee for any breaches and HR has staff disciplinary procedures in place for all staff. Members are sent standard forms annually to declare their interests as well as any gifts and hospitality received. These are published on the website. Officers and staff are required to do the same, although no formal reminders are sent and these are not made public.

Governance in Partnerships. Summaries of all partnerships are held by the Council and each partnership has either an agreement, service level contract or terms of reference with the Council. There is also a Data Sharing protocol in place whereby the Council shares information with the Police and Health Authorities. The Council is working to strengthen its governance arrangements in its partnerships through formalisation of its data sharing protocol with partners.

4.5 KLOE 2.4

Does the organisation manage its risks and maintain a sound system of internal control?

Effective Risk Management (including Partnerships). The Council has a Corporate Risk Register which is maintained by the Corporate Management Board now the Leadership Team. Although, this register is not directly linked to the objectives, consideration is given to the objectives in drawing up the register. Each Service has a Service Risk Register which links directly to the Service Plans. The Audit Committee receive update reports on risk management and risks are summarised in all committee reports issued. There is a risk management group in place comprising of the heads of services. They are charged with the responsibility of reviewing the risk management process, which were evidenced in minutes of their meetings. The Council is currently working on a partnership toolkit which sets up best practice with regards running partnerships and includes consideration of the risks of going into a partnership and risks within partnership arrangements and a template has been designed to monitor operational partnership risks.

Managing Fraud & Corruption. The Council has a Member approved 'Counter Fraud and Corruption Strategy' with a 'Whistle Blowing Policy' annexed to it. These are approved annually by the Audit Committee and are also published on the intranet. Heads of Services also monitor control arrangements and fraud is considered when reviewing the service risk registers. There is a dedicated fraud team solely responsible for benefits fraud which is part of the shared service arrangement with Three Rivers DC. The Fraud Manager prepares an annual programme for fraud which is approved by the Audit Committee. The fraud function is monitored and quarterly reviews are sent to portfolio holders.

System of Internal Control. The Council has a sound system of internal control which is summarised in the Annual Governance Statement. The framework is supported by a comprehensive and effective internal audit service. The findings of internal and external audit and the implementation of remedial actions are closely monitored by the Audit Committee, who refers actions to the relevant scrutiny committee when appropriate. Compliance with the Civil Contingencies Act 2004 is demonstrated and exercises are held with partners to test the adequacy of emergency plans (for example, Exercise Damocles, emergency scenario testing with Three Rivers District Council). The conclusions of the 2007-08 external audit, and work to date in 2008-09 indicate that the system of internal control remains adequate.

Recommendation - Partnership Arrangements

The Council is currently working on a partnership toolkit which sets up best practice with regards running partnerships and includes consideration of the risks of going into a partnership and risks within partnership arrangements. There are no significant partnership arrangements in place but a template has been designed to monitor operational partnership risks.

We recommend the Council develops and continues to embed partnership arrangements within the risk management framework.

5 Other Resources (KLOE Theme 3)

5.1 Theme Summary

The Council has a satisfactory track record of effective staff management arrangements which have produced an effective and skilled workforce. The Council has effective staff planning arrangements commensurate with the size of the organisation.

5.2 Cyclical Reporting within Theme 3.

It is important to note that KLOE within Theme 3 are subject to review on a cyclical basis. Therefore, under this framework only KLOE 3.3 (Workforce Management) was assessed in 2008/09. KLOE 3.1 Natural Resources and 3.2 Asset Management will be reviewed in 2009/10 and 2010/11 respectively (see Appendix D). We have included recommendations to address these areas to help the Council to prepare for the assessment of these areas.

5.3 KLOE 3.1

Is the organisation making effective use of natural resources?

This KLOE was not assessed in 2008/09, but will be assessed in 2009/10.

Recommendation - Natural Resources

This KLOE will be assessed for the first time in 2009/10 at district councils and we recommend that the KLOE guidance is reviewed in order to understand the basic criteria against which this will be assessed. Emphasis for level 3 performance will be placed on outcomes, and the Council will be expected to be able to demonstrate not just that plans for a sustainable environment are in place, but also that tangible outcomes have been achieved, for example, a year on year reduction in carbon emissions.

We recommend that the Council reviews the published criteria for KLOE 3.1 to ensure that there is appropriate audit trail to demonstrate that appropriate procedures are in place. For level 3, the Council will need to demonstrate positive outcomes for policies relating to the use of natural resources.

5.4 KLOE 3.2

Does the organisation manage its assets effectively to help deliver its strategic priorities and service needs?

This KLOE was not assessed in 2008/09, but will be assessed in 2010/11 as part of the cyclical approach to this theme.

Recommendation - Asset Management

This KLOE will be assessed for the first time in 2010/11 at district councils and we recommend that the KLOE guidance is reviewed in order to understand the basic criteria against which this will be assessed. Emphasis for level 3 performance will be placed on outcomes, and the Council will be expected to be able to demonstrate not just that it has efficient plans for effective asset management which deliver value for money, but also that tangible outcomes have been achieved. For example, demonstrating that surplus land and buildings have been identified and sold in year, contributing to the general fund, or redeveloped to meet local needs, according to a defined estates strategy.

We recommend that the Council start to review asset management in preparation for the 2010/11 assessment. The published criteria for KLOE 3.2 should be reviewed to ensure that there is appropriate audit trail to demonstrate that appropriate procedures are in place. For level 3, the Council will need to demonstrate positive outcomes for policies relating to asset management.

5.5 KLOE 3.3

Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?

Productive and Skilled Workforce. The Council has a strong track record of effective staff management arrangements which have produced an effective and skilled workforce. The Council has a central Human Resource strategy that is in place for 2009 - 2012 and reviewed on an annual basis and enables the Council to assess and ensure it has the right skill mix of employees to discharge their function.

The Council perform a draft skills analysis as part of the annual appraisal process, which identifies and provides solutions for supporting employees in their career development. In addition, the Council have engaged the services of Active Health Planners for sickness, accident and incident reporting to provide up to date information for managers in aiding the absence management of staff.

Staff Planning. The Council has effective staff planning arrangements. The Council has implemented the Human Resource strategy from 2009 - 2012, which mainly concentrates on workforce planning. The workforce plan is reviewed on an annual basis. Managers are issued with quarterly payroll reports which provide information on the payroll cost, starters, leavers and headcounts. There is a annual data cleanse of the payroll system involving employees to confirm their information is current. Managers receive monthly reports on the spend on agency staff to allow constant updated planning of staffing requirements. In addition, the Council through the appraisal process encourages the completion of draft skills gap analysis to allow employees to progress within their post and enables the Council to more accurately obtain the situation of their staffing skills mix and whether further recruitment is required

Managing Organisational Change In 2007-08 the Council experienced significant change with the transfer of the housing stock to Watford Community Housing Trust. Throughout 2008/09 the shared services project with Three Rivers DC has been the focus of organisational change. Joint briefings and individual consultation have been held, and UNISON have been involved throughout. Briefings in leading and dealing with change have recently been delivered in both authorities. In all cases staff are transferred under the Transfer of Undertakings (Protection of Employment) Regulations (TUPE). The staff magazine, entitled 'Wat's Up', is regularly used to communicate to staff. The Managing Director issues a 'core brief' to all teams on a monthly basis updating the teams on the shared service progress and there is an electronic forum available through the intranet for staff to ask the Managing Director direct questions which include questions regarding the shared service. In addition, there is the annual staff survey through which the Council monitor morale. The outcomes for the successful management of the shared services implementation could not be effectively assessed in 2008/09 and will be reviewed in 2009/10.

Staff Policies. The Council has in place the Corporate Equalities Steering Group which assessed the Council as meeting level 3 of the Equality Standard for Local Government. The Council completed an equal pay review in 2007. Watford has adopted the National Joint Council Job Evaluation Scheme (currently used at Watford) and their shared service partner, Three Rivers DC, is in the process of adopting this model going forward under the shared service arrangement.

Recommendation - Staff Management

At level 3, there is an expectation that the Council knows in the medium to longer term what staff it will need, with what skills and has plans to achieve this. This includes a corporate strategic approach to workforce planning that reflects strategic priorities and supports service delivery, demonstration that workforce planning is designed to improve efficiency, productivity and VFM outcomes against local priorities.

The Council has the processes in place but needs to demonstrate through outcomes that they are effective. The progress of the shared service arrangement and the completion of this process should aid the more longer term workforce planning and achievement of this criteria.

A Appendix: Action Plan

The Council should address the following issues on an agreed timetable:

Table 3

KLOE	Recommendation	Priority	Management response	Implementation details
1.1	<p>The Council should ensure that it can demonstrate that:</p> <ul style="list-style-type: none"> integrated financial and performance information is presented to members; that this information is subject to effective scrutiny; and that the results of this scrutiny process is that resources are effectively deployed to secure improved outcomes in line with the Council's priorities. 	High		
1.2	The Council develops a more clear understanding of costs and performance in its decision making.	High		
1.3	We recommend strengthening of the non financial performance information that is reported in the Finance Digest.	Medium		

KLOE	Recommendation	Priority	Management response	Implementation details
1.3	We recommend the level of member scrutiny is strengthened to provide a more robust review of the annual accounts.	High		
2.2	We recommend that the Council acts to ensure that the policies outlined in the Data Quality Strategy are effectively reflected in the systems and procedures observed in the Service departments, and that there is an audit trail so that compliance can be checked.	High		
2.4	We recommend the Council develops and starts to embed partnership arrangements within the risk management framework.	High		
3.1	We recommend that the Council reviews the published criteria for KLOE 3.1 to ensure that there is appropriate audit trail to demonstrate that appropriate procedures are in place. For level 3, the Council will need to demonstrate positive outcomes for policies relating to the use of natural resources.	High		

KLOE	Recommendation	Priority	Management response	Implementation details
3.2	We recommend that the Council start to review asset management in preparation for the 20010/11 assessment. The published criteria for KLOE 3.2 should be reviewed to ensure that there is appropriate audit trail to demonstrate that appropriate procedures are in place. For level 3, the Council will need to demonstrate positive outcomes for policies relating to asset management.	Medium		
3.3	We recommend that the council makes greater use of staff performance indicators in its regular corporate reporting to monitor the effectiveness of its staff management arrangements	Medium		

B Appendix: New Use of Resources Framework

The Old UoR Regime

Local authorities' Use of Resources (UoR) has been assessed by external auditors under the Comprehensive Performance Assessment (CPA) regime since 2005. Until 2008, this took the form of an assessment in each of the following 5 areas;

- Financial Reporting
- Financial Management
- Financial Standing
- Internal Control
- Value for Money

Authorities received an overall UoR score, and a score for each area as set out below:

Table 4 Scoring Under the Old UoR Regime

Score	Key
1	Below minimum requirements - performing inadequately
2	At only minimum requirements - performing adequately
3	Consistently above minimum requirements - performing well
4	Well above minimum requirements - performing strongly

This score directly influenced each organisation's overall CPA score and had a significant impact on external perception and reputation.

The Move to Comprehensive Area Assessment

The CPA regime provided an effective roadmap and stimulus for improvement, which helped many authorities to move in the right direction, focusing on externally validated strengths and weaknesses. This was reflected by a national picture of gradually improving scores and assessment results from 2005-8, and improving services to the public.

However, in order to build on the success of CPA, the Audit Commission recognised the need to:

- Ask "how well are people served by their local public services?" rather than "how well are people served by their Councils?"
- Focus on outcomes for an area, not just on individual organisations
- Consider local priorities rather than apply a "one-size fits all" approach
- Consider whether performance is likely to improve in the future, rather than how it has improved in the past

- Place less importance on compliance and rules to reflect local differences

In late 2007, the Audit Commission began to consult on a new framework for comprehensive area assessment (CAA), of which an updated UoR assessment would be a key component. The CAA framework that emerged focuses on *areas* rather than the *organisations* within them, and holds local partners jointly to account for their impact on the things that matter to the area as a whole. The CAA asks three key questions:

- How well do local priorities express community needs and aspirations?
- How well are the outcomes and improvements needed being delivered?
- What are the prospects for future improvement?

The CAA does not give an overall score, as was the case for CPA. However, there will be green flags given for innovative or exceptional performance and red flags given to indicate concerns about outcomes and performance.

Table 5 CAA - Key Changes

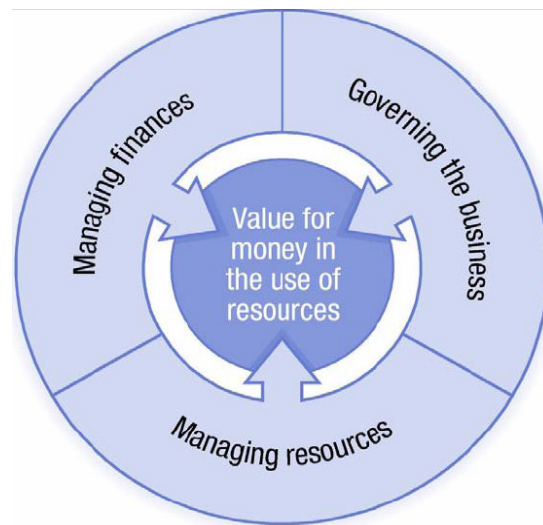
CPA	CAA
Local government focus	All sectors and partners
Institution based	Area based
One size fits all	Focus on local priorities
Performance	Outcomes and perceptions
Collaboration between regulators	Joint assessment
Cyclical inspection	Continuous assessment, proportionate inspection
Focus on past performance	Focus on future improvement

Source:- Audit Commission

Use of Resources under CAA

Alongside the area assessment, CAA will include organisational assessments for key public sector organisations including councils, primary care trusts (PCTs), police forces and fire authorities. Each organisational assessment consists of two components; an assessment of how effectively the organisation is addressing its own priorities, called "managing performance" for councils, and an updated UoR assessment will be applied similarly across the different types of organisation.

The new UoR framework under CAA applies from 2008/09. The diagram below shows the overall approach to the revised UoR framework. There are three themes replacing the five areas included in the old framework, and a number of key lines of enquiry (KLOEs) within each theme.

Use of Resources under CAA (source: the Audit Commission)

The individual KLOEs for each theme are detailed in the main body of this document. Scoring criteria are set out in Appendix C.

C Appendix: Scoring Criteria & Rules

The table below summarises the criteria used to reach scored judgements for each KLOE.

Table 6 Scoring Criteria

Level 2 Performs adequately	Level 3 Performs well	Level 4 Performs excellently
Arrangements consistent with established professional practice and guidance, meet statutory requirements and operate effectively.	Implemented effective arrangements that are: <ul style="list-style-type: none"> ➤ forward looking and proactive in identifying and developing opportunities for improvement; and ➤ include more sophisticated measuring and assessment techniques. 	Demonstrating innovation or best practice .
Arrangements sufficient to address the KLOE.	Outputs and outcomes demonstrate arrangements which are effective and have the intended impact , and show evidence of effective partnership working .	Demonstrating strong outcomes for the community including through partnership working .
Arrangements achieve minimum acceptable levels of performance .	Evidence of performing consistently above minimum acceptable levels and achieving VFM .	Evidence of performing well above minimum acceptable levels and achieving excellent VFM .

Theme scores are derived from a numerical average of the KLOE scores within that theme. In some cases such as theme 2 or theme 3 when only 2 out of 3 KLOEs are assessed, the average of KLOE scores could result in a number ending in .5. In such cases the following rules apply in 2008/09;

- For theme 2, if the average KLOE score ends in 0.5, then the theme score will be rounded up or down to the score for KLOE 2.2. Examples - KLOE scores of 3,2,2,2 = theme score of 2. KLOE scores of 3,2,3,2 = theme score of 2. KLOE scores of 2,3,3,2 = theme score of 3.
- For theme 3, if the average KLOE score ends in 0.5, then the theme score will be rounded up or down to the score for KLOE 3.1. Examples - KLOE scores of 3 and 2 = theme score of 3. KLOE scores of 2 and 3 = theme score of 2.

The Audit Commission document at the link below details the overall approach to UoR framework and full details of scoring methodology:

<http://www.audit-commission.gov.uk/SiteCollectionDocuments/Downloads/uorframework2008updatefeb09.pdf>

In addition the Commission published auditor guidance for the UoR framework. This is available at the link below. This provides details of the specific KLOE's and expected indicators for levels of performance;

<http://www.audit-commission.gov.uk/localgov/audit/UoR/Pages/guidance.aspx>

D Appendix: Rotation of Assessment (Theme 3)

KLOE within theme 3, Other Resources, are assessed on a cyclical basis. The table below summarises the KLOEs that were assessed and formed the basis for the VfM conclusion in 2008/09.

Table 7: Cyclical Assessment of KLOE Theme 3 in 2008/09

		Single tier or county council	Districts	NHS PCTs
Theme 1 - Managing finances				
1.1	Financial planning	Y	Y	Y
1.2	Understanding costs	Y	Y	Y
1.3	Financial reporting	Y	Y	Y
Theme 2 - Governing the business				
2.1	Commissioning and procurement	Y	Y	Y
2.2	Use of data	Y	Y	Y
2.3	Good governance	Y	Y	Y
2.4	Internal control	Y	Y	Y
Theme 3 - Other resources				
3.1	Environmental management	Y	N	N
3.2	Asset management	Y	N	Y*
3.3	Workforce management	N	Y	Y

*only assessed at PCTs with a significant asset base.

For the 2009/10 assessment, KLOE themes 1 and 2, in addition to the following KLOEs within theme 3, will be assessed and will form the basis for the VfM conclusion. Within theme 3, achieved in 2008/09 will continue to apply for 2009/10 for those KLOEs not being assessed in year 2.

Table 8: Cyclical Assessment of KLOE Theme 3 in 2009/10

Theme 3 - Other resources				
3.1	Environmental management	N	Y	Y
3.2	Asset management	Y	N	N
3.3	Workforce management	Y	N	Y

Note that for district councils, the assessment of KLOE 3.2, Asset Management, has been deferred until 2010/11.

Full details of the scoring methodology are provided at the Audit Commission's website at: <http://www.audit-commission.gov.uk/SiteCollectionDocuments/Downloads/uorframework2008updatetefeb09.pdf>

E Appendix: Assessing Level 3 Performance

Assessing Outputs, Outcomes and Achievements

In order to score level 3 or above in the new UoR assessment framework, organisations were required to show that processes are *effective* and having the *intended impact*. This is an important shift in emphasis from the previous framework, within which organisations could achieve top scores largely by demonstrating excellent processes. The table below gives generalised examples of the types of outcome that have led to higher scores.

Table 9: Illustrative Examples of Outcomes by KLOE

NOTE - these examples are for illustration only and do not comprehensively cover each KLOE. Refer to section 2 for KLOE headings.

	Outcome	Output	Achievement
1.1	Investment in priorities leads to improved performance	Savings targets met, performance reward grant achieved	Positive external assessment
1.2	Improved relationship between costs and performance	Service reviews completed identifying opportunities	Development of effective corporate efficiency programme
1.3	Healthy financial position	Improved financial skills	Early close of accounts, clean audit
2.1	Improved service performance at lower cost	Completed commissioning / procurement exercises	Innovative approach to joint commissioning External recognition for procurement
2.2	Better-informed decisions and robust data to stakeholders	Improved internal performance reporting	Finding and fixing problems with own or partner data
2.3	Flexibility and responsiveness whilst maintaining focus	All members trained in ethical behaviour	Achieving a more balanced political process
2.4	Risks identified and mitigated, frauds recovered	Development and review of risk registers	Development of effective partnership risk framework
3.1	Reducing emissions and water consumption	Training of environmental champions	Enrolment in carbon reduction programme
3.2	Improving condition of assets	Income from disposal of unwanted assets	Better office accommodation

	Outcome	Output	Achievement
3.3	Meeting skills gaps, improving staff satisfaction	Reducing turnover and sickness absence	Investors in people accreditation

There are some common sense principles that should be taken into account when seeking to identify outcomes:

- organisations should not have to identify new outcomes for the purposes of UoR assessment. These should be identified and captured through existing management activity; organisations should understand how their processes help them to achieve their priorities.
- outcomes and outputs should be measurable where possible, but if this is not the case then a qualitative description of the improvement is still useful.
- there may not be a 1-to-1 relationship between processes and outcomes. There may be a small number of outcomes that arise as the net effect of a processes across a KLOE area.
- Councils should discuss any issues of interpretation with their auditors before investing time and effort in self-evaluation, if this is the preferred approach.

Engagement in the Assessment Process

The Council engaged effectively with the assessment process in 2008/09. Our early discussions with senior officers helped the Council to prepare a high-quality and focused self-assessment, and a comprehensive pack of supporting evidence.

For the 2009/10 assessment, we anticipate a less time-intensive process. The assessment is likely to focus on the following areas in particular:

- identifying new outcomes for 2009/10 and evidence that outcomes from 2008/09 have been sustained.
- areas in which the Council feel that substantial improvements have been made to processes and procedures.
- areas in which new audit risks have been identified.

Our Approach to Ensuring Consistency

In line with the Audit Commission's move to Comprehensive Area Assessment, the new use of resources framework has been designed to provide more flexibility to recognise local issues, priorities and achievements. This has given auditors more freedom to establish the individual story of each organisation, rather than applying a rigid best practice template. To support this, both the Audit Commission and Grant Thornton have put in place new arrangements for ensuring that judgements and scores are reached in a fair and consistent way.

The Audit Commission has:

- provided extensive guidance and training.
- introduced an area-based challenge process bringing together auditors within each region to discuss and challenge indicative scores.
- increased the visibility of comparative scores and commentary for auditors.
- undertaken a detailed final quality assurance process including statistical analysis across suppliers, regions and types of organisation.

Grant Thornton has;

- provided training and guidance.
- developed a network of regional leads to oversee the audit process nationally.
- undertaken a number of internal consistency and challenge sessions, comparing our clients with each other and with their regional neighbours.
- undertaken detailed review and quality control of scores and conclusions.



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