

# London Borough of Newham

## Use of Resources – Assessment Results 2008



Joe Duckworth  
Chief Executive  
London Borough of Newham  
Town Hall  
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December 2008

Dear Sir

**CPA – Use of Resources – Assessment Results**

We are pleased to present the summary results of our assessment of the Council's Use of Resources, which has been completed in accordance with the methodology and guidance issued by the Audit Commission. We will present our findings to the Audit Board on 21 January 2009. Please contact Ciaran McLaughlin if there any other Use of Resources issues that you would like to discuss.

Yours sincerely

PricewaterhouseCoopers LLP

Cc Bob Heaton, Executive Director of Resources and John Turnbull, Head of Finance

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## **Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies**

*We perform our audit in accordance with the Audit Commission's Code of Audit Practice (the Code), which was issued in March 2005. This is supported by the Statement of Responsibilities of Auditors and Audited Bodies, which was also issued in March 2005. Both documents are available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end, and what is to be expected of the audited body in certain areas. Our reports and audit letters are prepared in the context of this statement and in accordance with the Code.*

*Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.*

# Introduction

## Introduction

We have completed our assessment of the Council's use of resources in accordance with the methodology and guidance prescribed by the Audit Commission. This was the fourth year the Council has been assessed in accordance with this methodology. We have updated our understanding of the arrangements in place at the Council. We have focused on areas where the criteria have changed from the previous year and on areas where the Council has implemented changes to respond to the issues raised in the previous year's assessment.

The results have been subject to internal and Audit Commission quality assurance arrangements designed to ensure compliance with the methodology and guidance and to promote consistency of assessment between appointed auditors.

The next section of this report sets out the results of the assessment and highlights the areas for improvement based on the criteria devised by the Audit Commission.

The assessment that we have undertaken covers five themes:

- financial reporting;
- financial management;
- internal control;
- financial standing; and
- value for money.

Each theme consists of a number of key lines of enquiry, setting out areas of focus and indicating the performance levels required to achieve a rating of 2, 3 or 4. These ratings translate into the following assessments:

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

Evidence for each key line of enquiry has been collected through the review of documentation the Council has provided and interviews with key officers.

The Audit Commission determine the overall use of resources score by combining the auditor's separate scores for each of the themes covered and expects to publish the overall use of resources score and theme judgements in February 2009.

### Summary of scores

A summary of the results of our assessment is provided in the table below.

Financial Reporting		2007 Score	2008 Score
1	How good are the Council's financial accounting and reporting arrangements?	3	3
<b>Financial Management</b>			
2	How well does the Council plan and manage its finances?	3	3
<b>Financial Standing</b>			
3	How well does the Council safeguard its financial standing?	4	4
<b>Internal Control</b>			
4	How well does the Council's internal control environment enable it to manage its significant business risks?	4	4
<b>Value for Money</b>			
5	How well does the Council demonstrate that it achieves good value for money?	3	3

In overall terms the Council's arrangements for the use of resources in 2008 are considered to be well above minimum requirements. However, there is still scope to develop and embed aspects of the Council's use of resources arrangements further. We set out the details of these aspects in the next section of this report.

# Summary of Key Findings and Areas for Improvement

<b>Financial Reporting</b>		<b>3</b>
<b>How good are the Council's financial accounting and reporting arrangements?</b>		
<b>Overview</b>		
<p>The Council's closedown and accounts production processes remain sound. Statutory requirements are met together with locally agreed timetables with external audit. The annual accounts are produced in accordance with the relevant standards and are supported by comprehensive working papers. In 2007/08 the Statement of Recommended Practice (SORP) for local government accounts was updated. One of the new requirements was to comply with the Financial Reporting Standard (FRS) 26 Financial Instruments: Recognition and Measurement, FRS 25 Financial Instruments: Presentation and Disclosures and FRS 29 Financial Instruments. The date of transition to the new FRS 25, FRS 26 and FRS 29 based financial instruments requirements of the 2007 SORP was 1 April 2007. As part of the final accounts audit we reviewed the Financial Instrument disclosures and accounting entries which resulted in some non-material accounting and disclosure adjustments to the accounts. Due to the complexity of the financial instruments, we recommend that the Council continues to review the existing and future financial instruments to ensure compliance with the relevant accounting standards. No material errors were identified by audit in 2007/08 financial statements. The Council has continued to make strides in improving the quality of its working papers. Further development of working papers is however required to achieve notable practice.</p> <p>The Council ensures that information is appropriately accessible to the public. It has published "Annual Report and Accounts" which has been made available on the Council's website. The Council has made documents easy to read and available in different formats. The Council has sought feedback from the public on how to improve these documents. The document is in plain English, uses easily understandable terms, and includes disclosures on how to obtain the document in other locally prevalent languages.</p>		
<b>Key Lines of Enquiry</b>		
<ul style="list-style-type: none"> <li>The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers</li> </ul>		<b>3</b>
<ul style="list-style-type: none"> <li>The Council promotes external accountability.</li> </ul>		<b>4</b>
<b>Examples of Areas for Improvement</b>		
<ul style="list-style-type: none"> <li>Further improve on the quality of its working papers to achieve notable practice.</li> <li>Work toward eliminating errors in the accounts.</li> <li>Review the accounting and disclosures of Financial Instruments to ensure compliance with the relevant accounting standards.</li> </ul>		

## Financial Management

3

### How well does the Council plan and manage its finances?

#### Overview

The Council manages performance effectively against budgets and financial management is strong and seen to be strong throughout the organisation. The Council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities.

There is a culture of sound financial management, which has enabled the Council to develop a stable financial base with a healthy working balance to meet unforeseen events and to provide financial stability. Strong leadership has helped to ensure that reserves are maintained in line with corporate plans. The Council's medium term financial strategy has enabled it to be innovative in pursuit of its ambitions and it has moved resources into priority areas such as education and community.

The budget monitoring process is robust and any over/under spends are managed through the revised budget strategy. Even though Public Realm, Crime and ASB and Adult Social services continue to overspend against the budget, the overspends were planned and managed throughout the year for these services.

The Council has made progress on developing a framework that ensures financial planning is more closely integrated with performance reporting. Further developments are required to be able to clearly demonstrate how the Council's financial plans and strategies have contributed to the achievement of its corporate objectives.

The Council has developed a set of local performance measures that evaluate asset use in relation to corporate objectives. The Council is developing its asset management arrangements and specifically its procedures for monitoring its worst performing assets. Capital projects are subject to thorough appraisal techniques and some progress has been made on the application of whole life costing techniques within such as Building Schools For Future PFI projects.

The Council has introduced some balance sheet monitoring, however this monitoring is not comprehensive enough to cover all key areas such as debtors and is not yet a feature of regular Cabinet reporting. For example, there is very little evidence of challenge on balance sheet items from members.

#### Key Lines of Enquiry

- The Council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities
- The Council manages performance against budgets
- The Council manages its asset base

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#### Examples of Areas for Improvement

- Consider the way it monitors and reports upon performance i.e. the achievement of its corporate objectives and how its financial planning process has contributed to this.
- Continue to identify future developments that may impact on its financial management arrangements and proactively manage them. The impact of the strategic partnership and major projects such as Olympic 2012 on the Council's financial management arrangements will need to be proactively managed and closely monitored.
- Balance Sheet reporting needs to include all key items and become fully embedded.
- Consider consistently using whole life costing when appraising capital options. The Council will also have to make improvements in using performance measures to evaluate how the asset base contributes to the achievement of the Councils objectives and communication of key performance information with stakeholders.

## Financial Standing

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### How well does the Council safeguard its financial standing?

#### Overview

The Council is financially sound and has a history of setting balanced budgets. The Council manages its reserves and spends within those resources available. The Council has developed a number of strategies to ensure excellent financial standing including:

- Robust budget setting and monitoring arrangements which ensures significant unexpected over and under spends are avoided or actively managed;
- A policy on the use of balances and reserves which is subject to annual review;
- Having clarity around key priorities which is provided by the Mayor's Strategy and Performance Group which seeks to ensure that resources are channelled into the Council's priority areas and to ensure that the Mayor and his cabinet are aware of significant expenditure pressures.

Due to a robust budget monitoring process any deterioration in the financial position are identified and addressed on timely basis. Evidence that monitoring arrangements are working is provided by the requirements to have an action plan for any material variances and the early detection of the overspends in Adults Social Services (£1.3m), Crime and ASB (£0.5m) and Public Realm (£0.9m) during 2007/08. These areas have been stringently monitored throughout 2007/08. These overspends were well-known early on during the year, with action plans being worked up with portfolio holders, before being taken to Cabinet. There were regular action plans and budget strategy meetings for Public Realm. For the Youth Offending Programme, an action plan was specifically drawn up as soon as financial failings were assessed as likely. An update on management actions is also provided within the narrative of the budget monitors, in which budgetary risks are classified by means of a 'traffic light' system. Overview & Scrutiny has been receiving regular financial monitoring information throughout 2007/08. Members have requested additional information or invited Executive Directors to attend and give oral explanations when greater clarity is sought. The strength of the monitoring at Mayor and Cabinet Member level, together with the establishment of effective financial management practices at second and third tier officer level improves the likelihood of the Council achieving its financial objectives.

#### Key Lines of Enquiry

- The Council manages its spending within the available resources

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#### Examples of Areas for Improvement

- Manage the pressures, targets and key challenges that have been identified within the medium term financial strategy and deliver against those commitments set out in the 2008/09 budget report.
- Under and over spending needs to be controlled especially in the services which are sensitive to demand-led pressures (children's and adults' services) together with Crime and ASB and Public Realm.
- Have processes in place to ensure cost-sharing strategies can be determined. This is particularly relevant for complex partnership arrangements such as Olympic 2012.

## How well does the Council's internal control environment enable it to manage its significant business risks?

**Overview**

The Council has arrangements in place to maintain a sound system of internal controls. The assurance framework is being used constructively to inform service planning and there is evidence of active consideration of the document at members' level.

There are procedures in place to ensure that finance, legal and other issues are considered when taking decisions. We have noted that reports to support significant strategic policy decisions, and project initiation documents, do include a risk assessment.

The internal and external audit reports are presented to the Audit Board. The Chief-Officers are "called in" to explain reasons for failing to implement audit recommendations. This has been a worthwhile exercise in terms of raising the profile of the Audit Board, driving up standards of governance and creating a climate of officers taking steps to avoid future call-ins.

The Council has arrangements in place for managing its significant business risks including those risks relating to partnerships. A risk management process is in place and is reviewed and updated annually. Processes are in place to identify risks, and to report those risks to management and to the Audit Board. The Council has also undertaken an annual review of internal control arrangements in considering the disclosures required for the Annual Governance Statement (AGS). The AGS for 2007/08 was developed in conjunction with the Non-Executive Board and signed by the Mayor and the Chief-Executive. The AGS was approved by the Audit Board and Finance and Investment Committee.

The Council is proactive in raising the standards of ethical conduct amongst members and staff, and monitors the compliance with standards of conduct, including the number of complaints received and takes action as appropriate. To strengthen the compliance monitoring arrangements, the Council has established a compliance team during 2007/08. The compliance team has developed a plan covering 5 years and an annual operational plan. The team reviews compliance with council's rules, policies and procedures. They report on a factual basis and their findings are incorporated into the council's organisational health indicator monitoring process. The Council's health indicator reporting process is assisting the council in developing and embedding the council's assurance framework.

The Fraud Team's counter fraud initiatives place an emphasis on the constructive use of publicity. Campaigns are regularly held in conjunction with the Council's communication team. The details of the successful prosecution are published in the Council's magazine, staff newsletter, Council's internet and Intranet sites.

Financial Regulations have recently been updated to address partnerships. The Procurement Strategy, sets out key objectives of partnering and provides links with local and national strategies. However, guidance on formal partnerships and partnership contract documentation is currently being reviewed as the Council draws up its sustainable procurement strategy and new procurement guidance for officers.

**Key Lines of Enquiry**

- The Council manages its significant business risks.
- The Council has arrangements in place to maintain a sound system of internal control
- The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business

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**Examples of Areas for Improvement**

- The culture of having a compliance team in place needs to be embedded and ensure any recommendations are implemented on timely basis.
- The sustainable procurement strategy and revised Procurement Guidance is issued and training is provided to ensure officers are fully aware of any new requirements and key changes.

## Value for Money

3

### Does the Council achieve value for money and does it manage and improve value for money?

#### Overview

The Council is a comparatively above average spender on services, but the context of the Council is one of higher deprivation. While this high spend may be directed towards area of corporate priority, it has only resulted in performance that is comparable to, rather than better than, its nearest neighbours. There are several areas where improved value for money has been demonstrated, for instance there have been good improvements in a number of a key performance indicators within education and Youth and Community during the period. There remains however a number of areas where average performance is achieved at above average cost. The Council has demonstrated a willingness to challenge those services that are relatively high cost and low performing and alternative arrangements for providing such services are increasingly being considered.

The Council has continued to develop its processes for monitoring and reporting value for money. The corporate and financial planning processes are linked, and service plans are developed to underpin these. A balanced scorecard approach to performance management is becoming embedded within service areas. During the period there has been a more consistently robust approach to balanced scorecards across the Council. There was an increased focus on value for money at a corporate level during 2007/08 with the introduction of the member-led VfM Star Chamber savings process. The process was led by the Mayor and the Chief-Executive, supported by the Executive Director of Resources and other relevant Service Directors. The process tackled questions on performance, statutory and discretionary service levels, expenditure and income targets and absence levels etc. It also explored the council's options in respect of what could be done more efficiently or on a different scale, potential shared services models, co-location of services, integration of services, externalisation and the opportunities that may be available to the Council through the centralisation of the back office function into a single building. Following the initial reviews, savings of over £26m over the next three years were identified. A Change Programme Team has been set up to review, manage and monitor the progress and delivery of the Star Chamber savings. The team is headed up by an Executive Director for Change who reports to the Chief Executive and provides regular updates to Newham Executive Board. The Executive Director for Change was chosen from the private sector in order to bring a different skills-set and pace to the value for money process. The Star Chamber savings monitoring programme currently consists of monthly follow-up meetings designed to ensure that savings targets identified are on track. The savings that have been generated in these reviews are being re-directed through the Step-Change process into the Council's priorities.

Corporate governance structures are providing a platform for value for money issues to be challenged by members, Executive and Non-Executive directors and is increasingly focussed on value for money. There is a strong 'tone at the top' within the executive which is filtering down the Council leading toward a culture of greater accountability and ownership of key performance indicators and value for money issues.

Newham incorporates its efficiency savings into the budget strategy. Evidence is collected on both cashable and non-cashable efficiency savings through quarterly review meetings and these were reported in the backward look efficiency statement.

#### Key Lines of Enquiry

- The Council currently achieves good value for money
- The Council manages and improves value for money

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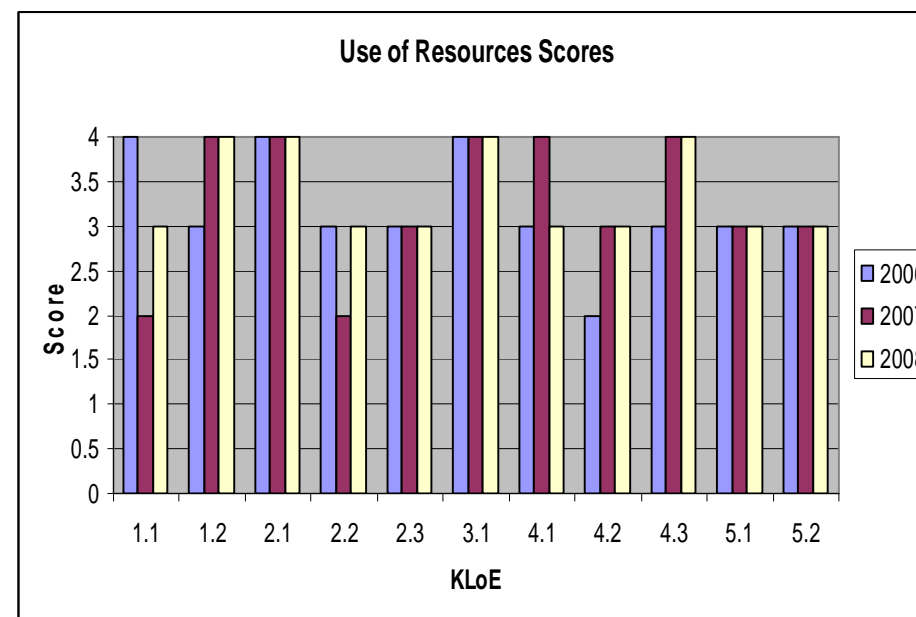
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#### Examples of Areas for Improvement

- Address service areas such as Benefits, Environment and Adults Social Care in which expenditure is not matched by performance.
- Demonstrate positive impacts of the actions taken to improve value for money through initiatives like Star Chamber and Step Change.
- Benchmarking activities drawn together corporately and clearer evidence of how they are used to drive performance and achieve Value for Money.

# Appendix 1 – KLOE Scores 2006, 2007 and 2008

Financial Reporting	
1.1	The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers
1.2	The Council promotes external accountability.
Financial Management Key Line of Enquiry	
2.1	The Council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities
2.2	The Council manages performance against budgets
2.3	The Council manages its asset base
Financial Standing Key Line of Enquiry	
3.1	The Council manages its spending within the available resources
Internal Control Key Line of Enquiry	
4.1	The Council manages its significant business risks
4.2	The Council has arrangements in place to maintain a sound system of 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
Value for Money Key Line of Enquiry	
5.1	The Council currently achieves good value for money
5.2	The Council manages and improves value for money



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