

London Borough of Newham

CPA Use of Resources – Assessment Results

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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 discussed results and issues arising with the Executive Director of Resources on 6 December and will present our findings to the Audit Board on 16 January 2008. Please contact Simon Davis 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

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

In March 2005 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is 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 management letters are prepared in the context of this Statement. 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 third year the Council has been assessed in accordance with this methodology and a number of changes to the criteria were introduced by the Audit Commission, increasing the rigour of the Key Lines of Enquiry. 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 quality assurance arrangements, both internally within PwC and by the Audit Commission. This process has been designed to ensure compliance with the methodology and guidance and to promote consistency of assessment between appointed auditors.

The tables in Section 2 set out the results of the assessment and highlight the areas for improvement based on the criteria devised by the Audit Commission. Each judgment area consists of a number of key lines of enquiry and areas of audit focus and evidence. There are also descriptions of performance against each key line of enquiry showing performance levels 2, 3 and 4.

These 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

The Audit Commission expects to advise authorities of the overall use of resources score in January 2008.

Assessment results

Financial Reporting

How good are the council's financial accounting and reporting arrangements?

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Overview

Last year the Council achieved an overall score of 4 on this KLOE. The Council had set out to identify ways in which the final accounts production process could be made more efficient, and produced exemplary working papers as a result. This year, whilst the quality of the draft accounts, and the audit packs produced by services was generally as high as last year, some significant adjustments had to be made to the draft accounts initially presented to the Investment Committee in June 2007 as a result of our audit.

The most significant audit adjustment related to the provision for Single Status. A material adjustment of £18.5m was required in order to account for equal pay claims due to some officers. Whilst we understand that the Council was reluctant to make disclosures in its accounts in relation to Single Status so as not to compromise its negotiating position, there was a requirement to for its accounts to comply with the Local Government Statement of Recommend Practice (SORP) and related accounting standards. Application of UK Generally Accepted Accounting Practices necessitated a provision in the accounts.

Even without the adjustment in relation to Single Status, the Council could not have been awarded a score of "4", for the following reasons:

- Other adjustments to the accounts presented to the Investment Committee included a £0.765m adjustment to housing debtors for a debt for which officers could not provide sufficient evidence of recoverability, a £1.6m adjustment to depreciation to reverse charges made in relation to properties that had transferred off the Council's balance sheet as a result of the Canning Town PFI scheme, and various adjustments in relation to housing bad debt provisions to ensure that the accounts reflected calculations made by officers.
- The Adults Services audit pack was not available until the second month of the audit. The delay in producing the audit pack was not communicated to the audit team.

Overview continued

The Council's engagement with external stakeholders has improved compared with 2005/06. A questionnaire asking what stakeholders wanted from an Annual Report was circulated by the Council to 61 of the Council's stakeholders, including community groups, advisors, pension fund managers, banks and neighbouring local authorities. The Council held events at local schools to discuss the services it provides and to discuss different ways in publishing financial information to make it more user-friendly for the general public.

The Council's enhanced communication with stakeholders, and the additional steps it has taken this year to go about this, is evidence of the Council's commitment to quality external reporting that meets stakeholders' needs. Based upon the small amount of feedback received, the measures taken to communicate with stakeholders and the wider community on financial matters have a direct impact upon residents' satisfaction and on their overall perception of the Council. Condensed accounting information in the form of an annual report is an efficient and effective means of communicating with the public.

Key Lines of Enquiry

- The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.
- The Council promotes external accountability.

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Area for Improvement

- The Council should ensure that it complies fully with the SORP, related accounting standards and any related guidance issued by CIPFA, when preparing the accounts to Members for approval in June. Potential areas of non-compliance need to be discussed with the external auditor in advance of submission to Members.
- The initiatives undertaken by the Council to improve its engagement with stakeholders should be continued in 2007/08 to ensure that the Council can maintain its score of 4 for promoting external accountability.
- The Council may wish to consider the external reports of local authorities who have won awards for their external reporting so that it can further embed best practice.

Financial Management

How well does the council plan and manage its finances?

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Overview

The Council is fortunate in that it has relatively high working balances. Its medium-term financial strategy, budgets and capital programme are relatively sophisticated. Rather than risking complacency after scoring a 4 against this KLOE in 2005/06, the Council introduced further initiatives to improve the overall level of governance and compliance – simultaneously seeking to ensure that there is equity in the resource allocation process and that finances are directed in the right manner to address the Council's ambitions in its strategic and corporate delivery plans.

The Council has demonstrated that it has moved on from last year by ensuring that the necessary support infrastructure is in place to cascade budget-setting and financial information throughout the organisation. Financial advisers have been appointed for each service. These now act as a conduit between the Head of Finance and the service-based finance staff. The objective was to recruit finance staff with commercial as well as public sector finance experience in order to introduce a different level of rigour to the financial control and budgetary planning process.

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 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 the environment. The Gateway Board, chaired by the Executive Director of Resources, continues to take a strategic overview of the financial resource allocation process, and is playing an important role in strengthening the prioritisation process.

Regarding actual performance against budgets, we determined that the Council has slipped back from where it was in 2005/06. Public Realm and Crime and ASB were identified as risks at the time that the budget was formulated, as they continue to experience expenditure pressures as areas of poor and outdated practices are identified and gradually eliminated. Overspends in these services were planned and managed. However, the £1.1m overspend in Adults' Services was not foreseen, despite being identified as a risk. A significant invoice under-accrual on CareFirst was not detected during the 2005/06 closedown. In fact the overspend was not detected until late autumn 2006, with the full incidence/impact not being reported until March 2007. A straightforward analytical review of charges would have identified this. Officers generally took too long to report these problems.

Formal Balance Sheet monitoring has been introduced in 2006/07. This process has yet to become fully embedded, and is not yet a feature of regular Cabinet reporting. For instance, there is no evidence of challenge on balance sheet items from members.

The Council has developed an approach for the coordination of asset management information and its integration with relevant organisational financial information. The recent Comprehensive Performance Assessment found that the Council was good at assimilating this type of information and using it to inform decision making. The overall level of integration has been reinforced in 2006/07 through the Gateway Review and considerations such as buying the Olympic legacy.

The Council plans to design and incorporate local performance indicators into service-based asset management plans. Whilst a limited number of these are available at present, the service asset management plan initiative has yet to be rolled out across the whole Council. Furthermore, whilst there are ongoing consultations with stakeholders as part of the proposed move to Building 1000, these have been ad hoc and are not yet part of a mature embedded process.

Key Lines of Enquiry

<ul style="list-style-type: none"> • The Council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities 	4
<ul style="list-style-type: none"> • The Council manages performance against budgets 	2
<ul style="list-style-type: none"> • The Council manages its asset base 	3
<p>Areas for Improvement</p> <ul style="list-style-type: none"> • The Council should re-assess the processes that are in place for how services report performance against budgets – the foundations of a robust system of reporting are in place and embedded, but certain cultural issues are preventing the Council from demonstrating excellent performance in this area, particularly in Adults' Services. • Balance sheet reporting needs to become fully embedded; the Council needs to demonstrate how the processes it has put in place in 2006/07 are generating value. • The use of performance measures and benchmarking to describe and evaluate how the Council's asset base contributes to the achievement of corporate and service objectives needs to evolve further to encompass the Council as a whole. • Sufficient benchmarking data needs to be generated to enable officers to make meaningful comparisons and interpret trend analyses. The results of using performance measures and benchmarking for asset management need to be communicated to stakeholders where relevant. 	

Financial Standing

How well does the council safeguard its financial standing?

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Overview

Newham has a history of setting balanced budgets, in accordance with its strategy for long term financial stability. Given the local background of deprivation, issues around the affordability of Council Tax, and that the Area Cost Adjustment penalises some East London boroughs, the Council is pursuing an extremely challenging objective of developing and maintaining a level of reserves to enable it to deliver the necessary level of public services.

The Council's approach involved formulating a clear view of priorities around services to be delivered. The clarity 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. The approach has necessitated construction of focused performance plans, which are subject to consultation with the public and which drive the Medium Term Financial Strategy and budgeting.

The process was strengthened further in 2006/07 by the formation of the Mayor's Budget Strategy Group. This body meets approximately monthly throughout the period leading to presentation of the 2007/08 budget. The objective was to put in place a robust financial monitoring process that identifies the attainment of financial targets. This has been achieved throughout the Council's services through the process of recently appointed financial advisers cascading management information to grass roots staff and challenging overspends.

The strength of the monitoring at Mayor and Cabinet Member level, together with establishment of effective financial management practices at second and third tier officer level improves the likelihood of the Council achieving its financial objectives.

There have been overspends in Public Realm (£1.1m) and Crime & Antisocial Behaviour (£0.6m) in 2006/07 (£1.4m and £1.4m respectively in 2005/06). These relatively new services inherited weak base budgets and have been locked into certain loss-making contracts, so the pressures were expected. The Council managed to make sufficient corporate savings to avoid having to finance services through reserves. The overspend in Adults' Services was unplanned and this is reflected in the "Financial Management" score.

Targets for debt management are set by the Mayor for each service with significant categories of external debt. There is a robust process for following up the action points arising from the Mayor's performance and strategy meetings and he requires an explanation if the levels of debtors are not being managed down as envisaged.

The Council was able to accommodate the unexpected cost attributable to Single Status from its financial reserves in a manner that many other councils with less robust financial standing would have been able to do. These one-off costs were wholly absorbed from working balances, without passing any additional burden onto the local taxpayer.

Key Lines of Enquiry

- The council manages its spending within the available resources

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Areas for Improvement

- Further under and overspending needs to be controlled. Services sensitive to demand-led pressures (children's and adults' services) together with Crime and ASB and Public Realm need to be kept under review in this respect. As the Council's partnership arrangements become more complex, it needs to ensure that it has processes in place so that cost-sharing strategies can be determined.

- Given the impact that payments for Single Status claims will have on the level of balances held by the Council, the challenge is for the Executive Director of Resources and the Mayor to agree on the optimal level of working balances going forward, given pressures such as planning for the Olympic legacy and CrossRail, which are likely to impact significantly on Newham in the future.

Overview

Following last years' Use of Resources assessment the Council has strengthened its risk management processes – building on its existing risk registers, policies and strategies and incorporating risk management into service planning, decision making and project management. This has meant that there is greater understanding and support for the concept of risk management across the Council. As a result other initiatives have developed, notably:

- The strength and resourcing of the risk management team has contributed to the effective management of major risks. For example, Building Schools for the Future, where regular workshops are held to help the project team and board manage a very complex project.
- The Chief Executive chairs a Risk and Emergency Planning Group and takes a lead role in championing risk management. This gives senior officers focus upon headline risks and ensuring that risk management is taken seriously throughout the organisation. As a result, the Risk and Emergency Planning Group is better positioned to use risk positively as an opportunity rather than negatively.
- The Council can demonstrate that it has embedded risk management and the operation of the assurance framework through the use of Corporate Health Indicators. These have been developed through the executive board and in consultation with the Mayor to ensure that there is continuous review of issues that could expose the Council to the risk of a breakdown in various control frameworks and underperformance. The indicators can identify where some form of escalation is required either corporately or by service.

The Audit Board has had an impact across the Council in that chief officers are “called in” to explain reasons for failing to implement recommendations in internal and external audit reports. 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.

In the previous year, procurement was the aspect of the Council's services where compliance with standing orders was weakest. Problems in this respect in Crime & ASB were followed by breaches in the housing service in 2006. Since then, the Council has taken steps to ensure that risks highlighted the previous year have been addressed.

The Assurance Framework is being used constructively to inform service planning and there is evidence of active consideration of the document at Member level. Whilst the direction of travel is positive compared with last year, the Assurance Framework is still not fully embedded across the whole Council.

The Council has maintained a strong counter fraud culture, supported and endorsed by the Mayor downwards. The challenge for 2006/07 was to increase the publicity of the proactive fraud work undertaken throughout the Borough to demonstrate best practice in this area. The Council has been successful in achieving this aim.

The Fraud Team's counter fraud initiatives place an emphasis on the constructive use of publicity. Campaigns are regularly held, working with the Council's communications team using imaginative poster designs and publicity through the Council's magazine that is delivered to every home. This included regular staff newsletter and fraud-related articles in the Newham Recorder, when prosecutions occur.

The Council continues to promote and improve the control environment generally through training and awareness. On-line training modules for Fraud and Whistleblowing have been developed. The material is user-friendly and allows staff to undertake training or obtain advice at times convenient to them.

A key success in the year was the establishment of protocols for Benefits and Non-Benefits National Fraud Initiative (NFI) matches. Concentration has been on the risks highlighted

as Red on the NFI discs. The continuing payment of pension to deceased pensioners and the non-return of parking disabled badges where the holder is known to be deceased have been productive areas this year. The Council's use of the NFI data has been endorsed by the Audit Commission.

Key Lines of Enquiry	
• The Council manages its significant business risks.	4
• The Council has arrangements in place to maintain a sound system of internal control	3
• The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business	4

Areas for Improvement

- Whilst training, newsletters and the opportunity to attend the Audit Board initiatives are available to all, it is fair to conclude that not all members take advantage of the training on risk management awareness. The Council has set out to ensure that key members receive this training and does have ideas to extend the message further in 2006/07 and beyond.
- The Assurance Framework needs to be fully embedded in the Council's business processes.
- The work the Council has undertaken to embed a counter-fraud culture and improve processes around procurement need to remain in place to ensure that the improved scores awarded this year are achievable in next years assessment.

Overview

Overall expenditure is generally above average and outcomes match investment in the majority of areas with the situation relatively unchanged since last year. The Council spends heavily on education and achieves good results, particularly around GCSEs and spend on children and families is around average with an above average level of performance.

Older people's expenditure is high and has been increasing over recent years, although the service is performing well and spend is affected by the Council's decision not to charge in some areas. Spend on culture is below average with adequate performance.

There are certain areas in which investment is not matched by performance. Youth service spending is above average but youth services in 2006 were judged inadequate with poor value for money as part of the Joint Area Review. The Council states that expenditure in this area is a high priority since it provides diversionary activities aimed at reducing anti social behaviour.

Public Realm continues to cause concern. Expenditure on waste disposal is top quartile within the Council's nearest neighbour group although the volume of waste collected has fallen significantly in contrast to other councils. Street cleaning spend is also very high, although the Council also has high levels of land with substantial litter deposits and relatively low satisfaction rates indicating weaker performance. The Council acknowledges difficulties with street cleaning and recognises this as an area for improvement. The Council generally provides above average levels of performance for above average or average costs when factors such as deprivation are taken into account.

The Council's arrangements for managing and improving value for money have been maintained at a similar standard to last year and there is evidence that progress has been made in some areas in response to recommendations, for example around tracking the outcome of process reviews. The Council still needs to demonstrate how information on equity is used to promote access and value for money across the whole community in order to achieve a step change in performance.

Although the Council has a robust method of monitoring efficiency gains it appears to concentrate on cashable savings with only cashable targets set for 2007/08. The Council may be missing out on the full range of efficiency savings as a result.

Key Lines of Enquiry

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

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Areas for Improvement

- The Council should address service areas such as youth services and public realm in which expenditure is not matched by performances:
- The Council needs to demonstrate more clearly how information on equity across the community is considered alongside costs and quality of services.
- The Council could consider how non cashable efficiency savings can be identified and tracked more consistently.

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