

AGENDA ITEM: 9 Page nos. 59 - 82

Meeting	Audit Committee
Date	10 March 2009
Subject	Use of Resources Update
Report of	Director of Resources
Summary	To update the committee on planned actions for the improvement of the Use of Resources arrangements.

Officer Contributors	Jonathan Bunt, Assistant Director of Resources Gregory Pike, Finance Manager (Strategic Projects)
Status (public or exempt)	Public
Wards affected	n/a
Enclosures	Appendix (i) – Use of Resources report from Grant Thornton 2008
For decision by	The Audit Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	None

Contact for further information: Jonathan Bunt, Assistant Director of Resources on (020 8359 7249) or Gregory Pike, Finance Manager (Strategic Projects) on (020 8359 7235).

1. RECOMMENDATIONS

- 1.1 That the committee note the overall Use of Resources judgement, in particular the achievement of a top score in the Internal Control theme.**
- 1.2 That the committee note the suggested actions for improvement detailed in Appendix (i), and consider an appropriate plan of action.**
- 1.3 That the committee note the changes to the Use of Resources assessment as detailed in this report (paragraphs 9.12 to 9.14)**

2. RELEVANT PREVIOUS DECISIONS

- 2.1 Audit Committee 27 February 2008 (Use of Resources – Internal Control Update).

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 A strong system of internal control, risk management, and anti fraud activity is a significant aspect of a strong and supportive corporate governance framework, contributing towards the Corporate Plan priority of More Choice, Better Value.

4. RISK MANAGEMENT ISSUES

- 4.1 As an integral part of Comprehensive Performance Assessment (Comprehensive Area Assessment from 2009), failure to maintain the existing Use of Resources score would have an adverse impact on the overall organisational assessment.

5. EQUALITIES AND DIVERSITY ISSUES

- 5.1 Strong Use of Resources arrangements provide assurance on the effective allocation of resources and quality of service provision for the benefit of the entire community.

6. USE OF RESOURCES IMPLICATIONS (Finance, Procurement, Performance & Value for Money, Staffing, IT, Property, Sustainability)

- 6.1 None direct, though the report itself reflects the external auditors assessment of the Council's Use of Resources during 2007/08.

7. LEGAL ISSUES

- 7.1 None in the context of this report

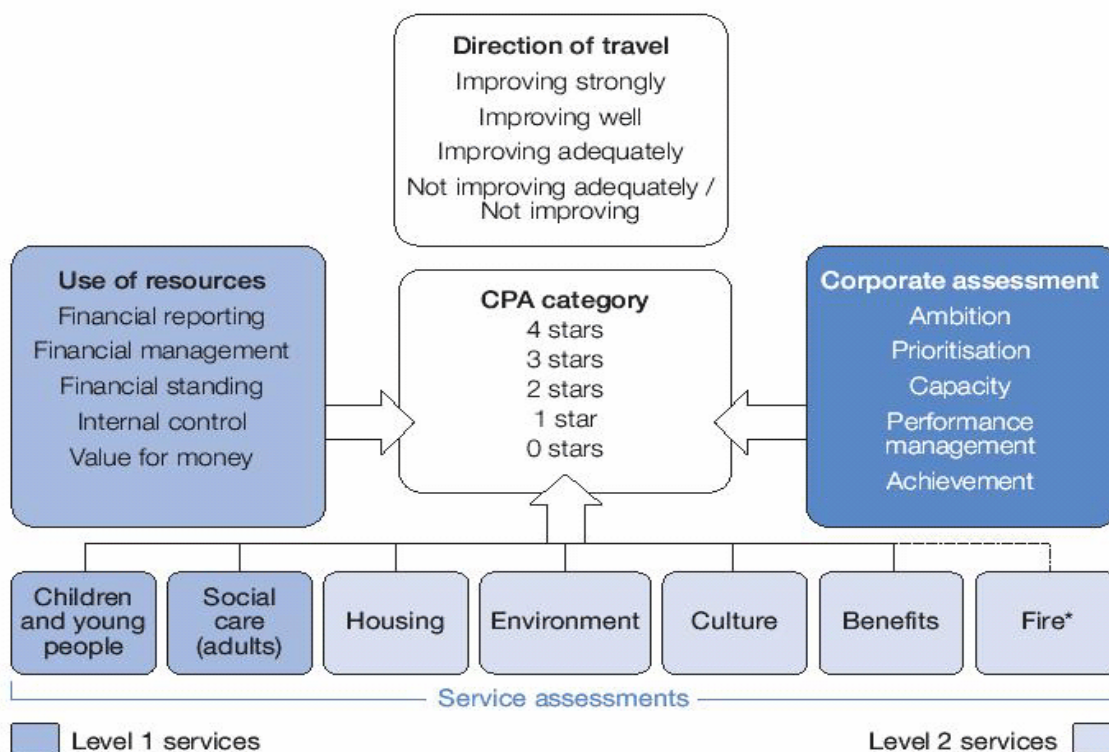
8. CONSTITUTIONAL POWERS

- 8.1 Responsibilities for Functions – Paragraph 2: The purpose of the Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority’s financial and non-financial performance to the extent that it affects the authority’s exposure to risk and weakens the control environment and to oversee the financial reporting process.

9 BACKGROUND INFORMATION

- 9.1 The 2008 Use of Resources assessment forms part of the Comprehensive Performance Assessment and is one of the level one assessment blocks, alongside children and young people and social care (adults), as part of the overall judgement for the authority (see Figure 1 below).
- 9.2 As a result the Use of Resources judgement has a very significant impact on the overall star rating that the authority can achieve.

Figure 1 CPA framework



*Note: Fire and Rescue service assessment – applicable to those 16 councils with responsibility for fire and rescue.

9.3 The assessment focuses on financial management but links to the strategic management of the council to ensure resources are allocated to council priorities and is carried out annually by the Council's external auditor, Grant Thornton UK LLP. The judgement is currently split over five Key Lines of Enquiry (KLOE):

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

9.4 Each KLOE and sub KLOE is assessed between level 1 (below minimum requirements – inadequate performance) and level 4 (well above minimum requirements – performing strongly).

9.5 The Council has improved its Use of Resources arrangements during 2007/08 with the main improvement being in the theme of Internal Control. The table below demonstrates the improvement in the authority's use of resources assessment over the last three years:

Theme and KLOE	Score 2006	Score 2007	Score 2008
Financial Reporting	3	3	3
Annual accounts	3	3	3
External accountability	3	4	4
Financial Management	2	3	3
Medium term financial planning	2	3	3
Managing performance against budgets	2	3	4
Managing assets	2	2	2
Financial standing	2	3	3
Internal control	3	3	4
Managing significant business risks	2	3	4
Maintaining a sound system of internal control	3	4	3
Ensuring probity	3	3	4
Value for money (VfM)	3	3	3
Current achievement of VfM	3	3	3
Managing and improving VfM	2	2	3

9.6 Overall the Council is assessed as performing well, which indicates the continued success the Council has had in embedding processes and achieving outcomes.

- 9.7 The score for Internal Control has increased from a 3 to a 4. The key improvements noted were in relation to risk management becoming engrained within the senior management level and further embedding of arrangements for anti-fraud and corruption. One area, however, that still requires attention is asset management. The details of this and the suggested improvements can be found in Appendix (i).
- 9.8 The Council's Financial Standing is praised in the Auditor's report:
"the Council has made some real improvements against the financial standing criteria, which we feel should be commented upon."
- 9.9 The report goes on to note the Council's significant strengthening of its reserves, strong financial management processes and improvements in debt recovery. The report also notes that the Council has demonstrated it is forward looking, most notably by promoting alternative infrastructure funding; specifically the Barnet Financing Plan.
- 9.10 The Council was initially scored as 4 for Financial Standing, but was marked down to a 3 by the Audit Commission because the Council has deposits in Icelandic banks. The Council requested a review of the score, but it was rejected. The Council continues to write to the Commission on this issue.
- 9.11 Whilst identifying the potential areas for improvement the external auditors have taken the planned changes to the assessment criteria (points 9.12 to 9.14 below) into consideration and have reported areas for development that will be important for the Council to demonstrate in 2009.

USE OF RESOURCES 2008/09

- 9.12 For 2008/09 there have been significant changes to the Use of Resources assessment criteria as part of the new Comprehensive Area Assessment. The new assessment framework is more demanding than the current one, broader in scope and embraces wider resource issues such as people and workforce planning, and the use of natural resources. The Key Lines of Enquiry are more strategic and focus explicitly on value for money achievements rather than the emphasis being on process.
- 9.13 The assessment will be structured into three themes:
- Managing finances
 - Governing the business
 - Managing resources
- 9.14 Each theme is comprised of a number of KLOE. These are set out in more detail on page 13 of the Grant Thornton report (Appendix i) and will also be the subject of a separate presentation to this committee at a future meeting.

10 LIST OF BACKGROUND PAPERS

10.1 Use of Resources report from Grant Thornton UK LLP (attached to this report [Appendix (i)])

Legal: MM
CFO: HG



London Borough of Barnet

Use of Resources 2008

2 December 2008

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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, which contributes to our annual VFM conclusion. This report sets out our findings from 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 its Use of Resources arrangements during 2007/08 with main improvement in the individual theme of internal control. The theme scores for 2007 and 2008 are summarised in the table below.

Use of Resources theme	2007 score	2008 score
Financial reporting	3	3
Financial management	3	3
Financial standing	3	3*
Internal control	3	4
Value for money	3	3

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

* We understand that the Council has appealed to the Audit Commission regarding this score and we believe that their review will take place in January/February 2009.

- 1.4 Overall, the Council is assessed as performing well, which indicates the continued success the Council has had in embedding processes and achieving outcomes. The

one area, which still requires some attention, is asset management, and this is covered in detail under the financial management theme. The Council should continue to seek improvement, keeping in mind the changes to the assessment for 2009 as outlined in Appendix A..

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

Way forward

- 1.6 As the Council is assessed as performing adequately or above in all areas of the Use of Resources assessment and because we have already agreed action plans for key areas requiring improvement, we have restricted our Use of Resources recommendations in this report to a few key areas.
- 1.7 However, 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 resource issues such as people and workforce planning, and the use of natural resources. It also places more emphasis on outcomes for local people and on partnership working. The Key Lines of Enquiry (KLoE) are more strategic and focus explicitly on value for money achievements rather than the emphasis being more on processes.
- 1.8 Therefore, 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.
- 1.9 We will continue to work with the Council during the year to help prepare for the 2009 Use of Resources assessment.

Use of this report

- 1.10 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.
- 1.11 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

- 1.12 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.

2 Use of Resources

Introduction

- 2.1 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 the Council has proper arrangements in place for securing economy, efficiency and effectiveness in the use of its resources.
- 2.2 The overall conclusion that we issued, in September 2008, was that the Council has 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.
- 2.3 We therefore summarise in this section matters arising from our Use of Resources key lines of enquiry ('KLoE') assessment for 2008.

Approach to the audit

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

2008 KLoE scores

- 2.6 We have concluded our 2008 KLoE assessment and submitted the scores to the Audit Commission for national quality control. We expect these scores to be finally confirmed by the Audit Commission in early December, prior to them being formally released on 8 December.
- 2.7 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	3	3
External accountability	4	4
	3	3
Financial management		
Medium term financial planning	3	3
Managing performance against budgets	3	4
Managing assets	2	2
	3	3
Financial standing	3	3*
Internal control		
Managing significant business risks	3	4
Maintaining a sound system of internal control	4	3
Ensuring probity	3	4
	3	4
Value for money (VFM)		
Current achievement of VFM	3	3
Managing and improving VFM	2	3
	3	3

* Subject to appeal by the Authority to the Audit Commission

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

Financial reporting

Annual accounts

- 2.9 The Council had sound arrangements for production of the 2007/08 accounts as in previous years, and we also evidenced improvement in collection of the working papers to support the accounts which were largely in line with our detailed arrangements letter.

- 2.10 Overall, we have seen improvement in the Council's arrangements for financial closedown, but discretion was required for level 3 as the accounts originally approved by the Audit Committee in June 2008 contained a number of errors. Although these were not material to our accounts opinion, neither were they considered to be trivial in nature. We reported this to the Audit Committee in September 2008, through our annual report to those charged with governance the nature of these errors.
- 2.11 The Council should also endeavour to provide the audit team a copy of the accounts prior to audit committee approval in June, with a view of providing initial review and feedback on presentation and any obvious accounting errors.

External accountability

- 2.12 In terms of external accountability, the Council has maintained arrangements in the range of information made available to stakeholders, which is considered best practice (level 4).
- 2.13 The Council prepares the Annual Finance and Performance Report, which has been informed by a robust consultation process, and commentary was included in the final report which detailed the action taken on the consultation process.
- 2.14 By producing the Annual Finance and Performance Report, the Council has sought to set out the achievements against the corporate priorities in the 2007/08 Corporate Plan. This process has improved the transparency of the Council and evidences that the Council considers its progress against its corporate priorities on a regular basis. The content and style of presentation of the Annual Finance and Performance Report is considered accessible to the general public and the Report considers the environmental impact of the Council.
- 2.15 'Preparation of accounts' and 'publishing reports' are key components in the 2009 Use of Resources assessment (KLoE 1.3). It will remain important for the Council to:
- continue to improve the quality of its annual accounts and effectively implement revised accounting requirements, including those brought about by changes to the SoRP and the forthcoming introduction of International Financial Reporting Standards (IFRS)

Financial management

Medium term financial planning

- 2.16 The Council has continued to maintain its business planning arrangements this year (level 3). There are clear links from the overall business plans to the Medium Term Financial Strategy (MTFS), and there are also good processes in place, such as having each corporate objective linked to a Key Priority Plan (KPP) which feeds into associated budget decisions. The MTFS and the budget book constitute a comprehensive plan including stakeholder and partner consultation, funding variations, capital investment plans, risk assessments and contingency planning, sensitivity analysis and expected developments in services.

- 2.17 The Council can demonstrate that it has considered partnerships within its MTFS, but our work undertaken on reviewing health inequalities within the Borough demonstrated that the Council did not have a clear understanding of the total resources available to partners.
- 2.18 Additionally, whilst the Council could demonstrate that it met level 3 requirements for review of financial management arrangements, we were unable to assess what the impact of that review had contributed to overall improvements within financial management. The linkages of the results of the review to actions for improvement and their implementation could have been clearer.
- 2.19 The Council has demonstrated that it is monitoring its corporate objectives and has communicated delivery of these objectives through the Annual Finance and Performance report.

Managing performance against budgets

- 2.20 The Council has improved from the previous Use of Resources assessment and is considered to be performing strongly in the area of budget monitoring and management processes (level 4). The Council has introduced greater accountability at an officer and member level of the overall budget. Service directors now attend committee meetings where they are challenged by members, and this process has also improved the understanding of members.
- 2.21 The Council continues to report enhanced performance and budget information which has been clearly actioned throughout the year. This has been facilitated through a traffic light system. The system highlights the progress of achieving the target of efficiencies, budget reductions and contains budget increases within the monitoring reports. It also reports achievements clearly.
- 2.22 The Council has demonstrated that its processes for budget monitoring have had clear impact on reducing budget variances and improvements in accountability. As the new use of resources framework moves towards a focus on outcomes, this should help with the new assessment criteria.

Managing assets

- 2.23 The Council has maintained adequate arrangements for the maintenance of its asset base. However, as we were required to use auditor discretion to assess at 2, it precluded the Council from being considered for level 3. At level 2, discretion was used, as the Council did not have an up to date capital strategy (2005) and asset management plan (2003) by the end of March 2008. We appreciate that a draft Capital Asset and Property Strategy was taken to the July 2008 Cabinet meeting and this meant that we could use discretion to assess the Council at level 2.
- 2.24 During the accounts process, we also experienced a number of issues with the information recorded on the asset register and the information reported in the accounts. Although these were not significant, overall, they did not demonstrate that asset management processes had improved during the year.

- 2.25 To improve, the Council should ensure that it has the basics right in terms of an appropriate strategy, and monitors this strategy throughout the year to demonstrate achievement of objectives. It should also consider a solution to the current asset management software arrangements to ensure that the register is up-to-date and fully integrated with the accounts and the financial close process.

Financial standing

- 2.26 There has been significant consideration of the Council's arrangements for financial standing in light of the Icelandic Banks issue, following additional guidance from the Audit Commission. In light of the additional guidance, the Audit Commission highlighted that it was not appropriate that councils with substantial investments in Icelandic banks, defined as total deposits greater than or equal to 0.5% of Gross Revenue Expenditure (GRE), should be assessed as performing strongly (level 4) in the area of financial standing. As such, to maintain consistency with the Audit Commission and other firms (and to take an overview of the actual overall financial standing position at Barnet), we have assessed the Council at level 3 for financial standing. We comment on the Council's processes related to this area below.
- 2.27 Whilst the Council does have significant investments within Icelandic Banks (£27.4m), as part of our review, we were required to consider those investments as at 31 March 2008 against the Treasury Management Strategy. We found that at this time all investments complied with the member approved strategy.
- 2.28 Additionally, since September 2007 there has been active management of the credit crunch issue by Treasury management, and the Council has been managed its counterparty risk through limits based on credit ratings. Indeed, the credit ratings did not start to deteriorate until May 2008, after which no more deposits were made with Icelandic banks. Following the final downgrade in credit ratings, in October 2008, the Council made changes to its Treasury Management Strategy to ensure that its risk exposure is minimised in the current financial climate. One of the relevant issues for the Council for those investments remaining during the period of uncertainty was that there were significant penalties in place for early exits, and therefore this was an option which was considered but which the Council chose not to pursue.
- 2.29 Elsewhere, the Council has made some real improvements against the financial standing criteria, which we feel should be commented upon. The Council has improved its reserves position from the previous year, and reserves now stand at £17.4m compared with £0.9m in 2004. The approach to increasing reserves has been measured over the past four years and has been a result of strong financial management processes and beneficial use of prudential borrowing.

- 2.30 The Council continues to monitor debt collection rates and has stretch targets for debt recovery which are in place for all material income categories. The Council has improved its debt recovery through investment in systems aimed at increasing cash income and reducing the level of bad debt provision. The Council's budgeted collection fund deficit was managed and addressed by increased investment in staff resources in the area of collection.
- 2.31 The Council has also demonstrated that it is forward looking by:
- promoting alternative infrastructure funding avoiding the need for use of existing public resources; specifically the Barnet Financing Plan (formerly Barnet Bond) is seeking to utilise the financial benefits of regeneration growth to build new infrastructure to improve the lives of local residents;
 - investing in Council infrastructure systems and accommodation to improve both services to the public and support systems and generate efficiency savings; and
 - Lobbying government on the need and importance of funding successful city suburbs in partnership with similar authorities to sustain future funding needed to support successful economic centres such as London. This includes looking beyond deprivation as a means of grant allocation and considers new ways of funding that recognise sustainable economic growth
- 2.32 'Managing spending' forms part of KLoE 1.1 in the 2009 assessment. We will continue to assess the Council's financial standing, with an increased forward looking focus on management of financial balance along with the delivery of strategic priorities.

Internal control

Managing significant business risks

- 2.33 The Council has improved its performance in the area of risk management and is currently performing strongly in this area (level 4). The key improvements noted were in relation to risk management becoming engrained within the senior manager level. But, we do feel that there should be greater input and monitoring by Members (probably by the Audit Committee) and we began to discuss this at the last Audit Committee meeting.
- 2.34 There are a number of risk management processes within the Council, which have resulted in effective outcomes. A Key Priorities Board (KPB), which is led by the section 151 officer, considers risk when setting council budgets. This is a service manager group but the outputs from the Group are reported to and considered by the Council's Directors.

- 2.35 Supporting the KPB is the internal control checklist (ICC), a process whereby each service is required to answer ideal internal control environment questionnaires, that give an indication of whether it had the appropriate environment in place (green rating), whether it had work in progress to address concerns (amber) or whether there were serious concerns over the control environment in that particular service (red). From this process key risks were better understood and managed through each service. Where consistent red ratings are apparent within the Council, these are reported and action plans drawn up.

Maintaining a sound system of internal control

- 2.36 We have assessed the Council's arrangements for maintaining a sound system of internal control as performing well (level 3). The assessment for 2008 has included additional Key Lines of Enquiry (including Scrutiny Arrangements at the Council) and therefore has been a harder test than in 2007. The key issues we wish to highlight from the assessment this year and suggested further developments are:

- We noted that, during 2007/08, there was a lack of effective leadership in the internal audit department and there was slippage to the Internal Audit Plan for the year. This slippage also continued into 2008/09, with a number of projects being delayed internally. We recommend that the Internal Audit Department continues the current drive to reduce the slippage of its reviews. However, we still are of the opinion that, overall, Internal Audit meets the requirements of the CIPFA Code in terms of quality and, therefore, level 3 is still appropriate.
- During 2007/08, a number of internal audit reviews concluded that there was only limited assurance that the internal controls in the systems reviewed were operating properly. A number of these limited opinions related to financial systems. Although subsequent follow up audits have shown improvements to the majority of these reviews, and most have been moved to satisfactory assurance, there are still a number of systems with limited assurance. These have been identified by Internal Audit and the Audit Committee and further action is to be taken. We welcome this and will monitor the progress made.
- New criteria for 2008 assessment related to effective Scrutiny arrangements being embedded within the Council. We have undertaken a detailed review of Scrutiny, for which a report has been drafted. This indicates that the Council has taken a number of steps to address the criticism of the 2006 Corporate Assessment by undertaking several reviews into Scrutiny and improving the short term performance of the Scrutiny Committees. However, the recommendations of the fundamental reviews are still being implemented and, therefore, we have used some discretion to assess the impact of improvements within the Council.

- We also feel that there could be further improvement to the overall challenge the Audit Committee are giving to officers. For example, one of the reasons for slippage of the internal audit programme has been due to the delay experienced by internal audit from services,

which wish to postpone the start of the audit. As the content and timing of the internal audit programme is approved by the Audit Committee, a delay to the audit commencement could be for reasons of internal control instability and therefore the Audit Committee should seek to challenge those areas of the internal audit plan, which have slipped. We also suggest that the Committee receives a fuller planned programme of regular training and we would be pleased to be involved in this process.

- Whilst the process for informing the Annual Governance Statement (AGS) was considered notable (and the AGS overall was presented fairly in this, its first year), we felt that the AGS concentrated on the processes rather than focusing on the outcomes of these processes. In particular, the AGS described certain actions that the Council was undertaking, but we recommend that this is expanded in future and that there is clear description and link between the developments needed and the actions resulting.

Ensuring probity

- 2.37 Arrangements for anti-fraud and corruption and promotion of good conduct have become further embedded and we consider that the Council is performing strongly (level 4). The Council can demonstrate that it has a strong anti-fraud culture which is led by the Corporate Anti Fraud Team (CAFT)
- 2.38 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. Staff are provided with fraud training and the team publicises any frauds, which have been confirmed within the Council and externally.
- 2.39 The CAFT continues to report, on an annual basis, the success of its operations during the year and these are supported by the Council's Fraud Response Plan, Fraud Reporting Toolkit, Prosecution Policy and the Whistle-blowing policy. The CAFT has also achieved significant monetary outcomes through its targeted approach to Housing Benefit and Council Tax benefit fraud.
- 2.40 '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).
- 2.41 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.

Value for money (VFM)

Current achievement of VFM

- 2.42 The Council is performing well in this area (level 3), and this is unchanged from the prior year. Net revenue spend on services per head of population is the second-lowest in the comparator group. Costs per head are below the median for most service areas, with the notable exceptions of children's services and adult social services, which are priority areas for the Council. Levels of local taxation are below the median when compared with nearest neighbours, and public satisfaction with the Council is in the second-best quartile.
- 2.43 Most Council services exhibit a positive relationship between benchmarked costs and outcomes. However, for the exceptions to this (as noted above), we have reviewed additional evidence to ensure that performance is in accordance with the level of costs incurred. We found that, for social care in adults in particular, there were additional considerations such as the positive assessment from CSCI, with excellent performance in some areas. There is a clear approach to reducing costs focusing on enablement, regular re-assessments, improved procurement and shaping customer expectations. The service also faces acute pressures from a growing and ageing population.
- 2.44 In the area of benefits, the increase in costs relates to process improvement work undertaken by the service in 2007/08, linked to the modernisation programme. This has contributed to significant performance indicator (PI) improvement in 2007/08, compared with the 2006/07 data in our benchmarking model.
- 2.45 This VFM criteria also require that the capital programme has been delivered on time throughout the year and within budget. We exercised discretion in relation to this criteria. The Council has an out of date capital strategy (2005), and the performance in the year for the capital programme was in 'red' on the final outturn position. There was an underspend of approximately £8m, just under 10% of the programme, most of which was attributable to slippage.

Managing and improving VFM

- 2.46 The Council's performance in this area has improved from the previous year from level 2 to level 3, and this was due to the following:
- demonstration of more effective arrangements for understanding and responding to diverse needs of the community, including establishing an information observatory using mosaic and GIS technology, and also development of a customer access strategy which has showed good implementation;
 - improved data quality management arrangements;
 - implementation of new integrated financial and performance management cycle, leading to cost and performance data being reviewed together through a variety of different mechanisms at officer and member level;
 - effective use of transaction and unit costs as management information to support service improvement; and
 - sustained good performance in delivering efficiencies.

- 2.47 Whilst the Council has been good at maintaining some level 3 individual criteria from the previous year, there were other areas, where auditor discretion was exercised in order to achieve level 3 overall, namely:
- some weaknesses continue in scrutiny arrangements;
 - there was a lack of clear quantification of the benefits derived from procurement; and
 - whilst there was evidence of good partnership working overall, there was not a sound understanding of the total resources available to partnerships.
- 2.48 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 KLoEs. The Council will, therefore, need to continue to demonstrate that it is improving VFM for the local community.

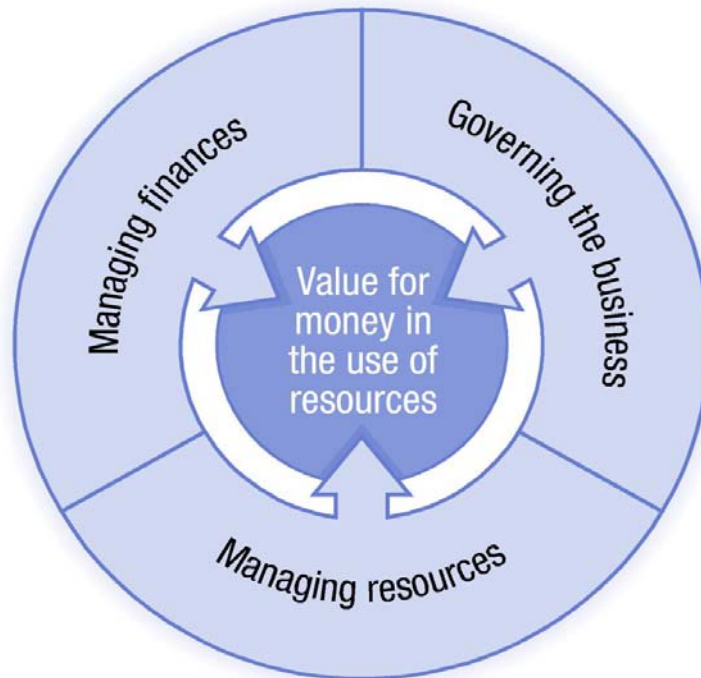
Use of resources 2009

- 2.49 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; Managing Finances, Governing the Business and Managing Resources. These 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.
- 2.50 The assessment will use the Audit Commission's current four point scale and there will be clear expectations around the demonstration of good and improved outcomes in order to perform well.
- 2.51 Further details of the 2009 framework can be found at Appendix A.

Appendix A 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 a 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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