

London Borough of Newham

CPA Use of Resources – Assessment Results

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Dear Dave

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 28 November and the Audit Board on 13 December. Please contact Simon Davis or me if there any other Use of Resources issues that you would like to discuss.

Yours sincerely

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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 second year the Council was assessed in accordance with this methodology and a number of changes to the criteria were introduced, 'toughening' the standards. We have updated our understanding of the arrangements in place at the Council. We have focused on areas of 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 last year's assessment.

As in previous years, 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 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 determines the overall use of resources score by combining the auditor's separate scores for each of the themes covered, using a set of rules which they have published in their October 2005 report 'CPA – the harder test'. This was updated, after consultation, in February 2006. The Audit Commission expects to advise authorities of the overall use of resources score on 1 December 2006.

Assessment results

Financial Reporting

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

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Overview

Last year we failed the Council on two elements of the Key Lines of Enquiry document (KLoE). At that time, our initial deliverables list had not been addressed by the Housing service and subsequent requests for information were not sent in a timely manner. Too great a reliance had placed on temporary staff, which was making the accounts closure process unreliable and inefficient.

This year, we were pleased to note that all of this issues had been addressed. As part of the programme for accelerating the final accounts timetable and in striving to achieve excellence in service provision, the Council set out to identify ways in which the final accounts production process (from inception to signing of the audit opinion) could be made more efficient. This was achieved by:

- Communicating effectively and regularly with service-based accountants. This most commonly occurs by using the embedded Finance Forum monthly meetings as a means of exploring and responding to financial reporting and audit requirements. Good practice is also shared between services; and
- Considering the best way of preparing information for the external auditors at the outset, making the audit process more efficient. This was achieved through close liaison with the audit team leader at the outset and then formatting information into comprehensive reporting packs. In our opinion, this was achieved to a high standard, which was better than that achieved by many other local authorities and comparable with elements of private sector best practice. Furthermore, these reporting packs were completed in time for the agreed start of the final accounts audit.

We were able to meet our overall timetable for the audit clearance meeting (30 August) the accounts were presented to Cabinet on 20 September. This is one month earlier than in 2005, reflecting the progress that has been made.

Overview cont'd

The level and content of external reporting has also improved compared with 2004/05. As part of the Council's objective to improve its Use of Resources score, Newham has been looking at ways to improve the effectiveness of communicating with stakeholders and the community as a whole. A decision was taken to produce an annual report for the first time in 2005/06. The Council took steps from the outset to ensure that the document was meaningful and informative, over and above the statutory requirement.

Draft summary accounts were circulated to a range of stakeholders in December 2005. Although none of them chose to comment, this was the first time they had been afforded the opportunity to become involved in the process. A major initiative within the Council's 'Moving To Excellence' agenda is "Excellence Online," which aims to bring all the Council Services to the public through the Council's website as well as maximising electronic transactions. This is supported by innovative ways of providing access to the website

Overall we judged that there had been a significant improvement in the level of financial reporting and we have scored the Council as a 4. The quality of the audit packs and the annual report have reported by us to the Audit Commission as examples of notable practice from which other authorities can learn.

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

- Newham took steps to consult with stakeholders in order to obtain their views on the proposed form and content of the summary accounts. This consultation was undertaken by Email in December 2005. No replies were received from any recipients of the Email and officers chose to regard this as the recipients being content with the consultation document. However, it would be preferable in future to follow up any non-replies by telephone or email. Alternatively consultation could be undertaken through convening a panel of external bodies in order to encourage them to discuss their views on summary accounts with the Council.
- We are aware that officers have other initiatives in mind to strengthen financial reporting as part of the Excellence Online agenda and we will be reviewing and discussing these at an early stage in 2006/07.

Overview

Newham's 3 year Medium Term Financial Strategy has a clear emphasis on local improvement (detailed costings and narrative to support growth bids in the Regeneration service) and national policies. A comprehensive and balanced revenue budget has been set.

There is good activity-based knowledge and those services with demand-led elements (such as children's and adults' services) are extensively modelled and forecast. A capital programme has been agreed, with financing implications fully considered. Prudential indicators are embraced as part of the Council's Treasury Management arrangements. Stakeholder consultation as part of the budgetary process continues to be good.

The Executive Mayor and Cabinet members continue to play pivotal roles in the budgetary process – both in defining parameters and strategies at the outset, as well as ensuring that the Mayor is provided with the right indicators to assist him in challenging financial performance.

In 2004/05 we could see no evidence of the medium-term financial strategy describing in financial terms joint plans agreed with partners and other stakeholders. In 2005/06, we noted that this process had been strengthened in preparation for the Council's CPA Inspection and the external auditor's use of resources work. For example, the budget strategy now incorporates consideration of joint plans with partners and this is further expanded in the budget book

Executive Directors are responsible for ensuring that the Council is aligning its planning system with the local strategic partnership and championing the need to promote similar processes for key partners' systems. The budget book makes explicit reference to partnerships to ensure that less senior finance staff are aware of partners' objectives and how these dovetail with the Council's priorities. There is explicit guidance on the extent to which partnerships play an active role in shaping the Council's Medium Term Financial Strategy.

Financial advisers have now been appointed for each service. These now act as a conduit between the Head of Finance and the service-based finance staff. The objective has been 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.

In addition a Gateway Board was established, chaired by the Executive Director of Resources. This takes a strategic overview of the financial resource allocation process

A new Capital Strategy 2006-2010 has been produced to complement the new Corporate Asset Management Plan (AMP) 2006-2010. The March 2006 CPA review noted that Newham had strengthened some key corporate services and asset management was one such process where changes had made an impact. Progress still has to be made in fully embedding this process across all directorates and officers feel that the production of service-based asset management plans are the logical steps to strengthening and making more explicit the links between corporate objectives and local service-based decisions in the use of assets.

Sums set aside for clearing backlog maintenance across the services demonstrate that there is a firm resource commitment to tackling this issue and members have been fully briefed as to the extent of these liabilities.

Financial management has traditionally been strong at Newham. Nevertheless, we judged that there had been further improvement in 2005/06 and we have scored the Council as a 3. The appointment of the financial advisors and the establishment of the Gateway Board have reported by us to the Audit Commission as examples of notable practice from which other authorities can learn.

<p>Key Lines of Enquiry</p> <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 • The council manages performance against budgets • The council manages its asset base 	<p>4 3 3</p>
<p>Areas for Improvement</p> <ul style="list-style-type: none"> • There is a reasonable level of hard accruals information in the regular monitoring reports submitted to the Mayor and Cabinet. There is less information on sundry debtors and officers recognise the need to strengthen the regular cash flow and balance sheet reporting to members. We understand that formal balance sheet monitoring has now been introduced in 2006/07. • Performance measures and benchmarking are not yet being used to describe and evaluate how the Council's asset base contributes to the achievement of corporate and service objectives, including improvement priorities. We recognise that these are in the course of development as local performance indicators are established for Service Area properties. • Once performance measures and benchmarking for asset management are in place, the extent to which they should best be communicated to stakeholders will be addressed by officers. • The creative use of service-based Asset Management Plans needs to be embedded across the Council. 	

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. The March 2006 CPA review commented that Newham's financial arrangements were strong.

There have been overspends in 2005/06 in Public Realm (£1.4m) and Crime & Antisocial Behaviour (£1.4m). The nature and ultimate magnitude of these overspends was little surprise, because these are relatively new services that inherited weak base budgets and that have been locked into a few loss-making contracts, which meant that certain pressures were expected. The Council managed to avoid financing these overspends through reserves, through application of corporate savings.

Newham has been able to set a minimum working balance of around £20m since 2002/03. The minimum level of balances is based on the regular forecasts, the expected settlement and predictions for demand-led elements of children's and adults' services and Public Realm. The Mayor and Cabinet define the Council's immediate priorities, together with the intelligence that the Executive Director of Resources has obtained from the Gateway Board and budget-setting processes.

The Medium Term Budget Strategy for 2006/07 agreed by the Mayor assessed the balances at 1 April 2006 at £35m and the minimum level at £28.5m. The balance being made available to support the 3 year strategy and corporate plan.

The present budget forecast may result in the erosion of available balances during 2008/09. In order to prevent this, a series of cost reductions and budget savings are being introduced during 2006/07. Inevitably there will be a call upon balances during 2006/07, but this is planned to be limited to no more than £3m, with further limitation in subsequent years as the programme of savings takes effect.

The Council engages Sector to assist with Treasury Management and to provide regular summaries of likely interest rates and levels of debt to inform the Council's strategy.

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. In addition, the local NHS Trusts, Primary Care Trust and the Mental Health Trust are experiencing severe financial pressures. The Council needs to ensure that the extent of its liabilities for costs under its s31 partnership arrangements are understood and adhered to. This is of particular importance in cases where care is provided jointly and where wider reviews in the NHS could lead to alternative cost-sharing strategies being proposed.
- There is relatively less evidence of some members outside the Cabinet actively using performance information provided to them to manage/improve financial performance.
- The Mayor's performance and finance meetings, together with the rigour of the framework for cost effectiveness were put forward by the auditors as evidence of notable practice. It will be important for the Council to demonstrate that these initiatives continue to exert tight and effective financial control in future Use of Resources exercises.

Internal Control

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

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Overview

The Council's Risk Management Strategy and Policy was revised during 2004/05 and was approved by Cabinet in January 2006. A subsequent revision was undertaken in June 2006. The constitution was amended so that its approval is now delegated to Officers, subject to comments by the Audit Board.

The Council's risk register is fully functioning and is updated regularly by service-based officers submitting new and revised risks through completion of a standard form. The Common Risk Guide was developed to ensure that perceptions of risk were similar across the Council and treated consistently in the risk register. An officer forum (Chaired by the Chief Internal Auditor and including service-based staff) has been successful in compiling the register and ensuring that service-based risks are captured.

Risk Management is included within the terms of reference for the Audit Board. The Audit Board terms were revised in February 2006 to align them more closely with the CIPFA Guidance on Audit Committees. The Audit Board chair is the risk champion and is responsible for presenting reports on risk management to the Mayor/Cabinet. The Audit Board now meets more regularly and has been strengthened by the addition of independent members. We have judged the Audit Board to be operating more effectively this year.

Training in risk management was provided to members of the Audit Board on 21 June 2006

The Audit Commission's CPA report commented that the new strategic approach to risk management had yet to have a demonstrable impact because it was not yet disseminated throughout the organisation and with partners

The Statement of Internal Control is becoming an effective document at Newham and has been discussed with members at the Audit Board and also the Investment Committee.

Compliance with statutory requirements and the constitutional documents that support them are good and generally available to all officers. However, procurement is the aspect of the Council's services where compliance with standing orders is the weakest. Problems in this respect in Crime & ASB were followed by breaches in the Housing service in 2006 and it cannot therefore be said that arrangements for detecting non compliance are embedded.

The assurance framework was used for Heads of Services to complete their annual reports. Health check indicators are being developed for the Council and these will help Heads of Services to deliver their reports next year. In addition, Newham Executive Board now receive regular reports on the indicators and Heads of Services are becoming much more aware of the control framework and the need to demonstrate compliance.

The level of fraud work undertaken has been good and the Council has ensured that this service is adequately resourced in 2005/06.

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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Areas for Improvement

- The risk register is generally satisfactory across the Council, although not all the risks in new services such as Public Realm and Crime & ASB have been captured. The need to do so is in the two services' improvement plans and heads of service are aware of the need to capture and manage risks.
- The Council cannot yet demonstrate that it has embedded risk management in its corporate business processes. The CPA report commented that the new strategic approach to risk management had yet to have a demonstrable impact on the way services were managed. Arrangements for the monitoring of contracts were highlighted as not being sufficiently robust
- Whilst training, newsletters and the opportunity to attend the Audit Board initiatives are available to all, it is fair to conclude that not many 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.
- Training in procurement is being developed and it is important for this to be rolled out to appropriate officers. The need to comply with competitive tendering legislation should be reinforced and steps may need to be taken in some services to regularise arrangements that have been enacted without strictly following the rules. Governance arrangements need to be strengthened in situations where procurement is effected through partnership and other relatively novel working arrangements.
- It is likely that many service-based officers are unaware of the existence of the Assurance Framework. This needs to be viewed as an essential planning tool by officers and members alike and the Council should consider how best to launch this document.
- Where weaknesses have been identified by the Audit Commission's NFI data-matching initiative, meetings need to be held promptly to ensure that the problem has been properly diagnosed and that corrective action can be agreed.

Overview

5.1 The Council currently achieves good value for money

Overall the Council's comparative costs are largely similar to 2004/5 and continue to demonstrate best value compared to other councils providing similar levels and standards of services and allowing for the local context. Costs are above average in a number of areas including Education Access, Social Services and Environment but these higher spending levels are in line with the high deprivation and needs of the Borough and/ or are in line with stated priorities (such as to improve social services outcomes, public realm and recycling). Performance, as measured by CPA service block scores and comparative BVPI performance is good for most services and resident satisfaction for most services is also high.

There are a few areas where high spend is not matched by good or excellent outcomes: Adult social care, Environment and Local Taxation and Benefits are 3 key areas where above average costs are not commensurate with current performance levels. The Council has begun to take action to improve the performance or reduce the costs of these services: Adult social care performance (CPA rating) is average although the service is improving against most key PIs. A process review of the benefits service has already been completed and a further review of the local taxation service is planned shortly. Recycling rates have improved compared to last year.

One area of high cost identified as last year, Corporate and Democratic Core, has changed significantly during the year and is now in the lower quartile compared to other London Boroughs.

5.2 The Council manages and improves value for money

There is generally a good understanding of costs within the Council and how these compare to other councils and have changed over time; there are specific efforts in some areas to improve the usability of information and to ensure that maximal value is obtained from it. There is routine challenge of costs and performance through the mayoral scrutiny and performance meetings with each service, which take place three times a year. Value for money is a stated priority for the mayor and a framework for cost effectiveness is in place to deliver this

Through the Mayor's framework for improving cost effectiveness, and the mayoral scrutiny and performance meetings there are clear policies and processes for reviewing and improving VFM.

The Council has a robust plan for achieving its' Gershon efficiency target and is on target to deliver the required 7.5% efficiency gain ahead of schedule. Efficiency targets are set as part of the overall budget strategy and are set intelligently - i.e. higher targets are set for those services considered to have greater potential to deliver them or which are not considered investment priorities.

Significant and identifiable savings have been achieved through procurement and internal reviews without unintended loss of quality – examples of this include the Best Value Review of Working Across Boundaries which looked at opportunities for efficiencies in social services for children and adults by working with other bodies such as PCT. This review is on target to deliver savings in the region of £720k. The Council has also negotiated a single agency agreement for temporary staff which delivered cashable gains of over £2.5m in 2005/06.

Key Lines of Enquiry

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

3

3

Areas for Improvement

- The Council needs to address those service areas where above average costs are not commensurate with good outcomes:
 - Public Realm – recycling rates, whilst improving slightly during 200/6 are still relatively poor compared to other London Boroughs. Street cleansing performance also deteriorated during 2005/06.
 - Housing management: - High management costs per dwelling, but below average performance in dealing with responsive repairs and rent collection. Expenditure on decent homes is also relatively high compared to the number of homes tackled.
- The Council needs to demonstrate more clearly how information on equity across the community is considered alongside costs and quality of services.
- The Council should ensure that the impact of its programme of process reviews on reducing costs and/or improving outcomes (e.g. in Housing benefits processing) is monitored and reported on.

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