

# Use of Resources

South Hams District Council

Audit 2008/09

October 2009

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## **Status of our reports**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
  - any third party.
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# Summary

**This report summarises the key findings from our assessment of how South Hams is managing and using its resources to deliver value for money and better and sustainable outcomes for local people.**

- 1 Under the new use of resources assessment framework South Hams' overall scores for the three themes are:
  - Managing finances            2            performing adequately
  - Governing the business    2            performing adequately
  - Managing resources        2            performing adequately
- 2 The new use of resources is a harder test with a focus on outcomes and scores are not directly comparable with those for previous years.
- 3 South Hams has a strong corporate framework with members and officers working well together to deliver services for the local community.
- 4 There are good examples of initiatives that have resulted in significant service improvements - for example the turnaround in the waste collection service and the arrangements for taking services into the community to those who are unable to attend at council offices.
- 5 The council has good arrangements for self-review and a number of the development opportunities that we have identified are those which the authority is planning to put in place in the current year.
- 6 There are also some weaker areas, including workforce planning, but the authority is taking steps to secure improvement in these areas.
- 7 Therefore our overall judgements are that
  - the authority has sound overall arrangements in place; and
  - it has good potential to achieve higher levels as current year developments are put in place and the council extends itself further to deliver services more efficiently and effectively.
- 8 Our detailed judgements are shown at page 6 and in Appendix 1.

# Introduction

- 9** This report sets out our conclusions on how well South Hams is managing and using its resources to deliver value for money and better and sustainable outcomes for local people and give scored use of resources theme judgements.
- 10** In forming our scored theme judgements, we have followed the methodology set out in the use of resources framework: overall approach and key lines of enquiry (KLOE) document and the use of resources auditor guidance.

## The new use of resources framework

- 11** From 2008/09, the new use of resources assessment forms part of the Comprehensive Area Assessment (CAA) and comprises three themes that focus on:
- sound and strategic financial management;
  - strategic commissioning and good governance; and
  - the management of natural resources, assets and people.
- 12** The scores for each theme are based on the scores reached by auditors on underlying KLOEs. The KLOEs are generic and applicable equally to all organisations subject to use of resources judgements under CAA. This promotes consistency, demonstrating all organisations within a CAA area are treated in the same way, and to the same standards.
- 13** The Commission specifies in its annual work programme and fees document, which KLOEs are assessed over the coming year.
- 14** Judgements have been made for each KLOE using the Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2. The scale of judgements is set out in table 1 below.

**Table 1**      **Levels of performance**

<b>Level 1</b>	Does not meet minimum requirements – performs poorly
<b>Level 2</b>	Meets minimum requirements – performs adequately
<b>Level 3</b>	Exceeds minimum requirements – performs well
<b>Level 4</b>	Significantly exceeds minimum requirements – performs excellently

Source: Use of resources framework: Overall approach and KLOE document

- 15** All the documents referred to above are available from the Commission's website.

## Introduction

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### A harder test

- 16** The new use of resources assessment is more demanding than previous assessments. The KLOEs are more broadly based than previously and embrace wider resource issues such as workforce planning and the use of natural resources. The KLOEs focus more on value for money achievements, outputs and outcomes rather than on processes.
- 17** As part of the continuing drive to improve standards the scoring arrangements have been adjusted so that to attain level two the Council must show that it has arrangements that are consistent with established professional practice and guidance, meet statutory requirements and operate effectively.
- 18** To achieve a level three, councils now need to demonstrate a higher standard of performance which includes the following:
- operating consistently above minimum requirements;
  - demonstrating a forward-looking and pro-active approach;
  - evidencing outputs and outcomes which demonstrate impact; and
  - effective partnership working.
- 19** This is a significant challenge and it follows that 2008/09 use of resources scores are not directly comparable with those for the previous year.
- 20** Our use of resources judgements and theme scores for South Hams are set out in the following section.

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### Acknowledgement

- 21** Our thanks are due to all the staff that helped us during the 2008/09 assessment.

# Use of resources judgements

## Scored judgements

22 South Hams' use of resources theme scores are shown in Table 2.

**Table 2 Use of resources theme scores**

Use of resources theme	Scored judgement
<b>Managing finances</b> How effectively does the organisation manage its finances to deliver value for money?	2
<b>Governing the business</b> How well does the organisation govern itself and commission services that provide value for money and deliver better outcomes for local people?	2
<b>Managing resources</b> How well does the organisation manage its natural resources, physical assets and people to meet current and future needs and deliver value for money?	2

## Managing finances

- 23 The authority has sound arrangements for managing its finances incorporating the characteristics expected at level 2.
- 24 While the Council has scored a 2 overall for Managing Finances, its track record in relation to financial planning and delivering service improvements has earned a level 3 assessment for the 1.1 sub-theme.
- 25 In relation to the other sub-themes South Hams has a number of initiatives in the current year to secure improvement in its VFM processes, and there are opportunities for strengthening financial reporting arrangements.
- 26 Evidencing of outcomes will be key in 2009/10.

## Governing the business

- 27 The Council has sound governance arrangements in place which incorporate the characteristics expected at level 2. This is our overall assessment score for this theme.

## Use of resources judgements

- 28** South Hams' procurement arrangements are strong and have been assessed as meeting the level 3 criteria for sub-theme 2.1.
- 29** In the other sub-themes current year initiatives will strengthen performance in the current year but this will need to be complemented by clear evidence of outcomes.

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## Managing resources

- 30** Workforce planning is adequate but there is scope for improvement. The council acknowledges this and is taking action to strengthen this area.

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## Next steps

- 31** The Commission is making minimal changes to the assessment framework for 2009/10. It plans to make no changes to the KLOEs, and will only update the guidance to reflect statutory changes, changes in professional requirements, or to make it clearer.
- 32** In 2009/10 we will be taking a proportionate and risk based approach to use of resources. To that end the 2009/10 assessment will build on the work done to support the 2008/09 assessment, which established a baseline against which auditors will assess progress.
- 33** Improvement work at South Hams is continuing. To secure further improvement the focus in 2009/10 should be on:
- Carrying on with initiatives that were not complete or embedded in 2008/09
  - Addressing weaker areas highlighted by our assessment
  - Ensuring that underlying processes remain strong and up-to-date
  - Focusing on the key characteristics that level 3 performance requires ie
    - operating consistently above minimum requirements;
    - demonstrating a forward-looking and pro-active approach;
    - evidencing outputs and outcomes which demonstrate impact; and
    - effective partnership working.
- 34** The Audit Commission has identified a range of best practice to help authorities:
- The use of resources guidance that is available to auditors and to anyone else via the Commission website contains details of good practice source material
  - On the website there is a specific 'good practice and case studies' section
  - The Commission regularly publishes research in particular areas that contain similar case studies
  - The Improvement Network, for which the Commission is one of the sponsors, provides improvement tools and can be accessed either directly or via the Commission's website.

- 35** In addition, the Audit Commission has worked with the National School of Government to produce a unique web-based learning scheme on core skills in financial management for local government. The scheme is free to use and covers the following key areas of financial management:
- financial planning and control;
  - accounting for income and expenditure;
  - financial reporting;
  - strategic and business planning;
  - budget management;
  - performance indicators;
  - market economics;
  - investment appraisal and evaluation;
  - interpretation of financial accounts; and
  - corporate finance.
- 36** An email is being sent to all local authorities with a link to the tool during the week beginning 26 October 2009.
- 37** The Commission will also be publishing the results of analysis of 2008/09 use of resources assessments and identifying best practice identified by this work.

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### Detailed findings

- 38** The 2008/09 key strengths and development areas for the three themes and sub-themes are summarised in Appendix 1.

# Use of resources 2009/10

- 39** The key lines of enquiry specified for the assessment are set out in the Audit Commission's work programme and scales of fees 2009/10. Our work on use of resources informs our 2009/10 value for money conclusion. For each significant risk, we consider the arrangements put in place by the Council to mitigate the risk and plan our work accordingly.
- 40** We have not identified any additional risks in relation to the 2009/10 value for money conclusion.
- 41** An additional KLOE, 3.1, natural resources, will apply to District Councils for 2009/10. However, KLOE 3.3, workforce planning, will not be assessed.
- 42** As previously advised, the 2009/10 use of resources assessment will operate to a revised timetable. The proposed dates are set out in Table 3 below. This will reduce the overlap with the final accounts audit and smooth the workload to decrease the burden on auditors and audited bodies during September.
- 43** It is planned that work on natural resources will start in November/December 2009 and the remaining fieldwork will take place from January to March 2010. Self assessment is optional but if the Council chooses to share its assessments with us this will need to fit with the revised timetable. We will continue to liaise with officers about the detailed arrangements and timetable.

**Table 3 2009/10 Use of Resources key dates**

In 2009/10 there will be an earlier timetable for use of resources assessment and reporting.

	<b>2008/09 Timeline</b>	<b>2009/10 Timeline</b>
<b>Initial moderation</b>		
Indicative submission to AC	by 31 May	by 21 Apr 2010
Internal 'area challenge' meetings	22 Jun – 2 Jul	10 - 21 May 2010
<b>National quality assurance</b>		
Final submission to AC	by 14 Aug	by 30 Jul 2010
National quality assurance	24 Aug – 11 Sep	2 Aug – 27 Aug 2010

Source: Audit Commission

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# Appendix 1 – Use of resources conclusions

The following tables summarise the key finding and conclusions for each of the use of resources themes and sub-themes.

## Appendix 1 – Use of resources conclusions

### Table 4 Managing finances

The authority has sound arrangements for managing its finances incorporating the characteristics expected at level 2. Its track record in relation to the financial planning sub-theme and delivering service improvements has earned a level 3 assessment. It has a number of initiatives in the current year to secure improvement in its VFM processes, and there are opportunities for strengthening financial reporting arrangements. Evidencing of outcomes will be key in 2009/10.

Key Line of Enquiry	Strengths	Areas for Development
<p>KLOE 1.1 Financial planning Score = 3 VFM Criterion Met = Yes</p>	<ul style="list-style-type: none"> <li>• The council sets a comprehensive, balanced and realistic budget, with clear links to the MTFP and corporate plan, supported by achievable savings plans</li> <li>• It has a track record of operating within its budget while maintaining service performance</li> <li>• It has responded well to address local needs during the economic downturn</li> <li>• Council tax and car parking charges have not been increased</li> <li>• It provides accessible services to hard-to-reach individuals.</li> <li>• It has taken action to produce a strong-performing waste service delivering good performance at reasonable cost.</li> </ul>	<ul style="list-style-type: none"> <li>• Delivery of affordable housing targets – a key corporate priority - has suffered, largely due to the economic downturn.</li> </ul>

Key Line of Enquiry	Strengths	Areas for Development
<p>KLOE 1.2                      Understanding costs and achieving efficiencies                      Score = 2                      VFM Criterion Met = Yes</p>	<ul style="list-style-type: none"> <li>• The council has an adequate understanding of its costs and how they link to performance</li> <li>• It also understands some underlying drivers of high costs such as levels of sickness and absence and the impact of the geography of the district on service delivery</li> <li>• It is piloting a comprehensive new service review method that includes detailed activity based costing.</li> <li>• It is also leading a Devon-wide value-for-money benchmarking exercise</li> </ul>	<ul style="list-style-type: none"> <li>• The Council does not have a systematic overview of the VFM of its services</li> <li>• Nor has it routinely considered unit or transactional costs in its strategic service reviews or service planning. It is, however, implementing plans to make improvements and has a plan - Towards and Beyond Excellence</li> <li>• Services have not always provided detailed and accurate cost information in business plans for service improvement. The Council recognises that it needs to improve the information it provides on some service costs</li> </ul>

## Appendix 1 – Use of resources conclusions

Key Line of Enquiry	Strengths	Areas for Development
<p>KLOE 1.3 Financial reporting Score = 2 VFM Criterion Met = Yes</p>	<ul style="list-style-type: none"> <li>• The council produces and uses relevant financial monitoring and forecasting information. Financial reports are concise, use plain English and highlight financial implications and risks, including threats/opportunities, where relevant.</li> <li>• It prepares accounts that meet statutory requirements and that present fairly its financial position</li> <li>• It publishes a magazine in an accessible format that provides an understandable assessment of the organisation’s performance and useful information for local residents.</li> <li>• It is project managing the introduction of International Financial Reporting Standards and putting in place plans to address the key issues.</li> </ul>	<ul style="list-style-type: none"> <li>• External reporting should include information about (or clear signposts to) the council’s environmental footprint.</li> <li>• Identify all significant partnerships and develop a clear and consistent framework for evaluating outcomes and VFM from partnerships and shared service arrangements.</li> <li>• The Council should develop its performance monitoring of services to review financial and non-financial performance information together more and identify/realise service improvements, as well as achieving budget savings.</li> <li>• Stronger QA arrangements for producing the accounts and closer/earlier liaison with the valuer is needed to reduce the number of issues identified at audit.</li> </ul>

**Table 5 Governing the business**

The Council has sound governance arrangements in place which incorporate the characteristics expected at level 2. Its procurement arrangements are strong and have been assessed as meeting the level 3 criteria. Once again, current year initiatives will strengthen performance in the current year but this will need to be complemented by clear evidence of outcomes.

Key Line of Enquiry	Strengths	Areas for Development
<p>KLOE 2.1 Commissioning and procurement Score = 3 <i>VFM Criterion Met = Yes</i></p>	<ul style="list-style-type: none"> <li>• The Council works very closely with partner councils on procurement activities to maximise efficiency savings and to influence the market</li> <li>• It has identified areas where procurement could deliver significant savings and it is systematically addressing them</li> <li>• It puts a focus on shared services as a key strategic way forward in service improvement - Its current emphasis is on refining in-house provision and creating efficiencies through shared management posts</li> <li>• The Council has demonstrated the ability to improve service delivery through re-design based on understanding and meeting customer needs.</li> </ul>	<ul style="list-style-type: none"> <li>• There is scope for further developing sustainable procurement and work with local SMEs to encourage them to tender for contracts</li> <li>• There is also some scope for clearer linking of procurement strategy to corporate priorities and more evidence of consultation with the community.</li> </ul>

## Appendix 1 – Use of resources conclusions

Key Line of Enquiry	Strengths	Areas for Development
<p>KLOE 2.2 Data quality and use of information Score = 2 <i>VFM Criterion Met = Yes</i></p>	<ul style="list-style-type: none"> <li>• The Council understands the needs of its decision makers and generally provides them with good quality fit-for-purpose information</li> <li>• The Council has a good track record in producing quality performance information – and using it to deliver service improvements</li> <li>• It has trained service staff on how to input data to the Council’s software system, and on the use of data quality procedures and checklists.</li> <li>• It has a well-established system of reporting service performance and uses this reporting to drive improvement.</li> </ul>	<ul style="list-style-type: none"> <li>• To date, different Council services have individually sourced information - but the Council is developing a central resource of shared demographic and performance information to improve accuracy and consistency of information</li> <li>• Data quality spotchecks by internal and external audit identified a number of errors and weaknesses in systems for collecting data. The errors were not material, however, and the council is addressing the weaknesses in the current year.</li> </ul>

Key Line of Enquiry	Strengths	Areas for Development
<p>KLOE 2.3                      Good governance                      Score = 2                      VFM Criterion Met = Yes</p>	<ul style="list-style-type: none"> <li>• The council’s constitution clearly describes the roles of senior members and officers.</li> <li>• A code of conduct is in place for members and the council has demonstrated its willingness to take action where the code of conduct is breached.</li> <li>• Strong and honest annual compliance review of the code of corporate governance</li> </ul>	<ul style="list-style-type: none"> <li>• The Council has more work to do to strengthen the Council’s ethical governance arrangements and has plans in place to address this.</li> <li>• An officer/member protocol is being developed</li> <li>• No overall review of constitution for two years – Thorough review planned when prospects for LGR are clear</li> <li>• Formal development plan for members being developed</li> <li>• Partnership working monitoring mechanisms being put in place</li> </ul>

## Appendix 1 – Use of resources conclusions

Key Line of Enquiry	Strengths	Areas for Development
<p>KLOE 2.4 Risk management and internal control Score = 2 VFM Criterion Met = Yes</p>	<ul style="list-style-type: none"> <li>• Internal control is basically sound.</li> <li>• An effective internal audit operates</li> <li>• A counter fraud and corruption policy is in place and has been communicated throughout the organisation</li> <li>• A risk management strategy and risk registers are in place and are regularly updated and reviewed</li> <li>• Risk management is incorporated into service &amp; strategic planning and decision making.</li> </ul>	<ul style="list-style-type: none"> <li>• Risk management to be developed in relation to all significant partnerships</li> <li>• Debtors system continues to exhibit control weaknesses – It is planned that these will be eliminated later this year</li> </ul>

**Table 6 Managing resources**

Workforce planning is adequate but there is scope for improvement. The council acknowledges this and is taking action to strengthen this area.

Key Line of Enquiry	Strengths	Areas for Development
<p>KLOE 3.3 Workforce planning Score = 2 VFM Criterion Met = Yes</p>	<ul style="list-style-type: none"> <li>• Strong commitment to training - working with neighbouring authorities to provide core training locally</li> <li>• Additional specialist training is organised on topics like lean reviews and benefits</li> <li>• The council has recently improved its policies that support people management and is using these to improve workforce productivity. It has refreshed and expanded its range of policies and procedures</li> <li>• It has a good approach to communications (evidenced by staff feedback) – it engages staff well in organisational change and provides appropriate support</li> <li>• Staff are involved in and well informed about change management at a service level.</li> <li>• Regular reports are produced on sickness, diversity, etc</li> </ul>	<ul style="list-style-type: none"> <li>• No plans are in place to ensure that the right staff with the right skills are in place in the medium term, but a strategic approach to workforce planning is being developed</li> <li>• Progress in addressing job evaluation has been slow</li> <li>• Arrangements for staff appraisals and identifying training needs need to be implemented and applied consistently</li> <li>• Develop further workforce planning as part of service planning</li> </ul>