

Use of Resources Audit Score Feedback

Harrogate Borough Council

Audit 2005-2006

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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

www.audit-commission.gov.uk

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Introduction

- 1 The annual Use of Resources (UoR) assessment evaluates how well councils manage and use their financial resources. It is a more stringent test than the auditor scored judgements that formed part of the comprehensive performance assessment (CPA) framework up until 2004. The scope of the assessment has also been widened.
- 2 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.
- 3 Previously, 'adequate arrangements' were sufficient to score 3, but under the new approach meeting 'adequate performance' will score 2. Scoring is based on the following scale.

1	Below minimum requirements – inadequate performance
2	At minimum requirements – adequate performance
3	Consistently above minimum requirements – performing well
4	Well above minimum requirements – performing strongly

- 4 The overall score for Use of Resources was reported to the Council by the Audit Commission on 13 March 2006. The overall score for Harrogate Borough Council is 2. The scores for Harrogate Borough Council for the five themes are outlined overleaf.

Summary scores for each theme

Key Lines of Enquiry (KLoE)	Score
Financial reporting	3
1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.	3
1.2 The Council promotes external accountability.	2
Financial management	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
2.2 The Council manages performance against budgets.	2
2.3 The Council manages its asset base.	3
Financial standing	2
3.1 The Council manages its spending within the available resources.	2
Internal control	2
4.1 The Council manages its significant business risks.	2
4.2 The Council has arrangements in place to maintain a sound system of internal control.	3
4.3 The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	2
Value for money	2
5.1 The Council currently achieves good value for money.	2
5.2 The Council manages and improves value for money.	2
Overall score for Harrogate BC	2

Theme summaries

- 5 The key findings and conclusions for each of the five themes are summarised below. The improvements required to meet the next level, against individual key lines of enquiry, are also included. ('Non-bold' refers to criteria not met which did not affect the level attained.)

Financial reporting

Financial reporting
Overall score 3

Key findings and conclusions

KLOE 1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.

The accounts presented for audit were in accordance with required timetable and the timetable agreed with audit. They complied with the SORP and contained no material errors or misstatements.

An unqualified opinion has been given and there was nothing to report under SAS 610.

The accounts working papers were of a good standard and audit requirements were complied with. Appropriate staff were available to deal with audit queries.

Comprehensive closedown procedures were in place and Council has been proactively working towards earlier targets in each of the last three years.

The report accompanying the accounts for approval contained good explanatory information and helped to enable a robust discussion.

The accounts were advertised in accordance with requirements.

KLOE 1.2 The Council promotes external accountability.

Council and Committee Agendas/Reports etc are available on the Council's website, and are kept up-to-date. The 2004/05 audited accounts are also available on the website (unaudited accounts were available prior to conclusion of audit). The 2003/04 Annual Audit and Inspection Letter is also available.

No consultation has been undertaken with stakeholders on their requirements for an annual report/summary accounts, although the summary of accounts does give contact details for anyone who would like to comment on how the Council could improve the information contained within them (or the full statement of accounts).

The Council does not publish an annual report, although the summary of accounts appears to meet these requirements.

The summary of accounts and Statement of Accounts are not made available in a variety of formats to meet local needs.

Financial reporting Overall score 3	
Improvements needed to move to next level	
KLOE 1.1.13 The quality of the working papers provided was exemplary. (4)	<p>There are opportunities to develop working papers (w/ps) towards exemplary, so that:</p> <ul style="list-style-type: none"> • each line in the consolidated revenue and Housing Revenue Accounts and balance in the balance sheet is fully supported at the start of the audit by w/ps which have been subject to an evidenced quality assurance review; and • the trail from ledger to accounts and w/ps to cashflow is clearer.
KLOE 1.2.4 A process of consultation has been carried out with a range of stakeholders to establish their requirements in respect of the publication of summary accounts or an annual report. (3)	<p>Improve consultation on stakeholder requirements in relation to the summary of accounts or an annual report by targeting a cross section of stakeholders and asking them to feed back their views.</p>
KLOE 1.2.9 The annual report is available in a wide variety of formats to meet local user needs (eg different languages, large print, speaking version). (4)	<p>The annual report (summary of accounts) should be made available in a variety of formats to meet local user needs.</p>

Financial management

Financial management

Overall score 3

Key findings and conclusions

KLOE 2.1 The Council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities

A three-year medium term financial strategy (MTFS) is in place. It is reviewed annually. The Council has aligned internal resource allocation to corporate priorities within the Council Plan. The integration of business planning and financial planning is firmly established within Harrogate's Corporate Planning Timetable, with clear linkages with Departmental and Service Plans.

Risk assessments and capital investment planning are undertaken as part of producing the Corporate Business Plan, with consultation with stakeholders also implemented. However, Sensitivity Analysis has not been undertaken as part of the planning process.

The MTFS is linked to other internal policies and strategies for example Asset Management, Information and Technology and People Management strategies.

The Council has not specified joint plans agreed with partners and other stakeholders in the MTFS. The MTFS does not model balance sheets and cashflows over a minimum of three years.

Revenue budgets are based on transparent projections on key variables. The capital programme is primarily focused at on the Royal Hall project. Capital schemes are assessed for affordability based on annually reviewed prudential indicators.

Budget holders are involved in the budget-setting process, with member review of the budget through the Resources Overview and Scrutiny Committee. Revenue and Capital budgets are assigned and controlled by appropriate managers. Cashflow forecasts are produced on a regular basis during the year.

KLOE 2.2 The Council manages performance against budgets

The design and operation of the key controls within the budgetary control system continues to be sound. This and other key financial systems are tested by Internal Audit (IA).

Members receive accurate and timely information on financial performance including predicted year-end outturn. Individual departments' outturn position reported no significant material overspend/underspend. Where significant variances occur, these are reported to members with actions identified to manage and minimise the impact on service delivery. It is unclear whether budget monitoring includes links to operational activity indicators or is based on a risk assessment.

Relevant non-financial and financial information, in addition to the Budget, has been reported to and used by senior officers. There is scope to improve this further. Some financial and non-financial information is reported to members (together) eg for Housing but this is not routinely available for other services.

Financial management**Overall score 3**

Planned savings/efficiencies are assessed as part of annual budget with both cash and non-cash savings routinely reported with budget monitoring to Corporate Management Team.

Financial Procedure rules specify strict authorisation levels for the virement of budgets.

KLOE 2.3 The Council manages its asset base

The Council has developed a programme of capital projects. These are costed for both capital and revenue implications taking medium-term costs into account.

The Council has an up-to-date Asset Management Plan (AMP) and capital strategy, with a new AMP due in 2006. The capital strategy is linked to the Council Plan. The AMP is supported by an up-to-date asset register.

All projects within the capital programme are assessed against the delivery of the Council Plan and prioritised accordingly. This assessment process will be further enhanced, using a weighted scoring system, from March 2006. Option appraisal is carried out for all major capital schemes including whole life costing.

Routine programmes of surveys are carried out to assess the level of backlog maintenance, and plans are in place to reduce maintenance for Council's property portfolio.

Although the Council has developed local performance measures in relation to assets the link of asset use to corporate objectives requires further development.

Benchmarking is not used to describe and evaluate how the council's asset base contributes to the achievement of corporate and service objectives, including improvement priorities.

The Council communicates the results of performance measurement to stakeholders, as demonstrated through reporting performance in the AMP. Although Harrogate are active members of the North Yorkshire Asset/Property Management Club, results from benchmarking are not communicated to stakeholders or used to describe and evaluate how the Council's asset base contributes to the achievement of corporate and service objectives, including improvement priorities.

Financial management Overall score 3	
Improvements needed to move to next level	
<p>KLOE 2.1.15 The corporate business plan projects forward at least three years and takes account of each of the following:</p> <ul style="list-style-type: none"> • sensitivity analysis (3 non-bold). <p>(The remainder of the KLOE was met.)</p>	<p>Undertake a formal sensitivity analysis within the Corporate Business Planning process.</p>
<p>KLOE 2.1.21 The medium-term financial strategy describes in financial terms joint plans agreed with partners and other stakeholders. (4)</p>	<p>Incorporate financially based plans agreed with partners and other stakeholders within the MTFS.</p>
<p>KLOE 2.1.22 The medium-term financial strategy models balance sheets and cashflows over a minimum of three years. (4)</p>	<p>Incorporate balance sheet and cashflow projections over a minimum of three years within the MTFS. It is acknowledged that this may be too time-consuming for the likely benefit obtained.</p>
<p>KLOE 2.1.25 The Council monitors and can demonstrate how its financial plans and strategies have contributed to the achievement of its corporate objectives. (4)</p>	<p>Develop further the outcomes arising from financial plans and strategies to demonstrate the achievement of corporate priorities.</p>
<p>KLOE 2.2.13 The Council's financial information systems have flexible reporting tools to enable specialist reports to be designed. (3 non-bold.)</p>	<p>The new Financial Management System should address this.</p>
<p>KLOE 2.2.16 Relevant non-financial and financial information, in addition to the budget, is reported to members and acted upon. (3)</p> <p>KLOE 2.2.18 The Council's budget monitoring is:</p> <ul style="list-style-type: none"> • related to operational activity indicators that are lead indicators of spend; and • informed by a risk assessment. (3) 	<p>Budget monitoring information could include operational activity indicators and be based on a risk assessment to determine the areas of greatest risk to focus attention on. There is also scope to provide more joined up information to members of financial and non-financial information, as already provided for Housing.</p>

Financial management Overall score 3	
Improvements needed to move to next level	
<p>KLOE 2.2.21 The Council ensures through regular testing of its financial systems that the report outputs are timely, accurate, reliable, clear, in a convenient format (hard copy and online, in summary and in detail, as appropriate) and readily understood by their recipients. (4)</p> <p>KLOE 2.2.24 The Council consults with, advises and trains users so that it develops and provides the financial information systems to meet their needs. (4)</p>	<p>There are opportunities for the Council to develop a consultation process to ensure that the financial information systems and reports meet the needs of users.</p>
<p>KLOE 2.2.23 The Executive receives fully accrued financial monitoring reports on a quarterly basis including appropriate revenue account and balance sheet items. (4)</p>	<p>Financial monitoring reports to Cabinet and CMT to include the reporting of all balance sheet items. It is acknowledged that this may be too time-consuming for the likely benefit obtained.</p>
<p>KLOE 2.2.25 Savings and efficiency gains are profiled over the year and there is monitoring throughout the period by members to ensure their achievement. (4)</p>	<p>Work is underway on this.</p>
<p>KLOE 2.3.11 The Council has developed a set of local performance measures in relation to assets that link asset use to corporate objectives. (3 non-bold)</p>	<p>There are opportunities for Harrogate to develop local performance measures in relation to assets that link asset use to corporate objectives.</p>
<p>KLOE 2.3.13 Performance measures and benchmarking are being used to describe and evaluate how the Council's asset base contributes to the achievement of corporate and service objectives, including improvement priorities. (4)</p>	<p>The use of benchmarking by the Council should be further developed.</p>
<p>KLOE 2.3.14 The results of performance measurement and benchmarking are communicated to stakeholders where relevant. (4)</p>	<p>The results of benchmarking exercises could be communicated to stakeholders as appropriate.</p>

Financial management Overall score 3	
Improvements needed to move to next level	
KLOE 2.3.15 The Council has developed an approach for the co-ordination of asset management information and its integration with relevant organisational financial information. (4)	Some examples seen but approach needs to be widened and more formalised.

Financial standing

Financial standing Overall score 2	
Key findings and conclusions	
<p>The Council maintains its spending within overall budgets, although individual services have budget variations.</p> <p>Council maintains reserves within the set parameters.</p> <p>Positive assurance is provided to members about the adequacy of reserves as part of the budget setting process.</p> <p>Treasury Management Strategy reflects the requirements of the CIPFA Code of Practice for Treasury Management in the Public Services.</p> <p>The Council has identified target levels for reserves and balances. These levels are risk assessed via a working balance risk register. However, at the time of this audit, this had only recently been established and had yet to be approved or fully embedded. This was subsequently approved in February 2006 (for 2006/07).</p> <p>Monitoring information that evaluates the cost of not recovering sundry debt promptly or the cost effectiveness of current recovery action could be further developed.</p>	
Improvements needed to move to next level	
<p>KLOE 3.1.10 The Council has identified target levels for reserves and balances that are based on a thorough understanding of its needs and risks, including its treasury management strategy and is meeting these targets. (3)</p> <p>KLOE 3.1.13 The Council monitors the opportunity costs of maintaining its levels of reserves and balances and compares these to the benefits it accrues. (4)</p>	<p>Approval of working balance risk register by members (subsequently done February 2006) and to be embedded in working practices.</p>
<p>KLOE 3.1.11 Monitoring information is available that evaluates the effectiveness of recovery actions, associated costs, and the cost of not recovering debt promptly. (3)</p>	<p>Monitor and report the cost effectiveness of sundry debt collection procedures.</p>

Internal control

Internal control
Overall score 2

Key findings and conclusions

KLOE 4.1 The Council manages its significant business risks

A risk management strategy has been adopted and the Council is currently re-formatting its corporate risk register so that the risks included more explicitly align to corporate objectives and have assigned ownership following the recent corporate restructure. This restructure means that the process was not reviewed in 2004, and work is currently underway to review and update the procedures. This includes using the Council's new performance management system (Covalent) to make risk management more accessible and usable across the Council.

The Audit Committee has been given responsibility but has not yet received training or considered reports from which they can ensure risks are being actively managed. This is planned for 2006. Cabinet members were provided with risk management training when the risk management project was implemented in 2003.

Risk registers and matrices are being used by departments, and reports to support strategic decisions and project initiation contain these assessments. The Leader and the Chief Executive are assigned champions, and in particular the Chief Executive gives significant support to the risk management process.

The Council has some good risk management processes in place, but is aware that these need improving. Therefore it is currently in the process of reviewing these and developing improved arrangements that will take them onto the next level.

KLOE 4.2 The Council has arrangements in place to maintain a sound system of internal control (SIC)

The Council has good arrangements in place for compiling the SIC, including an assurance framework that provides members with information to support the SIC.

The Council has an internal audit function that operates in accordance with CIPFA guidelines.

The Resources Overview and Scrutiny Committee have adopted the remit of an audit committee and holds specific meetings to undertake that remit. Some training has already been provided in relation to this role and more is planned.

Standing Orders, Financial Regulations and a Scheme of Delegation are in place, although these have only recently been reviewed and updated after being in place for a number of years.

Internal Audit and other officers have stated that procedure notes/manuals are in place for business critical systems. The Council has provided a comprehensive list of these systems and can demonstrate that the documents are in place. No assessment of business critical systems has been done since the Year 2000 exercise, although critical functions are now being identified for business continuity planning. Therefore, procedure notes require reviewing and updating as necessary.

Internal control
Overall score 2

Key findings and conclusions

Discussion with the Monitoring Officer indicates that there is no formal set process to ensure that all reports to members are formally considered for legal issues before presentation, although in practice there are actions taken and representation on relevant committees that would pick up any significant legal issues in relevant reports. We are therefore satisfied that all reports with legal implications are reviewed prior to decisions being made.

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

The Council has adopted a code of conduct for members that is signed up to, and compliance is assessed through the Standards Committee. The Standards Committee also receives an annual report outlining cases referred to the Standards Board for England and the outcome/action taken, but this could be improved through undertaking a wider formal assessment of standards of conduct for example assessing the reasons for the referrals and what can be learnt from them to ensure improvements are made where necessary.

There is also a staff code of conduct.

Internal Audit carried out a review of officer gifts, hospitality and interests registers which the Chief Executive reviews. The member registers are up-to-date.

The Council has a counter fraud and corruption strategy that was updated and approved by a Cabinet Member in December 2004. Proactive counter fraud work is undertaken by the benefits fraud team. Internal Audit is in the process of reviewing their risk assessment methodology so that more proactive work in this area can be planned where the relative risks dictate. Information on the outcomes of counter fraud work has not been publicised within the Council for some time. Benefit fraud by claimants is by far the biggest risk and that the incidence of non-benefit fraud is very minor in comparison.

The Council has established a thorough process to follow up all NFI matches and liaise with other organisations, which has identified benefit overpayments of £12,000 and resulted in a prosecution.

A whistleblowing policy is in place, but some of the contact information is in need of an update and the Council acknowledges that it would be worthwhile to re-launch this in 2006.

Internal control Overall score 2	
Key findings and conclusions	
Improvements needed to move to next level	
<p>KLOE 4.1.6 The risk management process is reviewed and updated at least annually. (3)</p> <p>KLOE 4.1.8 All staff have been give appropriate training and guidance to enable them to take responsibility for managing risk within their own working environment. (3 non-bold)</p> <p>KLOE 4.1.9 The members with specific responsibility for risk management have received risk management awareness training. (3)</p> <p>KLOE 4.1.10 The member committee with responsibility for risk management receives reports at least quarterly and takes appropriate action to ensure that corporate business risks are being actively managed, including reporting to full Council at least annually. (3)</p>	<p>The Council's risk management arrangements are adequate and work is underway to improve them. To move forward there now needs to be an annual review and update, but more importantly the members of the Audit Committee and staff should be given risk training and the Audit Committee provided with quarterly reports on risk which they can then comment on, as is planned for 2006.</p> <p>Following from this, all staff and all members should receive training and further SWOT analysis and reviews/ updates of registers should be done regularly at all levels, so that the process becomes embedded throughout the Council.</p>
<p>KLOE 4.2.15 The member group provides effective leadership on audit and governance issues. It is proactive and has a forward looking programme of meetings and agenda items to ensure comprehensive coverage of all responsibilities in relation to the internal control environment. (3 non-bold.)</p>	<p>4.2.15 is being addressed but it is too soon to provide evidence.</p>
<p>KLOE 4.2.16 The procedure notes/manuals for those systems identified by the Council as being business-critical are reviewed and updated at least annually. (3 non-bold.)</p>	<p>The procedure notes for business critical systems need to be reviewed and updated as necessary.</p>

Internal control Overall score 2	
KLOE 4.2.19 The assurance framework is fully embedded in the Council's business processes. (4)	Not yet fully embedded. There is much more awareness of the process at the centre than in more devolved departments.
KLOE 4.2.20 The Council can demonstrate corporate involvement in/ownership of the process for preparing the SIC. (4)	There is CMT involvement. There is an acknowledgement that the new structure means that this now needs to include Heads of Service.
KLOE 4.2.21 There is an audit committee which is constituted as a full committee of the Council and is independent of both the Executive and Scrutiny functions. (4)	This is not in place.
KLOE 4.2.22 The Council has taken steps to ensure that the audit committee chair either has previous knowledge of, or has received appropriate training on, financial and risk management, accounting concepts and standards, and the regulatory regime. (4)	Some training provided but this is a basic introduction to the role and scope of an AC and what IA is/does and the role of the AC in monitoring IA these areas. More training is planned that will cover some of these areas, but not such as accounting concepts and standards.
KLOE 4.2.24 The Audit Committee has terms of reference which are reviewed on an annual basis, taking into account relevant governance developments and how it integrates with other committees within the Council. (4)	Audit Committee not yet in place for full year and ToR not yet reviewed.
KLOE 4.2.25 The standing orders, standing financial instructions and scheme of delegation make specific reference to partnerships. (4)	No reference to partnerships at present. Should be reviewed.
KLOE 4.2.26 Partnership agreements are subject to regular review and updating. (4)	The 'partnerships audit' identified that agreements are in place, but are they reviewed?

Internal control Overall score 2	
KLOE 4.3.11 The Council has undertaken an assessment of standards of conduct, including how effectively members are complying with the code of conduct, the number and types of complaints received, and takes action as appropriate. (3)	Undertake formal assessment of standards of conduct and document action taken to address.
KLOE 4.3.14 The Council undertakes proactive counter fraud and corruption work which is determined by a formal risk assessment. (3)	More proactive counter fraud and corruption work should be developed via a formal risk assessment. Internal Audit's risk assessment methodology is already being reviewed to see whether there should be more proactive non-benefit counter fraud and corruption work on the basis of relative risks.

Value for money

Value for money

Overall score 2

Key findings and conclusions

KLOE 5.1 The Council currently achieves good value for money

The Council has a clear understanding of how its costs and council tax levels compare with others and has a policy to control council tax increases. Both council tax levels and overall service costs are slightly above nearest neighbour averages.

Local factors contribute to the high level of costs in some services. The need to provide services in a large rural area has a negative impact on the costs of services such as refuse collection and sport and recreation, although the Council is unable to quantify the financial impact.

The Council's performance is mixed in terms of the quality of service delivered against the investment made.

Whilst some services deliver good value for money, others perform relatively poorly despite above average costs.

In some areas the Council has been successful in improving performance through targeted investment, but has been less successful in others.

Overall user satisfaction is above average. Variations in satisfaction with individual services generally reflect the level of investment made and the quality of service provided.

There is general alignment between spending patterns and policy decisions and priorities, although the Council recognises the need to make the process more robust and transparent.

High cost services such as sport and recreation, parks and gardens, waste collection and planning reflect policy decisions, although the Council cannot always demonstrate that desired outcomes have been delivered as a result.

Major projects are supported by robust business cases which take account of long term implications for the Council. There are examples of positive outcomes being delivered.

The Council has a well managed capital programme with most projects completed on time, although recognises the need to strengthen links with corporate priorities.

Value for money
Overall score 2

KLOE 5.2 The Council manages and improves value for money

The budget planning process is informed by consultation and national and local priorities. High costs in some services have been challenged and members are beginning to take a more active role in challenging value for money, although this is still developing.

Regular performance monitoring takes place but the lack of integrated operational and financial performance undermines the focus on value for money.

Past service reviews have resulted in improved value for money. The proposed programme of service reviews will reflect the outcomes of the Council's 2005 corporate planning process.

There is a stronger challenge to value for money in respect of one-off projects. Business plans include clear targets to be achieved in return for the investment made.

Information on equity is used to promote access and value for money across many Council services.

National efficiency targets for 2004/05 and 2005/06 have been met, although some performance management systems need to be developed to ensure that all non-cash efficiencies can be captured.

The Council's long-standing process for identifying financial savings has provided a basis for identifying savings to meet national efficiency targets. The Council is reviewing its approach to ensure future efficiencies are policy, rather than finance, driven.

The Council can demonstrate savings from improved procurement of internal supplies and services. It is also using modern procurement practices in managing and delivering major projects. Long-term, 'whole life' costs are taken into account when considering the implications of such projects.

However, the Council has not yet developed a strategic, corporate approach to procurement in respect of the delivery of its core services to the public. Despite the high costs of some services such as refuse collection, procurement has not been used consistently as a tool to test value for money.

The Council makes good use of external funding and takes account of the implications of time-limited funding running out. It takes a structured approach to ensure that external funding is targeted at priorities.

Value for money Overall score 2	
Improvements needed to move to next level	
KLOE 5.1 The Council currently achieves good value for money.	<p>Develop a clearer understanding of the financial impact of local factors to enable clearer assessments of value for money to be made.</p> <p>Use this understanding to target high cost services and develop action plans to improve cost effectiveness.</p> <p>Review processes for resource allocation in the light of the recently revised corporate priorities to ensure strong, transparent links between resources and priorities. This applies equally to revenue and capital expenditure.</p> <p>Review the role of services like sport and recreation in delivering the revised corporate priorities.</p> <p>Develop mechanisms for capturing outcomes achieved to ensure that value is delivered to justify investment in the service.</p>
KLOE 5.2 The Council manages and improves value for money.	<p>Develop performance monitoring processes to integrate financial and operational performance, including feedback from service users.</p> <p>Continue to develop processes for engaging elected members in monitoring, managing and challenging value for money.</p> <p>Re-introduce a programme of service reviews as a means of improving value for money. The programme should target high spending services linked to the Council's revised corporate priorities.</p> <p>Ensure that the revised equalities and diversity strategy is applied to ensure that the needs of all sectors of the community are taken into account in delivering value for money across all services.</p> <p>Continue to develop the Council's approach to ensure that efficiencies are policy, rather than finance, driven.</p> <p>Develop a corporate procurement strategy which complies with the National Procurement Strategy for local government.</p> <p>Ensure that it is applied to challenge value for money across all services.</p>