



Accountants &
business advisers

Three Rivers District Council

Use of resources judgements

2006/07

April 2007

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1 Executive summary

1.1 The use of resources assessment is an annual assessment of how well a council manages its financial resources. It looks at how financial management is integrated with strategy and corporate management, supports council priorities and delivers value for money.

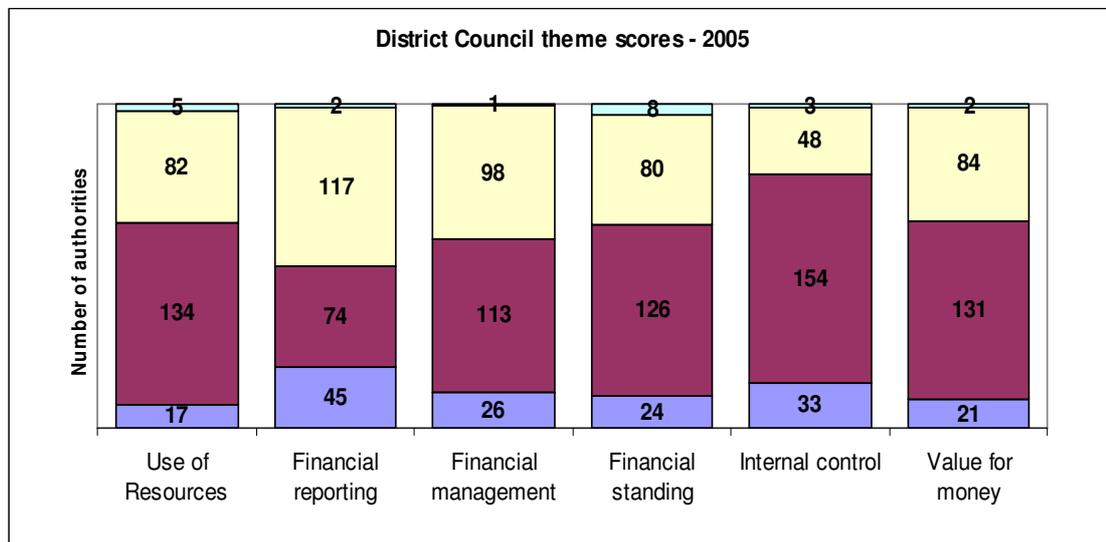
Scores judgements for 2006

1.2 The Council has achieved an overall use of resources score of 2 as “performing adequately”, i.e. at the minimum requirements. The table below shows the movement in the five theme scores since our previous assessment. Changes at sub-theme level are set out in the table at Appendix 1.

Use of resources theme	2005 Score	2006 Score
Financial reporting	2	3
Financial management	2	2
Financial standing	2	2
Internal control	2	3
Value for money	2	2
Overall use of resources (weighted average)	2	2

1.3 We are unable at this point in time to provide national or regional analysis of scores for 2006 to provide context for the Council’s scores outlined above as this information has not yet been published by the Audit Commission or made available to auditors.

1.4 The 2005 comparative assessment for all district councils is set out below.



Source – Audit Commission website

Overall conclusions

1.5 Whilst the Council’s overall score of level 2 “performing adequately” has not changed from the prior year’s assessment, there have been a number of improvements within the sub-themes, as set out in sections 3 to 7 of this report, strengthening the Council’s baseline position. In addition, both the Financial Reporting and Internal Control theme scores have improved from level 2 to level 3. Consequently, the Council now has a very robust overall score at level 2 from which it can develop and enhance procedures to progress further.

2 Introduction

2.1 The use of resources judgements focus on the importance of having sound and strategic financial management to ensure that resources are available to support the Council's priorities and improve services. It covers the following themes:

- Financial reporting
- Financial management
- Financial standing
- Internal control
- Value for money

2.2 The assessment criteria used in 2006/07 have been revised slightly from those used in 2005/06 to further improve the differentiation between the levels of performance.

Scoring and self assessment review

2.3 Each theme consists of a number of sub-theme key lines of enquiry (KLOE) assessment criteria that form the areas of audit focus and evidence. For the first four themes the criteria include elements that are indicated as 'must haves', and have been introduced to phase in those criteria where achievement is considered to be more demanding, or requires significant investment, and lead in time for councils. The general requirement is that failure to meet any of these "must have" criteria would prevent that level being achieved for the sub-theme judgement.

2.4 The fifth theme on value for money does not use 'must have' criteria but is assessed on a 'best fit' basis as this is not underpinned by an equivalent body of professional standards and guidance, making the assessment necessarily more judgemental in nature.

2.5 The Council completed a self assessment of its arrangements against each KLOE area and provided appropriate evidence in support of the conclusions reached.

2.6 We have used this self assessment and supplementary evidence, our knowledge of the Council, enquiries of officers and comparative performance data to score each assessment criteria using the descriptors for different levels of performance to determine which most closely matches your Council's performance. The overall use of resources score is based on combining auditors' scores for each of the areas covered on the following scale:

Level (score)	Performance
1	below minimum requirements – inadequate performance
2	only at minimum requirements – adequate performance
3	consistently above minimum requirements – performing well
4	well above minimum requirements – performing strongly

Quality assurance and consistency

2.7 Assessment scores are subject to a number of quality assurance processes to ensure consistency on a local, regional and national basis. Internally PKF operates a forum where individual auditor judgements are compared, contrasted and challenged across the PKF district council portfolio. This is complimented by a wider consistency forum attended by the appointed auditors of a number of district councils to provide another layer of challenge and comparison, with the aim of achieving consistency in approach and assessment across audit suppliers.

2.8 Finally the scores and assessment are reviewed by National Quality Assurance Panels providing risk based challenge using indicators such as use of auditor discretion.

Changes to future assessments

- 2.9 To date judgements for district councils have been made on information available to the auditor up to the date of the assessment being undertaken. This means that the 2006 assessment could be based on information and evidence made available to the auditor, in some cases, as late as January 2007.
- 2.10 Looking forward, the Audit Commission has brought the assessments for district councils into line with the financial year, as with the assessments for single tier authorities. The 2007 assessment will be undertaken during summer 2007 and encompass processes in place for the 2006/07 financial year. Whilst this review will focus on arrangements in place to 31 March 2007, auditors will consider evidence of the effectiveness of those arrangements up to the date of the review, including demonstrating the achievement of value for money and impact of those arrangements.
- 2.11 The Audit Commission has also made some changes to the number of criteria that will have “must have” status from 2007 onwards. The majority of the new “must have” are at Level 3 although there are some instances of the new “must have” criteria at Level 2. It is critical that the Council has done sufficient to meet the criteria by 31 March 2007 in order to maintain the current score for the relevant use of resources theme. The new “must have” criteria are summarised in Appendix 2. Sections 3 to 7 include commentary on the Council’s position against the new “must have” criteria where it has the potential to impact on the scores currently being achieved. Our action plan at Appendix 2 takes into account the “must have” status of criteria for the 2007 assessment.
- 2.12 We have previously discussed with the Council the requirement to ensure that improvement opportunities are addressed and arrangements put in place before 31 March 2007 for the 2007 assessment.

3 Financial reporting

- 3.1 The published accounts of the Council are an essential means by which it accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources.
- 3.2 The financial reporting theme has been assessed as a “3” performing well. This is an improvement on the prior year, when the Council was assessed as level “2”, performing adequately.

Publication of annual accounts in accordance with relevant standards and timetables

- 3.3 The Council has good arrangements in place for preparing and publishing the annual statement of accounts and has continued to improve its processes for producing, and for ensuring the quality of, its accounts. The 2005/06 year end audit was completed without a significant number of accounting adjustments being required, the working papers provided in support of the accounts were comprehensive and client follow up of audit queries was good.
- 3.4 Scrutiny of the financial statements is good, as evidenced at the audit committee where the accounts were approved. The Committee review is supported by a paper that provides both an explanation of the accounts including the main issues and members with budgetary outturn positions to allow them to put the accounts information into context.
- 3.5 There are further improvements that can be made to achieve level 4:
- ensure that working papers are of exemplary standard and provide sufficient detail for all areas of the accounts so that further investigation required by the auditor is minimised
 - working papers should be independently reviewed for accuracy, completeness and clarity prior to being passed to audit
 - ensure that the accounting estimates are robust and supported by detailed information on assumptions and that the accounts contain very few non trivial errors.

Promoting external accountability

- 3.6 The Council has demonstrated good progress in promoting external accountability and has been assessed at level 3 for this sub-theme. The Council is committed to promoting external accountability, with its statutory accounts and Annual Audit Letter published as required and Committee papers available on the website.
- 3.7 We welcome the steps taken by the Council to obtain details from stakeholders of their wants from an annual report, and this has progressed the Council some way towards producing of a comprehensive annual report in the future.
- 3.8 There are further improvements that should be made to address those criteria which are changing to “must have” status in 2007, as well as assist in achieving level 4:
- the Council should produce an annual report that includes a balanced and informative business review for the year which focuses on performance against its strategic objectives and key targets, includes commentary on future developments, and includes key summary financial information
 - the Council will need to demonstrate that the annual report meets the information needs of stakeholders.

4 Financial management

4.1 Financial management is the system by which the financial aspects of an organisation's business are directed and controlled to support the delivery of the strategic and operational goals. It is critical to service improvement and impacts on how national funding of local government is used to deliver national priorities, on the relationship between national funding and local accountability, on the availability of resources for investment and on the cost-effectiveness of local government services.

4.2 The financial management theme has been assessed as a "2" adequate performance.

Financial strategy is sound and designed to deliver strategic priorities

4.3 Overall financial management arrangements are sound and the Council has a strong medium term financial strategy process which is embedded and integrates well with the service planning processes. It has therefore been assessed at level 3 for this sub-theme.

4.4 Revenue budgets are prepared annually to an annual budget strategy with budgets being rolled forward based on the prior year, but linked to the objectives within both the corporate and individual service plans and risk assessments of the material items of income and expenditure.

4.5 There are further improvements that should be made to address those criteria which are changing to "must have" status (at level 3) in 2007:

- ensure that the key messages from the medium term financial strategy are effectively communicated to staff and stakeholders as appropriate.

4.6 There are also further improvements that can be made to achieve level 4:

- the Council's financial management and budget processes should explicitly include an assessment of strategic and business plans of partners and the third-sector to ensure that area working and resource allocations are joined up.
- the Council proactively manages future developments that may impact on its financial management arrangements
- the Council can demonstrate how financial plans and strategies are helping in the achievement of corporate objectives.

Performance against budgets is properly managed

4.7 The Council's budget setting and monitoring processes are considered adequate, as there are regular revenue and capital monitoring reports presented to both the Committees and Cabinet, with some non-financial information also being reported and acted upon.

4.8 One of the required criteria for level 3 is that no significant departmental under or over spends have occurred that were not identified as a potential risk in developing the Council's reserves strategy. However, there have been significant underspend in each of the past three years that have not been identified in advance and consequently this criteria cannot be said to have been met.

4.9 Additionally, although some significant variances are identified during the year, a number of these do not become apparent until the end of the year and therefore budget monitoring processes cannot be considered predictive and forward looking. As a result arrangements have only been assessed at level 2 for this sub theme.

4.10 The key areas where additional improvements can be made to assist the Council in achieving level 3 status:

- the Council should develop its budget monitoring processes to ensure these are forward looking, such that the significant majority of budgetary variances are identified during the course of the year.

The Council's asset base is well managed

- 4.11 The Council has made some significant improvements in this area, including completing the assessment of the level of backlog maintenance and updating both the capital strategy and asset management plan.
- 4.12 The Council has also begun to introduce whole life costing and option appraisal in making investment decisions. However, this was not sufficiently embedded at the point of the audit for us to consider that this criteria was met at this point in time. Consequently the improvement in scoring from 1 in 2005 has not been progressed beyond 2 in 2006.
- 4.13 There are further improvements that should be made to address those criteria which are changing to "must have" status at level 3 in 2007:
- ensure that asset management performance objectives, and the related locally developed performance indicators, are clearly aligned with the overall corporate objectives.
- 4.14 The key areas where additional improvements can be made to assist the Council in achieving level 3 status:
- Ensuring that all investment and disposal decisions are taken using a thorough option appraisal and whole life costing.

5 Financial standing

5.1 Councils are required to conduct their financial affairs appropriately and to put in place proper arrangements to ensure that its financial standing is soundly based.

5.2 The financial standing theme has been assessed as a “2” adequate performance.

Spending is managed within the available resources

5.3 The Council continues to manage its spending within the available resources and there are sound arrangements to maintain proper financial standing. However, in recent years the Council has consistently significantly underspent against budget, principally a result of the previous budget setting arrangements and the link to prior year budgets rather than outturns and the corporate and service business plans.

5.4 Although variances against budget are being identified and reported on a timely basis, not all variances are known until the end of the year when “committed” budgets are released if not spent.

5.5 There are further improvements that can be made by the Council to progress to level 3:

- the Council should consistently maintain spending within its original budget without significant unexpected under or over spends
- the Council should ensure the monitoring information on debt recovery is improved to include analysis of the effectiveness and associated costs of the recovery options available to it.

6 Internal control

6.1 Councils are required to develop and implement systems of internal control, including internal financial controls, to manage significant business risks and to put in place proper arrangements to monitor their adequacy and effectiveness in practice.

6.2 The internal control reporting theme has been assessed as a “3” performing well. This is an improvement on the prior year, when the Council was assessed as level “2”, performing adequately.

Significant business risks are properly managed

6.3 The Council continues to make progress with the management of its significant business risks, with the arrangements having become embedded, with the strategy being subject to regular review and update, progress reports on risk management being taken to members and the impact of risks linked through to both corporate and service objectives.

6.4 However, the assessment for this sub theme remains as a “2” adequate performance, as the arrangements do not yet adequately consider the risks in relation to the significant partnerships with which the Council is involved.

6.5 In addition to this, there are further improvements that the Council can make to assist in the future achievement of level 4:

- all members should receive risk management awareness training, not just the members of the Audit Committee.
- the Council should ensure that it considers positive risks (opportunities) and negative risks (threats) within its risk management processes.

There is a sound system of internal control

6.6 The Council has a good framework in place to maintain a sound system of internal control and has been assessed at level 3 for this sub-theme. The Council currently has an effective internal audit function, with prompt action being taken to address weaknesses they have identified, and the outputs being subject to regular review. There are also annual reviews of the effectiveness of the system of internal Control, and a high level assurance framework, to support the disclosures made with the Statement on Internal Control.

6.7 There are further improvements that can be made to achieve level 4:

- the assurance framework should be embedded in the Council business processes and demonstrate corporate involvement and ownership of the process for preparing the SIC
- governance arrangements for all partnerships should be subject to regular review and updating to confirm that these are fit for purpose.

There are arrangements to ensure probity and propriety in the conduct of business

6.8 The Council has been assessed at level 3 for this sub-theme as it has good arrangements in place to ensure probity and propriety in the conduct of business. These included continued work to promote an anti-fraud and corruption culture, appropriate fraud and whistle-blowing policies and there is a detailed process in place to ensure review and detailed follow-up of potential frauds identified through past NFI data matching processes.

6.9 There are further improvements that can be made to achieve level 4:

- the Council should ensure that it continues to demonstrate a strong counter fraud culture in all areas and that all Members and Officers are reminded of the need to consistently exhibit high standards of personal conduct

- the Council may wish to explore how it may be able to use the results and conclusions of the national findings of the National Fraud Initiative to proactively address the risk of exposure to fraud and corruption and to design programmes to mitigate such exposure.

7 Value for money

- 7.1 Value for money is defined as the relationship between economy, efficiency and effectiveness, sometimes known as the 'value chain', the various aspects being defined as:

Economy

is the price paid for what goes into providing a service – for example, the cost per hour of care workers; the rent per square metre of accommodation.

Efficiency

is a measure of productivity – how much you get out in relation to what is put in. For example, the number of people visited per home care worker per week; kilometres of road maintained per £1,000 spent.

Effectiveness

is a measure of the impact achieved and can be quantitative or qualitative. For example, how many people were prevented by home care services from needing residential care (quantitative); satisfaction levels among different sections of the community with tenant participation arrangements (qualitative). Outcomes should be equitable across communities, so effectiveness measures should include aspects of equity.

- 7.2 Value for money is high when there is an optimum balance between all three aspects of the value chain – relatively low costs, high productivity and successful outcomes. The Improvement and Development Agency (IDeA) has defined best value for money as the "optimum combination of whole life costs and benefits to meet the customer's requirement".
- 7.3 The overall value for money theme has been assessed as a "2" adequate performance, and is consistent with the prior year.

The Council currently achieves good value for money

- 7.4 Whilst the Council has continued to consolidate its performance in this area, however at this stage progress has not been sufficient to move up to level 3 and has therefore again been assessed at level 2 for this sub-theme.
- 7.5 An overall comparison of the Council's costs, compared to its family group, indicates that the Council has a number of costs that are above average, with the fourth highest relative expenditure compared to nearest neighbour group. The following areas have notably higher costs, Waste collection (the highest for the group), Street cleaning, Parking, Central services and Local tax collection.
- 7.6 Whilst these areas of higher cost are often linked to the identified priorities for the Council, it has not demonstrated the extent to which spending in these priority areas has shown either notable improvement in performance or that costs are being reduced in the medium term. We do note that there Waste Collection is an exception to this, as there has been a significantly improved level of performance (particularly with regard to recycling).
- 7.7 Performance, as measured by performance indicators, is generally improving, although there also continue to be a sufficient number of lower performing key performance indicators for the Council to fall short of the level of 'performing well' assessment. The Council has not provided sufficient evidence that spending in all priority areas represents best value beyond asserting that it is a deliberate decision to invest in those areas. On that basis, value for money outcomes are not always sufficiently evident.
- 7.8 Delivery of the capital programme has continued to suffer some delays, although as a result of steps taken to strengthen internal processes, these delays are being minimised and are often driven by external factors. All major projects require a full cost analysis and risk assessment to be performed and include clear links to priorities included in the Corporate plan and medium term financial strategy.
- 7.9 In order to improve performance to level 3, the Council should ensure that:

- cost pressures are managed in order to reduce the Council's overall cost of services
- achieving higher performance and improved outcomes in those areas that have been identified as key priorities
- service performance in KPIs continues to be above average or top quartile and that areas of below average performance are addressed.

The Council manages and improves value for money

- 7.10 Again, the Council has taken steps to consolidate its performance in this area, however at this stage progress has not been sufficient to move up to level 3 and has therefore again been assessed at level 2 for this sub-theme.
- 7.11 Whilst the Council has made further progress in developing its arrangements for improving value for money, including the introduction and adoption of a value for Money strategy, the arrangements are not yet considered to be fully embedded in the Council's performance management arrangements. Although the VFM Strategy has allowed the Council to progress, it has not yet fed through tangible outcomes or demonstration in improvement in value for money.
- 7.12 This challenge process would be assisted by a programme of internal service reviews, similar to those that have been completed in the past, and which have been effective in delivering improvements.
- 7.13 In order to improve performance to level 3 or 4, the Council should ensure that:
- there is effective monitoring and challenge on value for money, through a programme of internal service reviews, with the results leading to effective change in processes
 - the Council embed the consideration of the impact of decisions on the achievement of value for money into the performance management framework, which could include an assessment of whether projects have fulfilled the objectives outlined at initiation
 - the Council will need to be able to demonstrate that positive and measurable outcomes have been achieved from the implementation of the procurement strategy
 - detailed information on the whole life costs and the timing of costs should be included in policy proposals and when making investment decisions
 - the information available on the promotion of access to services across the community is used to demonstrate that the Council is delivering equity of access for all services to the community, particularly hard to reach groups
 - whilst the opportunities for external funding continue to be limited, a strategy should be developed for increasing the opportunities to secure such funding.

Appendix 1 – KLOE scores

Ref	KLOE	2006 Score	2005 Score
Financial reporting			
1.1	Publication of annual accounts in accordance with relevant standards and timetables	3	2
1.2	Promoting external accountability	3	2
Weighted average score		3	2
Financial management			
2.1	Financial strategy is sound and designed to deliver strategic priorities	3	2
2.2	Performance against budgets is properly managed	2	2
2.3	The Council's asset base is well managed	2	1
Average score		2	2
Financial standing			
3.1	Spending is managed within the available resources	2	2
Average score		2	2
Internal control			
4.1	Significant business risks are properly managed	2	2
4.2	There is a sound system of internal control	3	3
4.3	There are arrangements to ensure probity and propriety in the conduct of business	3	2
Average score		3	2
Value for money			
5.1	Does the Council achieve good value for money	2	2
5.2	The Council manages and improves value for money	2	2
Weighted average score		2	2

Appendix 2 – Future changes

This table summarises criteria that are currently included in the KLOE but are not in bold type and do not have 'must have' status, but which will have such status for the 2006/07 assessment.

KLOE	Criteria	Detail
Financial reporting		
1.1 (level 3)	1.1.9	All additional requests from the auditor were responded to promptly in accordance with any agreed deadlines.
1.2 (level 3)	1.2.4	The council can demonstrate that it is considering the views of a range of stakeholders in making its decision whether to publish an annual report.
1.2 (level 3)	1.2.5	The council publishes summary financial information that meets the needs of a range of stakeholders.
Financial management		
2.1 (level 2)	2.1.10	The Council undertakes cash flow monitoring which is used to inform short and long term investment decisions.
2.1 (level 3)	2.1.17	The key messages from the Council's medium-term financial strategy are communicated to staff and stakeholders as appropriate.
2.2 (level 2)	2.2.12	The financial performance of partnerships is regularly reviewed, linked to outputs, and the results shared with partners and acted upon.
2.2 (level 3)	2.2.14	The Council produces accurate and meaningful profiled financial monitoring reports for all budget holders within ten working days of the month end.
2.2 (level 3)	2.2.15	There is a regular training programme providing training on financial issues for members and relevant non-finance staff.
2.3 (level 3)	2.3.9	A member has been allocated portfolio responsibility for the council's asset management.
2.3 (level 3)	2.3.11	The Council has developed a set of local performance measures in relation to assets that evaluate asset use in relation to corporate objectives.
Financial standing		
3.1 (level 2)	3.1.8	The Council sets and monitors targets for all material categories of income collection and recovery of arrears based on age profile of debt.
Internal control		
4.1 (level 3)	4.1.8	All appropriate staff are given relevant training and guidance to enable them to take responsibility for managing risk within their own work environment.
4.2 (level 2)	4.2.8	The council has a business continuity plan in place which is reviewed on a regular basis.
4.2 (level 2)	4.2.12	The Council has identified its significant partnerships and has appropriate governance arrangements in place for each of them.
4.2 (level 2)	4.2.13	The council has arrangements in place to ensure that it has a sound system of internal financial control, for example, carrying out regular bank reconciliations and reconciliations of major feeder systems.
4.2 (level 3)	4.2.16	The council can demonstrate that it is effectively delivering the core functions of an audit committee, as identified in the CIPFA guidance; that it provides challenge to the Executive when required and provides for effective leadership on governance, financial reporting and audit issues.
4.2 (level 3)	4.2.17	The procedure notes / manuals for key financial systems are reviewed and updated as appropriate.
4.2 (level 3)	4.2.18	The standing orders, standing financial instructions and scheme of delegation are reviewed and updated as appropriate.

KLOE	Criteria	Detail
Internal Control (continued)		
4.3 (level 3)	4.3.10	The council is proactive in its role to raise standards of ethical behaviour amongst members and staff, including the provision of ethics training.
4.3 (level 3)	4.3.15	The council can demonstrate that counter fraud and corruption work is adequately resourced.