

USE OF RESOURCES – KEY LINES OF ENQUIRY 2006/07**Agenda Item 5(e)**

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Background Papers:- Report from PKF (Council's external auditors) received 10th December 2007
Financial Implications:- None
Equalities Implications:- None
Legal Implications:- None
Options: None
Risks: Failure to address the specific areas identified and to meet the changing requirements to the judgements notified for 2007/08 could see a reduction in our overall score from 3 to 2 (adequate performance)

EXECUTIVE SUMMARY

The report detailing the Council's Use of Resources Judgement, an element of the Direction of Travel CPA Assessment, for 2006/07 is attached. The Council's external auditors, PKF, have provided the judgement.

The overall score from the judgement is level 3, 'Performing Well' and maintains the score achieved in 2005/06.

Whilst the overall score has been maintained, the scores of two of the five themes have changed:

- Value for Money has improved from a score of 2 in 2005/06 to 3 in 2006/07; and
- Financial Management has declined from a score of 3 in 2005/06 to 2 in 2006/07.

Within the Financial Management theme three areas have been judged as not meeting the required level 3 standard. These being:

- communication with stakeholders of the Medium Term Financial Strategy is not embedded;
- financial performance of significant partnerships is not regularly reviewed, linked to outputs, and the results shared with partners and acted upon; and
- no local performance indicators are maintained for the Council's assets.

Action plans to address these areas, together with action planning for the changes in the criteria being introduced by the Audit Commission for the 2007/08 Judgement are currently in progress to ensure that the score for Financial Management improves in the 2007/08 assessment.

DECISION

Members are asked to receive and note the report on the Use of Resources Key Lines of Enquiry 2006/07 from PKF, the Council's external auditors.



Accountants &
business advisers

Braintree District Council

**Use of Resources Key Lines of
Enquiry 2006/07**

December 2007

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1 Executive summary

Introduction

- 1.1 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.

Summary of scores

- 1.2 The Council has achieved an overall Use of Resources score of "3" or **performing well**. The table below shows the movement in the five key lines of enquiry (KLOE) theme scores since our 2007 assessment undertaken in January 2007 and reported in March 2007.

	Financial reporting	Financial management	Financial standing	Internal control	Value for money
2006/07	3	2	3	3	3
January 2007	3	3	3	3	2

- 1.3 Changes at sub-theme level are set out in the table at Appendix A.
- 1.4 We are unable at this point in time to provide national or regional analysis of scores 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.

Overall conclusion

- 1.5 The Council has achieved a sound overall Level 3 score for Use of Resources, based on an average of the separable theme scores shown above. Whilst the Financial management score has fallen, the Council needs to recognise that the 2006/07 Key Lines of Enquiry (KLOE) assessment criteria were changed and made more difficult to achieve, whilst simultaneously the timeline was accelerated so that this review was based on evidence up to 31 March 2007 – i.e. only two months later. It would be difficult to implement and embed arrangements not already in place as at January 2007 by the time of this new assessment.
- 1.6 The Council has improved its value for money score because it was able to demonstrate outcomes from arrangements put in place up to 31 March 2007. Performance improved significantly in the 2006/07 financial year and savings made to reduce the Council's costs when compared with its nearest neighbour group. Areas of high spend were linked with Council priorities, for example waste, where recycling targets demonstrated improvement as a result. The Council need to continue with this trajectory of progress to move towards the upper quartile performance targets in a greater number of targets and continue with its programme of efficiency reviews to demonstrate improved value for money.
- 1.7 An Action Plan for reinforcing and improving arrangements will be prepared and provided to officers. Recommendations will be made to reinforce the Level achieved or for the next Level only. No specific Level 4 recommendations will be included, but notable best practice will be provided where appropriate and available.

Changes introduced for the next assessment

- 1.8 A summary of the key changes in the criteria to be applied for the 2007/08 assessment is included as Appendix B.

Acknowledgement

- 1.9 We would like to thank the Council for the co-operation provided to us in the course of this work.

2 Context

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 key lines of enquiry (KLOE) themes:

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

Scoring and self assessment review

2.2 Each judgement area consists of a number of KLOE and areas of audit focus and evidence. For the first four themes the criteria include elements that are indicated as 'must haves' for that level 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 authorities. The general requirement is that failure to meet any of these "must have" criteria would prevent that level being achieved for the KLOE.

2.3 The value for money aspect does not use "must have" criteria but is based on "best fit" as this is not underpinned by an equivalent body of professional standards and guidance, making the assessment necessarily more judgemental in nature.

2.4 The Council completed a self assessment of its arrangements for the period, and prepared evidence to support its conclusions.

2.5 We have used the self assessment evidence, supplementary evidence, our knowledge of the Council, enquiries of officers and Members and comparative performance data to score each assessment criteria using the descriptors for different levels of performance to determine which most closely matches the 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	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

2.6 The Audit Commission's "Harder Test" bar has been raised again for 2006/07, with the need to demonstrate and evidence that arrangements are embedded at Level 3 and more criteria becoming "must haves" compared with the prior year (January 2007 assessment). The KLOE scores awarded need to be considered in this context.

Quality assurance and consistency

- 2.7 Draft assessment scores are subject to a number of quality assurance processes to ensure consistency on a local, regional and national basis.
- 2.8 Internally PKF operates a quality assurance forum where individual auditor judgements are compared, contrasted and challenged across the PKF district council portfolio. This is complimented by a pan-Essex consistency forum attended by the appointed auditors of all district councils in Essex to provide another layer of challenge and comparison, with the aim of achieving consistency in approach and assessment across audit suppliers.
- 2.9 Finally, the scores and assessment are reviewed by national Quality Assurance Panels formed by the Audit Commission, providing risk based challenge using indicators such as use of auditor discretion and rapid change.

Appendix A – KLOE scores

Theme and Key Line of Enquiry	January 2007 Score	2006/07 Score
1.1 <i>Annual accounts</i>	3	3
1.2 <i>Promotion of external accountability</i>	3	3
1 Financial Reporting	3	3
2.1 <i>Medium term financial strategy, budgets and capital programme</i>	3	2
2.2 <i>Managing performance against budgets</i>	2	2
2.3 <i>Managing the asset base</i>	3	2
2 Financial Management	3	2
3.1 <i>Managing spending within available resources</i>	3	3
3 Financial Standing	3	3
4.1 <i>Managing significant business risks</i>	3	2
4.2 <i>Maintaining a sound system of internal control</i>	3	3
4.2 <i>Arrangements to promote and secure probity and propriety</i>	3	3
4 Internal Control	3	3
5.1 <i>Current achievement of good value for money</i>	2	3
5.2 <i>Managing and improving value for money</i>	2	2
5 Value for Money	2	3
Overall	3	3

Appendix B - Key changes for the 2007/08 assessment

1. FINANCIAL REPORTING				
1.1 The council produces annual accounts in accordance with relevant, standards and timetables, supported by comprehensive working papers				
Level	KLoE	New	Now Bold	Revised
2	The auditor gave an unqualified opinion <i>in the published statements</i> .			3
1.2 The council promotes external accountability				
Level	KLoE	New	Now Bold	Revised
2	The agenda, reports and minutes for meetings of full council, committees and scrutiny panels are made available to the public) on a timely basis and <i>in accessible formats appropriate to comply with duties under the equalities legislation</i> .			3
3	The most recent published accounts, annual audit letter, agenda, reports and <i>minutes for meetings of council, committees and scrutiny panels are made available to the public on the council's website on a timely basis and in accessible formats appropriate to comply with duties under the equalities legislation</i> .			3
4	The council publishes <i>in accessible formats</i> an annual report or similar document which includes summary accounts and an explanation of key financial information/technical terms designed to be understandable by members of the public.			3
4	The annual report or similar document includes information and analysis about the council's environmental footprint	3		
2. FINANCIAL MANAGEMENT				
2.1 The council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities				
Level	KLoE	New	Now Bold	Revised
2	<i>The council is undertaking equalities impact assessments of its strategies and understands the effect and impact these will have on its diverse population.</i>	3		
2	The medium-term financial strategy models income and expenditure <i>and resource requirements</i> over a minimum of three years and is reviewed and updated at least annually			3

2. FINANCIAL MANAGEMENT				
2.1 The council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities				
Level	KLoE	New	Now Bold	Revised
3	<p>The corporate business plan projects forward at least three years and takes account of each of the following:</p> <ul style="list-style-type: none"> • stakeholder and partner <i>views</i> • external drivers, including funding variations and requirements to improve efficiency • capital investment plans and their revenue implications • risk assessments and financial contingency planning • sensitivity analysis • expected developments in services. 		3	
3	<p>Budgets are linked to :</p> <ul style="list-style-type: none"> • the medium-term financial strategy and high level budgets for future years within this • business and activity plans • <i>operational activity indicators that are lead indicators of spend</i> • risk assessments of material items of revenue and capital income and expenditure, 		3	
3	<p>The council regularly reviews financial management arrangements to ensure that they remain 'fit for purpose', and keeps the financial services function under review to consider capacity, resourcing and training needs.</p>		3	
2.2 The council manages performance against budgets				
Level	KLoE	New	Now Bold	Revised
3	<p>The council's financial information systems have flexible reporting tools to enable specialist reports to be designed.</p>		3	
3	<p>Informative profiled financial monitoring reports are received by all budget holders <i>soon after the month end</i> enabling managers to respond to issues in a timely way.</p>			3
3	<p>The council's budget monitoring is:</p> <ul style="list-style-type: none"> • related to operational activity indicators that are lead indicators of spend; and • informed by a risk assessment. 			3

2. FINANCIAL MANAGEMENT				
2.3 The council manages its asset base				
Level	KLoE	New	Now Bold	Revised
3	The council's asset management plan provides clear forward looking strategic goals for its property assets that shows how the council's land and buildings will be used and developed to help deliver corporate priorities and service delivery needs, now and in the future. The plan shows how property assets will be maintained, modernised and rationalised to ensure that they are fit for purpose.	3		
3	The council maintains a record of all of its land and buildings that contains accurate data on its efficiency, effectiveness, asset value and running costs which can be used to support decision making on investment and disinvestment in property.	3		
4	Performance measures and benchmarking are being used to describe and evaluate how the council's asset base contributes to the achievement of corporate and service objectives, including improvement priorities, <i>sustainability objectives and set challenging targets for improvement.</i>			3
4	The council fully integrates asset management planning with business planning at corporate and service levels. The role and contribution of property is explicit in business plans such as flexible working policies, ICT plans and customer access strategies.	3		
4	The council uses its property portfolio as an enabler of change. It understands the opportunity cost of its property and exploits this to deliver better value for money and benefits for the local community.	3		
4	The council integrates the management of its asset base with others for example, third sector and local public agencies to identify opportunities for shared use of property and to deliver seamless cross-sector, cross-agency and community based services to users.	3		
4	The council challenges whether all its assets are required, are fit for purpose and provide value for money to meet current and future needs by monitoring property performance and undertaking periodic property reviews. The council rationalizes or disposes of under-performing or surplus assets.	3		

3. FINANCIAL STANDING				
3.1 The council manages its spending within the available resources				
Level	KLoE	New	Now Bold	Revised
2	The council <i>keeps its treasury management strategy under review and monitors performance against it. The strategy reflects the requirements of the CIPFA Code of Practice for Treasury Management in the Public Services.</i>			3
3	The council's policy for reserves and balances is based on a thorough understanding of its needs and risks, which is properly and clearly reported to <i>and agreed by members. The approved level of balances is adhered to and ensures the council's financial standing is sound and supports the council in the achievement of its long term objectives.</i>			3
3	The council's targets for income collection and recovery of arrears stretch performance and their achievement is monitored with appropriate corrective action taken during the year to achieve the targets.	3		
4	The council sets challenging targets for a comprehensive set of financial health indicators, monitors performance and has a good track record of achieving these targets.			3

4. INTERNAL CONTROL				
4.1 The council manages its significant business risks				
Level	KLoE	New	Now Bold	Revised
2	The risk management strategy/policy requires the council to: <ul style="list-style-type: none"> • identify corporate and operational risks • assess the risks for likelihood and impact • identify mitigating controls • allocate responsibility for the mitigating controls. <i>and is complied with.</i>			3
2	The council maintains and reviews a register of its corporate business risks linking them to strategic business objectives and <i>assigns named individuals to lead on the actions identified to mitigate each risk.</i>			3
4	All members receive risk management awareness training <i>appropriate to their needs and responsibilities.</i>			3
4	Reports to support strategic policy decisions, and initiation documents for all major projects, require a risk assessment including a sustainability impact appraisal.	3		

4. INTERNAL CONTROL				
4.2 The council has arrangements in place to maintain a sound system of internal control				
Level	KLoE	New	Now Bold	Revised
ALL	All references to SIC now amended to 'governance statement'			3
2	There are procedure notes/manuals in place for key financial systems and these are reviewed and updated as appropriate.			3
2	The council has a business continuity plan in place which is reviewed and tested on a regular basis.			3
2	There are standing orders, standing financial instructions and a scheme of delegation in place and these are reviewed and updated as appropriate.			3
3	The council has an effective scrutiny function to ensure constructive challenge and enhance performance overall.	3		
4	The council obtains assurance on a risk basis of the viability of its significant contractors' / partners business continuity plans.	3		
4.3 The council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business				
Level	KLoE	New	Now Bold	Revised
2	The council has put in place arrangements for monitoring compliance with standards of conduct across the council including: <ul style="list-style-type: none"> • <i>codes of conduct</i> • register of interests • register of gifts and hospitality • complaints procedure • <i>use of IT resources</i> 			3
2	The council can demonstrate that members of the standards committee are preparing for their role in local investigations and determination and there are arrangements in place to support effective local investigations and determinations.	3		
2	The council has provided the required data for the National Fraud Initiative (NFI), has notified data subjects of this use of data, and has established a comprehensive process to follow-up NFI data matches that covers all match types and all levels of report (i.e. high, medium and same address)			3
3	The work of the standards committee is communicated openly to a wider public. Where appropriate, the council has taken effective action, learning from issues arising from local investigations and determinations.	3		

4. INTERNAL CONTROL				
4.3 The council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business				
Level	KLoE	New	Now Bold	Revised
3	The council has made effective <i>use of the NFI application functionality</i> to identify data matches for review . <i>These were investigated promptly to prevent prolonged exposure.</i>		3	3
3	The council works with other bodies such as DWP when following-up data matches from NFI. <i>Details of proven frauds relating to public sector employees are shared with other bodies as per the NFI Information Exchange Protocol.</i>		3	3
3	Weaknesses revealed by instances of proven fraud and corruption, including NFI data matches, or data quality issues (due to capture or extraction) are reviewed to ensure that appropriate action is taken to strengthen internal control arrangements.		3	3
4	Successful cases of proven fraud/corruption are <i>routinely publicised</i> to raise awareness.			3
4	There are effective arrangements for receiving and acting upon fraud and corruption concerns and disclosures from members of the public.			3
4	The council can demonstrate its staff, and staff within contracting organisations, have confidence in the whistle-blowing arrangements and feel safe to make a disclosure.	3		
4	All application forms for services and benefits have an appropriate fair processing notification permitting data sharing for prevention and detection of fraud and corruption (both acting as a deterrent to fraudsters and facilitating the extension of NFI into new areas).	3		
4	The council can demonstrate that effective action has been taken to maximise the potential savings available through NFI.			

5. VALUE FOR MONEY				
5.1 The council currently achieves good value for money				
Level	KLoE	New	Now Bold	Revised
2	The council has a well managed capital programme linked to priorities and <i>supporting service improvements</i> . Projects are usually completed on time and on budget, <i>and deliver outcomes which are fit for purpose</i> .			3
3	The council ensures that a range of quality services is delivered appropriate to statutory duties and local needs, while maintaining relatively low overall costs including overheads and capital, <i>within the council's overall context</i> .			3
3	The council has a well managed capital programme linked to <i>priorities and supporting service improvements</i> , with projects completed on time, within budget, <i>and delivering outcomes which are fit for purpose</i> .			3
4	High performance is achieved across a range of key services while costs, <i>including unit costs and transaction costs</i> demonstrate best value compared to others.			3
4	The council can demonstrate that it uses its <i>capital programme, with partners where appropriate, to challenge existing service models to achieve a transformation in service for users</i>			3

5. VALUE FOR MONEY				
5.2 The council manages and improves value for money NOTE: Due to the high number of revisions, only <i>new</i> KLoEs highlighted.				
Level	KLoE	New	Now Bold	Revised
2	The council has adequate arrangements to produce reliable data.	3		
2	The council has some understanding of its long term costs and benefits, including environmental and social. There is some evidence of these being taken into account in decision making.	3		
2	The council is making some use of partnership working to improve VFM. It has some understanding of the total resources at the disposal of its significant partnerships.	3		
2	The council makes some use of IT both to improve its own VFM and to improve access to services for users.	3		
3	The council has good arrangements to produce reliable data.	3		
3	The council has evaluated its use of partnerships to improve VFM. It has an understanding of total resources at the disposal of its significant partnerships which it is using to support clearly identified outcomes.	3		
3	The council uses IT to drive and enable business process change to improve both its own VFM and access to services for users.	3		
4	The council has exemplary arrangements to produce reliable data. It has an agreed approach with partners to produce reliable data.	3		
4	The council has implemented arrangements for partnership working. It has a clear understanding of the total resources at the disposal of its significant partnerships. It is on track to deliver planned improvement in outcomes.	3		
4	The council has a strong track record of using IT and can demonstrate examples of significant service improvements, including access to services for users, or efficiency savings through using IT.	3		