

Supplementary Committee Agenda



**Epping Forest
District Council**

Finance and Performance Management Cabinet Committee Monday, 26th March, 2007

Place: Committee Room 1, Civic Offices, High Street, Epping
Room: Council Chamber
Time: 6.30 pm
Committee Secretary: Graham Lunnun, Research and Democratic Services
Tel: 01992 564244 Email: glunnun@eppingforestdc.gov.uk

5.b Use of Resources Auditor Judgements 2006 (Pages 3 - 16)

To consider the attached report from the Audit Commission.

5.c Annual Audit and Inspection Letter (Pages 17 - 28)

To consider the attached letter from the Audit Commission.

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Use of Resources

Date

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Use of Resources Auditor Judgements 2006

Epping Forest District Council

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Introduction

- 1 The annual Use of Resources (UoR) assessment evaluates how well councils manage and use their financial resources. The assessment focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the Council's priorities and improve services, covering five themes.
- 2 This is the second year of carrying out the assessment and our work has focused on building on our previous year's work and updating it for any changes and improvements to the Council's arrangements.
- 3 Judgements will be made for each theme on the following scale which has been standardised by the Audit Commission across inspection and performance assessment frameworks.

Table 1 Standard scale used for assessments and inspections

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 overall score for Use of Resources assessment will be reported to the Council by the Audit Commission on 16 March 2007.

- 4 In forming our assessment, we followed the methodology set out in the Use of Resources Guidance for Councils, 2006 assessment. In particular, in order to support scores of 3 and above, we need to consider whether relevant arrangements are 'embedded' that is, they have been operating consistently with clear outputs and having an impact. For scores of 4 (performing strongly) we are required to consider whether, in addition to meeting the descriptors/criteria, councils can demonstrate innovation or best practice that can be shared with other authorities. The descriptors/criteria at level 4 have been kept to a minimum so as to avoid them becoming unnecessarily prescriptive and limiting.
- 5 In relation to future assessments, as outlined in the CPA framework documents for 2006 for district councils, the status of a number of criteria will change to 'must have status'. For information, these criteria have been summarised at Appendix 1. In order for the Council to sustain or to improve upon its current performance at the next assessment, it will need to take these criteria into consideration.

- 6 The five theme scores for Epping Forest District Council are outlined overleaf. This summary sets out our key findings in relation to each theme and key areas for improvement.

Use of resources judgements

Table 2 Summary of scores at theme and KLOE level

Key lines of enquiry (KLOEs)	Score 2006	Score 2005
Financial reporting	2	1
1.1 The Council produced annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers for 2005/06 and needs to ensure that this is repeated for the 2006/07 accounts.	2	1
1.2 The Council promotes external accountability.	3	2
Financial management	3	3
2.1 The Council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities.	3	3
2.2 The Council manages performance against budgets.	2	2
2.3 The Council manages its asset base.	3	3
Financial standing	3	2
3.1 The Council manages its spending within the available resources.	3	2
Internal control	2	2
4.1 The Council manages its significant business risks.	2	1
4.2 The Council has arrangements in place to maintain a sound system of internal control.	2	2
4.3 The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	3	3
Value for money	2	2
5.1 The Council currently achieves good value for money.	2	2
5.2 The Council manages and improves value for money.	2	1

Theme summaries

- 7 The key findings and conclusions for each of the five themes are summarised in Table 3.

Table 3 Summary of findings and conclusions by theme

<h3>Financial reporting</h3> <p>Theme score 2</p>	
<p>Key findings and conclusions</p>	
<p>The 2005/06 Accounts were produced within the statutory deadline, were presented fairly and only contained a small number of non-trivial errors. The accounts were subject to member scrutiny and an unqualified opinion was issued. Specific improvements since the 2005 assessment include no material errors and collated working papers.</p>	
<p>Improvement opportunities</p>	
<p>KLOE 1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.</p>	<p>The Council needs to ensure that the 2006/07 Accounts and supporting working papers are produced to at least the same standard so that the improvements in the accounts process can be assessed as embedded.</p> <p>Reconciliations between the main feeder systems and the general ledger should be available at the start of the audit.</p>
<p>KLOE 1.2 The Council promotes external accountability.</p>	<p>The Council needs to ensure that it can demonstrate that stakeholder views have been sought and used to inform whether or not to produce an annual report and the format it should take. This will be a requirement for the 2007 assessment to maintain the score of 3 and the process will need to be demonstrably embedded.</p>

<h2>Financial management</h2> <p>Theme score 3</p>	
<p>Key findings and conclusions</p>	
<p>The Council's medium-term financial strategy, budgets and capital programme are soundly based and are designed to deliver its strategic priorities. Performance is actively managed against budgets and the Council manages its asset base.</p>	
<p>Improvement opportunities</p>	
<p>KLOE 2.1 The Council's medium-term financial strategy (MTFS), budgets and capital programme are soundly based and designed to deliver its strategic priorities.</p>	<p>The Council should communicate the key messages from its medium term financial strategy more proactively with staff and other key stakeholders.</p>
<p>KLOE 2.2 The Council manages performance against budgets.</p>	<p>Budget profiling should be improved to reflect the likely pattern of spending and the training that has been delivered in 2006 needs to be repeated regularly according to assessed need. These will be requirements in order to maintain the same score at the next assessment.</p> <p>The Council needs to try to ensure that all significant financial risks are identified for members when the budget is set and approved, for example the risk to the continued delivery of the waste contract.</p>
<p>KLOE 2.3 The Council manages its asset base.</p>	<p>The Council needs to ensure that it is effectively measuring performance against an up to date asset management plan.</p>

Financial standing

Theme score 3

Key findings and conclusions

The Council has a good track record of maintaining a sound financial position and has now improved its systems for monitoring the effectiveness of income collection.

Improvement opportunities

KLOE 3.1 The Council manages its spending within the available resources.

Council members should set challenging targets for key financial health indicators and the opportunity cost of holding large cash balances should be explicitly considered.

Internal control	
Theme score 2	
Key findings and conclusions	
The Council actively promotes probity and propriety in the conduct of its business. Risk management arrangements have significantly improved over the past year and they are currently being embedded throughout the organisation.	
Improvement opportunities	
KLOE 4.1 The Council manages its significant business risks.	The Council should pro-actively demonstrate that it considers risk management arrangements annually and ensure that training and reporting for members with responsibility for risk management continues and can be assessed as embedded.
KLOE 4.2 The Council has arrangements in place to maintain a sound system of internal control.	The Council should ensure that the Assurance Framework system is maintained and updated so that it can be assessed as being an embedded element of the Council systems. The Council should implement its current plans to establish an effective audit committee and ensure that procedure notes for key financial systems are regularly reviewed and updated.
KLOE 4.3 The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	In order to further improve arrangements in this area the Council would need to be able to demonstrate the highest level of conduct by its staff, members and contractors. The risk of fraud could be considered more explicitly by the Council and publicity of proven fraud cases could be used to help prevent further cases in the future.

Value for money

Theme score 2

Key findings and conclusions

The Council is a relatively high spending council per head of population by comparison with other district councils or with its nearest neighbours. However, where costs are higher, this can in most cases be explained by proximity to London and other demographic factors, or attributed to being a priority for improvement. In other areas where costs were high, the Council has taken action to bring costs into line with its priorities and to improve VFM, eg Leisure services. The Council benchmarks a number of its services but has not yet made systematic use of the results to improve VFM. The council has a well-managed capital programme linked to priorities, with projects usually completed on time and on budget, but with insufficient attention to VFM and the links to corporate priorities.

The Council has concentrated on improving its understanding of the relationship between its costs and performance. Increasingly it evaluates costs when making policy decisions and arrangements have been strengthened to ensure costs reflect these decisions. Processes are in place for information on costs and performance to be collected and reviewed. The Council has adopted a comprehensive VFM Strategy supported by a VFM Analysis Tool. Information is regularly reported to officers and members and subjected to challenge. Targets are applied in order to improve VFM further, and efficiency savings can be demonstrated. Procurement is being strengthened and there are some examples of collaborative working and partnership working in order to achieve efficiency savings and improve services. Processes are not yet embedded and there is limited evidence of improved outcomes, but the Council is making progress in developing a VFM culture and its arrangements put it in a strong position to improve VFM in the future.

Improvement opportunities

KLOE 5.1 The Council currently achieves good value for money.

The Council needs to demonstrate outcomes from its improved understanding of VFM and use of benchmarking in terms of driving up performance and improving value for money, especially in priority services.

The Council should scrutinise the VFM obtained through the capital programme and its links to priorities.

<p>Value for money</p> <p>Theme score 2</p>	
<p>KLOE 5.2 The Council manages and improves value for money.</p>	<p>The Council needs to demonstrate clear benefits from its improved procurement practices and policy.</p> <p>The Council needs to be able to demonstrate that a VFM culture has been developed and embedded throughout the organisation.</p>

Appendix 1 – Criteria which will gain 'must have' status for the next assessment

New criteria in bold type ('must have') for 2006/07 assessment

- 1 This table summarises criteria that are currently included in the KLOE but are not in bold type and do not have 'must have' status, but which will have such status for the 2006/07 assessment.

KLOE	Summary of criteria
Financial reporting	
1.1	Requests for information from audit are dealt with promptly.
1.2	Summary financial information that meets the needs of a range of stakeholders is published and their views are considered in deciding whether to publish an annual report.
Financial management	
2.1	There are arrangements for monitoring cash flow.
2.1	The medium-term financial strategy is communicated to staff and stakeholders.
2.2	Profiled financial monitoring reports are produced within ten days of the month-end.
2.2	The financial performance of significant partnerships is reviewed.
2.2	There is a training programme in place for members and staff on financial issues.
2.3	A member has been allocated portfolio responsibility for asset management and local performance measures in relation to assets have been developed.

14 Use of Resources Auditor Judgements 2006 | Appendix 1 – Criteria which will gain 'must have' status for the next assessment

KLOE	Summary of criteria
Financial standing	
3.1	Collection and recovery of material categories of income is monitored.
Internal control	
4.1	Appropriate staff are trained in risk management.
4.2	Criterion in relation to effective arrangements for internal financial control, for example, carrying out regular bank reconciliations and reconciliations of major feeder systems.
4.2	Arrangements for carrying out the functions of an audit committee are effective.
4.2	Standing orders, standing financial instructions and system procedure notes are reviewed and updated as appropriate.
4.2	Criterion at level two in relation to business continuity plans as required by the Civil Contingencies Act (2004).
4.2	Governance arrangements are in place for significant partnerships.
4.3	The Council is proactive in raising standards of ethical conduct among members and staff and can demonstrate that counter fraud and corruption work is adequately resourced.

Annual Audit and Inspection Letter

Epping Forest District Council

The Audit Commission is an independent body responsible for ensuring that public money is spent economically, efficiently and effectively, to achieve high-quality local services for the public. Our remit covers around 11,000 bodies in England, which between them spend more than £180 billion of public money each year. Our work covers local government, health, housing, community safety and fire and rescue services.

As an independent watchdog, we provide important information on the quality of public services. As a driving force for improvement in those services, we provide practical recommendations and spread best practice. As an independent auditor, we ensure that public services are good value for money and that public money is properly spent.

Status of our reports

This report provides an overall summary of the Audit Commission's assessment of the Council, drawing on audit, inspection and performance assessment work and is prepared by your Relationship Manager.

In this report, the Commission summarises findings and conclusions from the statutory audit, which have previously been reported to you by your appointed auditor. Appointed auditors act separately from the Commission and, in meeting their statutory responsibilities, are required to exercise their professional judgement independently of the Commission (and the audited body). The findings and conclusions therefore remain those of the appointed auditor and should be considered within the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission.

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Our overall summary

- 1 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the findings and conclusions from the audit of the Council and from any inspections that have been undertaken in the last year. The letter includes our review of how well the Council has progressed (our Direction of Travel report) and the auditor's assessment of how well the Council has managed its finances (the Use of Resources scores). These latter components will be an important feed into any future decision regarding the potential for a rescoring the Council's Comprehensive Performance Assessment (CPA) category.
- 2 The report is addressed to the Council, in particular it has been written for councillors, but is available as a public document for stakeholders, including members of the community served by the Council.
- 3 The main messages for the Council included in this report are:
 - Performance Management within the Council has identified areas that need to improve and investment has been targeted to these areas. Demonstrable improvement has been made but further progress is required in order that this Council's performance compares well against other District Councils.
 - The Council has made good progress in developing corporate systems to assess and improve value for money across all its services.

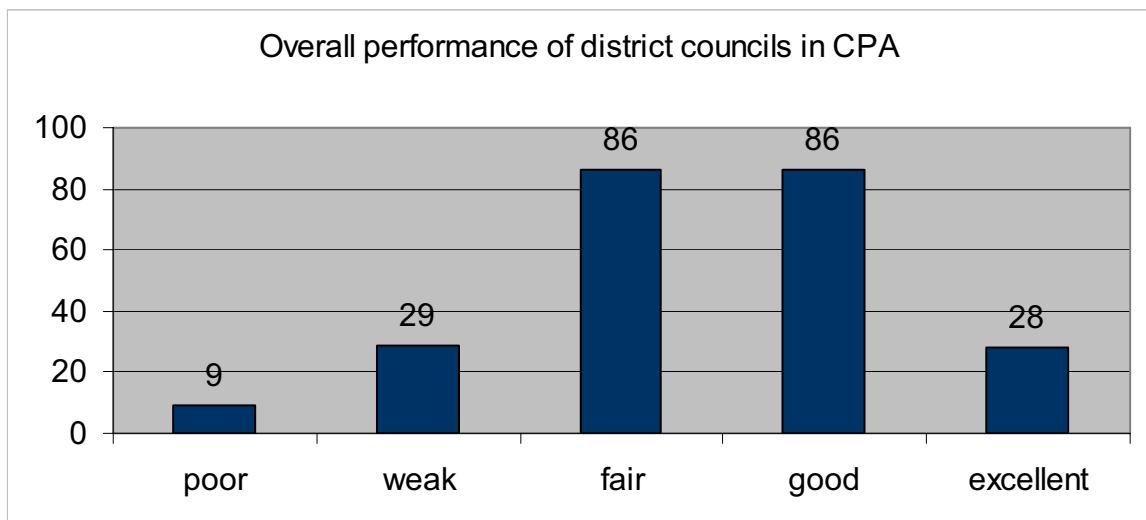
Action needed by the Council

- 4 The Council needs to ensure that progress made by the Council continues and that in areas where the Council is in the lower quartile when compared to similar Councils, progress is accelerated so that the quartile position improves.
- 5 The Council should continue to develop the systems set up to improve value for money to ensure that they have a positive and sustained impact across all services.

How is Epping Forest District Council performing?

- 6 Epping Forest District Council was assessed as Good in the CPA carried out in 2004. These assessments have been completed in all district councils and we are now starting to update these assessments, through an updated corporate assessment, in councils where there is evidence of change. The following chart is the latest position across all district councils.

Figure 1 Overall performance of district councils in CPA



Source: Audit Commission

The improvement since last year - our Direction of Travel report

Summary

- 7 Epping Forest District Council is making progress in achieving its six priority objectives, although the improvement in performance indicators is mixed, The Council engages effectively with local communities and joint working with partners is resulting in positive outcomes. It is addressing some key local issues such as waste and planning service performance and these are starting to show improvements. However, in other areas performance is not showing demonstrable signs of improvement. In common with many other councils, the Council is finding it difficult to meet the affordable housing needs of the district. Although it is working actively with partners to promote safer communities, this has not yet led to reductions in crime.
- 8 There is now clearer political leadership and direction within the Council. Performance management and risk management arrangements have been strengthened and value for money is starting to show signs of improvement. The Council is taking steps to address known weaknesses in its corporate capacity, but high levels of sickness absence remain a barrier to further improvement.

What evidence is there of the Council improving outcomes?

- 9 The Council has made progress in achieving its six priority objectives for 2006/07. For example, the Council has reviewed car parking in town centres on Saturdays and will be implementing new arrangements from April 2007. The Council has also had some success in revising proposals contained in the East of England Plan for locating 11,000 new homes in the district.
- 10 Based upon an Audit Commission basket of indicators, the Council's progress is mixed. In 2005/06, the Council improved its performance in 60 per cent of a selected range of key indicators, which is just above the average rate of improvement for all district councils of 58 per cent. However, the Council has only 18 per cent of these indicators in the best performing 25 per cent of all councils, which is well below the average of 31 per cent for all district councils.

- 11 The Council has invested resources in poorly performing services, with some success. Additional investment has reduced the time taken to process benefit claims and change of circumstances. Planning performance remained in the lowest 25 per cent of all councils during 2005/06 and was below government standards for major and minor applications. Consequently, the Council was designated as a Planning Standards Authority¹ in 2006/07 in these two categories. However, the Council took action to address known weaknesses. Consequently, the Council's own data for 2006/07 is now showing a marked improvement in planning performance and the Council will no longer be designated as a Planning Standards Authority from 2007/08.
- 12 The Council has responded to and addressed problems with waste management following the contractor operating the service on behalf of the Council going into administration. The Council arranged to continue the service without interruption, although at a higher initial cost. The Council has now secured some service improvements leading to better value for money in this area.
- 13 Progress in waste collection and recycling is varied. The volume of waste collected in 2005/06 fell and performance was above average. The Council recycled 23.5 per cent of waste in 2005/06, which was only a slight increase from the previous year and fell short of the target of 30 per cent set by the Department for Environment, Food and Rural Affairs. In addition, the percentage of properties covered by kerbside collections is declining. The Council has responded to these challenges. In late 2006 the Council changed the collection methods and recent data is now indicating much-improved recycling performance.
- 14 Performance on housing issues is mixed. The Council is making progress on meeting the decent homes standard and has taken steps to help people off the waiting list into privately rented accommodation. However, the Council is also facing challenges in meeting its own targets in providing affordable homes due to the complexity and high cost of the local housing market. It has sought to address this by adopting a range of measures including the provision of increased levels of affordable housing on development sites in the district through alterations to the Local Plan
- 15 The Council works well with a range of partners to secure improvements for the local community. Joint working with local health services have secured better co-ordinated services and care packages for elderly residents. The Council also works with the Epping Forest Children and Young People's Partnership and Essex County Council to deliver services for young people. Notable examples include supporting drop in centres and providing grants for sports facilities.

¹ A Planning Standards Authority (PSA) is a Council that is under special monitoring arrangements by the Department for Communities & Local Government (DCLG) for not meeting government planning targets in one or more categories of BVPI 109. The Council has to agree an improvement plan with DCLG and remains designated as a PSA until performance shows improvement and this is sustained over a period of time.

- 16 The Council is working actively with partners to promote safer communities, although this has not yet led to improved performance. In conjunction with partners, the Council is implementing a neighbourhood policing action plan, providing CCTV and funding six Police Community Support Officers. However, data for 2005/06 shows that robberies, burglaries and motor crime are increasing sharply and are in the lowest 25 per cent of all councils.
- 17 The Council has enhanced arrangements for consulting with, and engaging local people. It has adopted a new Public Consultation and Engagement Strategy and Policy in 2006. The Council has improved its website and introduced web casts of significant meetings from April 2006, which is having an increasing number of viewers. The Council, in conjunction with stakeholders and partners, has also undertaken work to identify the service needs of diverse communities such as the disabled, young people, older people and travellers. This is starting to show some practical outcomes and benefits for local people.
- 18 The Council has listened to local residents and stakeholders and responded. For example, it consulted local residents following concerns about revised waste collection frequencies and re-instated a weekly collection during the summer period. The findings from this exercise were used to plan the waste service specification for the re-tendering exercise. The Council has also introduced static cleansing teams and revised frequencies in town centres in response to residents' concerns. As a result, cleansing standards have improved.
- 19 The Council is making slow progress on equality issues. It has now achieved level 1 Equality Standard and completed impact assessments of services. The Council's duty to promote racial equality is now showing some signs of improvement, but overall performance remains below average.
- 20 Value for money is starting to show signs of improvement. The Council has introduced a Value for Money Strategy and awareness of service costs has improved. The overall spend per head on services is reducing down towards the average for similar Councils, although costs currently remain high in some key services such as planning.
- 21 The Council is taking steps to improve the cost and quality of services. The management of the Council's leisure centres was transferred a private sector partner in January 2006 and this has resulted in improvements in user participation, costs and service delivery. The Council is also in the process of re-tendering the waste services contract with the aims of delivering lower costs and service enhancements.

How much progress is being made to implement improvement plans to sustain future improvement?

- 22 The Council has strengthened its plans to help achieve wider community ambitions. A new Council Plan was adopted in 2006 that covers the period up to 2010. This now follows more closely the aims of the Community Strategy and priorities of the Essex Local Area Agreement. The Council has developed a range of actions and targets designed to achieve these priorities. Service plans now have links to the Council Plan.

- 23 There is now a clearer political leadership and direction within the Council. After a period of no overall control, a new administration was formed in May 2006, which gained a majority in December 2006. This has provided a clearer focus and the Council is now better able to make difficult decisions. An example of this was the decision to defer the customer services transformation project until the costs of the new waste contract became clear.
- 24 Performance management is developing. The Council has reviewed performance management arrangements in line with the Council Plan. It monitors 57 indicators against which performance in key areas is measured, although in some areas this is only done on an annual basis which limits its effectiveness. A new monitoring system introduced in June 2006 enables officers and Councillors to concentrate on those areas of performance that will make a difference to local people.
- 25 The Council is making progress on delivering the actions in the CPA improvement plan. Most have been completed, but a few are behind schedule or not yet achieved, for example the introduction of e-procurement.
- 26 The Council has strengthened its risk management arrangements. This is included as part of all service plans and a corporate Risk Management Strategy. There are now systems in place to ensure that councillors review risks on a regular basis and take necessary action to mitigate risks to the Council's business.
- 27 The Council is taking steps to address known weaknesses in its corporate capacity. For example, it has recently started to review its top management structure to ensure that the arrangements are fit for purpose by summer 2007. The Council continues to address recruitment and retention issues through a range of initiatives including the use of trainee posts and appointments to address specific skills needs. Examples include appointing a Learning and Development Adviser and strengthening the capacity of the Performance Management Unit.
- 28 Sickness absence remains a challenge for the Council. In 2005/06, the average was 10.66 days lost per employee. This showed no improvement over the previous year and was below average compared to other district Councils. Councillors have highlighted this as a concern and have taken action. However, this has not yet led to discernable reduction in sickness and remains a potential threat to the capacity of the Council to deliver effective services.

Financial management and value for money

- 29 As your appointed auditor I have reported separately to the Finance and Performance Management Cabinet Committee on the issues arising from the 2005/06 audit and have provided:
- an unqualified opinion on your accounts;
 - a conclusion on your value for money arrangements to say that these arrangements were adequate except in respect of meeting the following criteria:
 - the body has put in place arrangements to manage its significant business risks; and
 - the body has put in place arrangements to manage and improve value for money.

Since issuing this opinion the Council has made good progress in developing its arrangements for risk management and to manage and improve value for money.

- a report on the best value performance plan confirming that the plan has been audited and complies with the statutory requirements.
- 30 The findings of the auditor are an important component of the CPA framework described above. In particular the Use of Resources score is derived from the assessments made by the auditor in the following areas.
- Financial Reporting (including the preparation of the accounts of the Council and the way these are presented to the public).
 - Financial management (including how the financial management is integrated with strategy to support council priorities).
 - Financial Standing (including the strength of the Council's financial position).
 - Internal Control (including how effectively the Council maintains proper stewardship and control of its finances).
 - Value for money (including an assessment of how well the Council balances the costs and quality of its services).
- 31 For the purposes of the CPA I have assessed the Council's arrangements for use of resources in these five areas as follows.

Table 1

Element	Assessment
Financial reporting	2 out of 4
Financial management	3 out of 4
Financial standing	3 out of 4
Internal control	2 out of 4
Value for money	2 out of 4
Overall assessment of the Audit Commission	2 out of 4

(Note: 1=lowest, 4=highest)

32 The key issues arising from the audit, as reflected in the above judgements where appropriate, are as follows:

- Financial Reporting arrangements have improved significantly since our previous assessment and the Council should now ensure that this continues for the 2006/07 accounts process.
- Financial management arrangements continue to be well managed within the Council.
- The Council has a good track record of maintaining a sound financial position and has now improved its systems for monitoring the effectiveness of income collection.
- The Council actively promotes probity and propriety in the conduct of its business. Risk management arrangements have significantly improved over the past year and they are currently being embedded throughout the organisation.
- The Council is a relatively high spending council per head of population, although where costs are higher this can generally be explained (for example by proximity to London or where an area is a priority for improvement). The Council has also taken action to improve value for money, for example in leisure services.
- The Council has concentrated on improving its understanding of the relationship between its costs and performance. The Council has adopted a comprehensive Value for Money Strategy supported by a Value for Money Analysis Tool. Procurement is being strengthened and there are some examples of collaborative working and partnership working in order to achieve efficiency savings and improve services.

Conclusion

- 33 This letter has been discussed and agreed with Peter Haywood, Joint Chief Executive. A copy of the letter will be presented at the Finance and Performance Management Cabinet Committee on 26 March 2007.
- 34 The Council has taken a positive and constructive approach to our audit and inspection I would like to take this opportunity to express my appreciation for the Council's assistance and co-operation.

Availability of this letter

- 35 This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website.

Paul King
Relationship Manager