

Use of resources

Guidance for councils

The Audit Commission is an independent body responsible for ensuring that public money is spent economically, efficiently and effectively, to achieve high-quality local and national services for the public. Our remit covers more than 12,000 bodies in England, which between them spend £100 billion of public money each year. Our work covers local government, housing, health, community safety and fire and rescue services.

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Introduction

- 1 The use of resources judgement assesses how well the council manages and uses its 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. It covers:
 - financial reporting;
 - financial management;
 - financial standing;
 - internal control; and
 - value for money.
- 2 The value for money element will complement work completed by councils in producing their annual efficiency statements and avoid unnecessary duplication of effort on the part of councils. Auditors will be reviewing, as part of the value for money assessment, councils' annual efficiency statements setting out the efficiency gains delivered under the 'Gershon' efficiency review. Auditors will not provide specific assurance on the annual efficiency statement. However, in reporting back to the council on the results of their value for money assessment, they will, from 2006, report by exception where they have specific concerns about the process followed by the council in compiling the efficiency statement or where the statement is not consistent with the auditor's knowledge of the council obtained through other audit work. Efficiency gains supported by appropriate evidence and any concerns will anyway be reflected in the auditor's overall value for money assessment.
- 3 From 2005/06 auditors' reviews of the process followed by the council in compiling the annual efficiency statement will help to inform the conclusion on audited bodies' arrangements to secure economy, efficiency and effectiveness in their use of resources as required under the new Code of Audit Practice (the Code).
- 4 The use of resources assessment will be conducted annually in all councils. It has been significantly revised from that used in previous single tier and county council CPA assessments and the auditor judgements that were used in District CPA. The revised use of resources assessment will offer stronger judgements on financial reporting, financial management, internal control, and financial standing. The questions on which the

judgements will be based are broader and more strategic in their nature and reflect the impact of financial arrangements as well as the adequacy of those arrangements. The value for money judgement will draw on a self~assessment by the council. The higher standards reflect a widespread view that the previous criteria did not sufficiently differentiate between varied levels of performance. They also reflect the principle of continuous improvement and will help establish clear minimum requirements that will provide the foundation for reducing regulation in the future.

- 5 The overall use of resources score will be based on combining auditors' scores for each of the areas covered. The score will be on the following scale:
4 = well above minimum requirements – performing strongly
3 = consistently above minimum requirements – performing well 2
= at only minimum requirements – adequate performance 1 =
below minimum requirements – inadequate performance
- 6 Each judgement 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.
- 7 Auditors will undertake fieldwork for the use of resources assessment in single tier and county councils during August and September, with the value for money self~assessment issued to councils in early June and to be returned by the end of July. Results will be reported in mid~December. A longer timescale applies for district councils, with self~assessments to be returned by the end of September, and fieldwork to be completed by mid~January. Reporting will be at the end of March.

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Links with Code of Audit Practice

- 8 Under the new Code of Audit Practice from 2005/06, in addition to their opinion on the accounts, auditors will be required to give a positive conclusion as to whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the value for money conclusion). The scope of these arrangements is defined in the new Code as comprising corporate performance management and financial management arrangements. The auditor's value for money conclusion will be limited by reference to 'criteria specified by the Audit Commission'.
- 9 The Commission has developed a set of criteria covering 12 aspects of councils' arrangements, on the basis of which auditors will give their value for money conclusion. The criteria for eight of these aspects link directly to the key lines of enquiry (KLOEs) to be applied in forming the use of resources judgements. The criteria for the other four aspects relate to performance management arrangements and data quality and are not therefore covered by the use of resources judgements. For the purposes of the value for money conclusion required by the Code, auditors will be required to address a 'yes/no' question – the council either has proper arrangements or it doesn't – but for their use of resources judgements auditors will be required to deliver qualitative judgements about how good or effective those arrangements are. In addressing the question of proper arrangements, auditors will be required to apply the relevant use of resources criteria that define a score of level 2 (only at minimum requirements – adequate performance). Where a council fails to achieve a score of level 2 for any of the key lines of enquiry that are directly linked to the eight Code criteria, the auditor will qualify their value for money conclusion.
- 10 As the criteria for the value for money conclusion and use of resources judgements are closely linked, auditors' work in relation to both will be integrated to avoid duplication.

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Key lines of enquiry – findings and conclusions

Overall objective

- 11 The overall objective is for auditors to form judgements for each of the five themes that comprise the overall use of resources assessment. This overall assessment will be determined by the Audit Commission by applying the rules that will be published separately in June 2005 as part of the new comprehensive performance assessment framework. Each theme consists of a number of key lines of enquiry (KLOE). The KLOE are scored and then combined to arrive at a judgement for each theme.
- 12 The detailed descriptors / criteria which support the KLOE can be found at www.audit-commission.gov.uk. These are descriptions of performance at levels 2, 3 and 4. The KLOE and descriptors have been revised as a result of consultation and recent piloting of the assessment.

Descripto rs

- 13 The KLOE form the basis of the auditor's judgements and are supported by 'descriptors' for the value for money theme and 'criteria' for themes other than value for money. These describe what performance by a council at each level might look like or identify the arrangements it should have in place. Descriptors and criteria are included for performance levels 2, 3 and 4. Level 1 is represented by councils that do not achieve level 2.
- 14 In completing the assessment, auditors will assess which set of descriptors / criteria represent a 'best fit' for the council.
- 15 For the first four themes (financial reporting, financial management, financial standing and internal control) the criteria include elements that are shown in bold type and indicated with an asterisk. These represent 'must haves' for that level and have been introduced to phase in those criteria where achievement is considered to be more demanding or requires significant investment and lead in time for authorities. The general requirement is that failure to meet any of those in bold type would prevent that level being achieved for the KLOE. There may be exceptional circumstances where this could be varied, but the

auditor would need to be able to fully justify this with supporting evidence during the quality assurance process. The descriptors are cumulative, for example a council that met criteria at level 3 could not be given a score of 3 unless it also met the criteria for level 2.

- 16 The use of ‘must have’ emboldened criteria is not employed in the value for money section as this is not underpinned by an equivalent body of professional standards and guidance, making the assessment necessarily more judgemental in nature. The need for supporting evidence, however, remains as great. In completing work to support the value for money judgement auditors will assess which set of descriptors represent a ‘best fit’ for your council. Some descriptors may not be relevant, others may for good reason, be less important. Your council may be spread across all three levels.

Achieving level 2 (themes other than value for money)

- 17 Most criteria at level 2 are shown in bold and indicated with an asterisk. These criteria are therefore ‘musts’. This is because level 2 performance represents a minimum requirement and will need to be in place before a council can be considered for level 3. A small number of criteria are not shown in bold to allow councils lead-in time to achieve these. The intention is that all criteria at level 2 will be required in the future.
- 18 There is also a link between achieving level 2 performance and satisfying the Code criteria for a positive value for money conclusion.

Achieving level 3 (themes other than value for money)

- 19 To achieve level 3 performance, councils must have all arrangements described at level 2 in place. These should be embedded and operating effectively with clear outcomes, which is a more demanding test than for level 2. In addition, all bold criteria at level 3 must be met. It is not necessary to achieve non-bold criteria. It is intended however, that over the medium term, all criteria will need to be met.

Achieving level 4 (themes other than value for money)

- 20 A council that is performing strongly will need to demonstrate it meets all the bold criteria for levels 2 and 3, that its arrangements are effectively embedded and have an impact on outcomes. Following the consultation exercise, descriptors at level 4 have been added, although their number have been kept to a minimum and have not been shown in bold. This is because descriptors for the top score are more indicative, to avoid them becoming unnecessarily prescriptive and limiting. In addition to meeting the criteria, evidence to support achievement of level 4 should demonstrate innovation or best practice that can be shared with other authorities.

3

Quality assurance and review

Quality assurance

- 21 The use of resources assessment findings and conclusions will be quality assured to ensure consistency across the country and between audit suppliers.
- 22 Auditors will not be able to share scores with councils until the quality assurance process has taken place. They will, however, be encouraged to be as open and transparent with councils as possible within this constraint, in particular making sure that councils are aware of areas where a need to improve is identified.

Scored judgement review procedure

- 23 Councils have the opportunity to ask the appropriate Audit Commission Regional Director for a review of the Audit Commission's overall use of resources assessment once it is finalised. Details of the review process can be found at www.audit-commission.gov.uk.

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Timescales

24 The following table sets out the timescales for completing the use of resources assessment.

Table 1

Key dates are:

Date

7 June	Self-assessment proforma and value for money profiles sent to councils
7 June	Use of resources guidance, KLOE and self-assessment proforma available on AC website
17 June	VfM profiles available on AC website (see below)
31 July	Deadline for councils to submit value for money self-assessment and supporting evidence to appointed auditor (single tier and county councils)
August	Assessment <u>fieldwork</u> (<u>single tier</u> and county <u>councils</u>)
September	Assessment <u>fieldwork</u> (<u>single tier</u> and county <u>councils</u>)
30 September	Deadline for councils to submit value for money self-assessment and <u>supporting evidence</u> to <u>appointed auditor</u> (<u>district councils</u>)
November	Scores shared with councils and finalised for single tier and county councils
December	Scorecards <u>published</u> (<u>single tier</u> and county <u>councils</u>)
January	Assessment <u>fieldwork</u> for <u>district councils</u> <u>completed</u>
February	Scores shared with district councils and finalise
March	Scores published in annual audit and inspection letter (district councils)

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Themes other than value for money

25 This section deals with:

- financial reporting;
- financial management;
- financial standing; and
- internal control.

Background

26 The KLOE and criteria are rooted in a number of sources including statutory and professional requirements and best practice. They have been drafted with reference to CIPFA's 'Improving financial management and effectiveness in the public service: the CIPFA FM model'. This is a web-based self-assessment tool for councils to use to evaluate and assess their performance in delivering good financial management. Stakeholder groups across a council are invited to assess their council's performance against key judgements. Each judgement is supported by further questions, some of which are considered fundamental, while others need to be in place to achieve the top score (4). In instances where local authorities have used this self-assessment tool, it provides valuable evidence in support of auditors' use of resources judgements, however authorities will not be penalised for not using the CIPFA model.

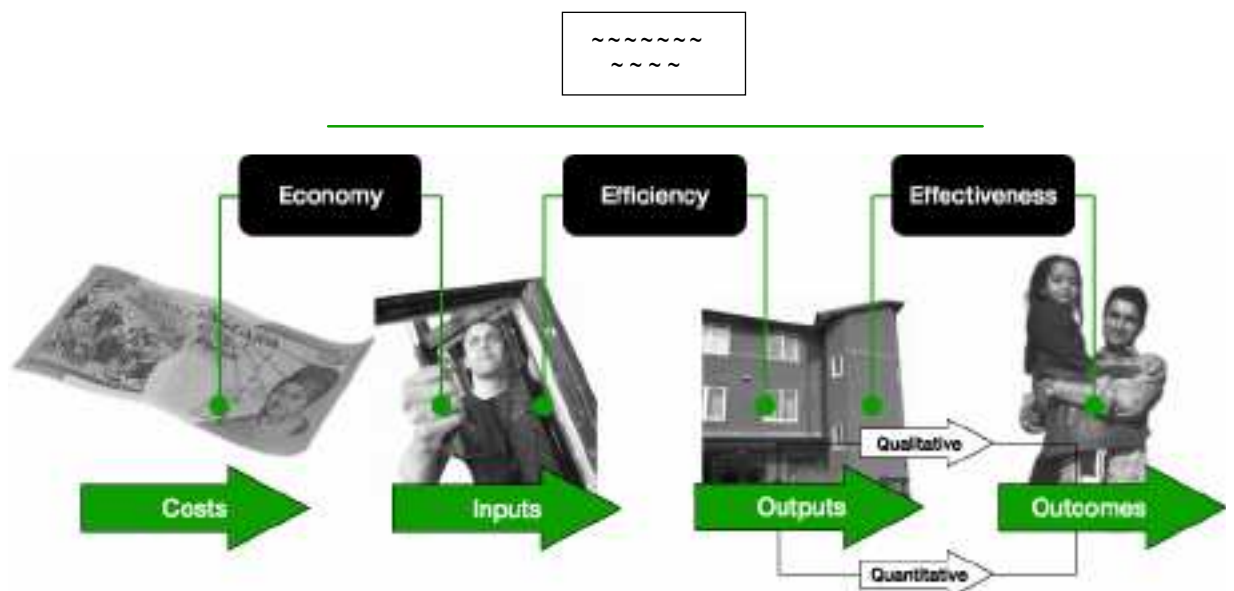
27 In completing these themes, auditors will ask authorities to provide evidence to support the criteria, with commentary as appropriate.

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Value for money

28 Value for money has long been defined as the relationship between economy, efficiency and effectiveness, sometimes known as the 'value chain' and is illustrated by the following diagram (Figure 1).

Figure 1
Value for money



Source: Audit Commission

- **Economy** is the price paid for what goes into providing a service – for example, the cost per hour of care workers; the rent per square metre of accommodation.
- **Efficiency** is a measure of productivity – how much you get out in relation to what is put in. For example, the number of people visited per home care worker per week; kilometres of road maintained per £1,000 spent.

- **Effectiveness** is a measure of the impact achieved and can be quantitative or qualitative. For example, how many people were prevented by home care services from needing residential care (quantitative); satisfaction levels among different sections of the community with tenant participation arrangements (qualitative). Outcomes should be equitable across communities, so effectiveness measures should include aspects of equity.
- **Value for money** is high when there is an optimum balance between all three – relatively low costs, high productivity and successful outcomes. The Improvement and Development Agency in its procurement guidance has defined best value for money as the ‘optimum combination of whole life costs and benefits to meet the customer’s requirement’.

Self-assessment

- 29 You are asked to complete a self-assessment of your council’s performance in relation to the value for money key lines of enquiry. A pro-forma is provided for this and you should complete this and return it to your appointed auditor by the relevant deadline (see paragraph 24). A copy of the pro-forma was sent by email, with a covering letter, to all council Chief Executives on 6th June 2005 or can be found at www.audit-commission.gov.uk. The following guidance is intended to help you interpret the key lines of enquiry and how to address the questions in the self-assessment. It sets out good practice that, if achieved and supported by evidence, would result in your council scoring well in the value for money assessment. Councils are not required to self-score their self-assessments.

Principles

- 30 The key principles that underpin the Audit Commission approach are:
- we will judge value for money from a community-wide perspective rather than that of individual service users (which will be looked at through service inspections);
 - where possible we will look at gross costs as net costs can mask high spending if income is also high. (Although maximising income from charged for services is also relevant when considering overall value for money for citizens in general rather than users of specific services.);
 - costs alone do not reflect value; local context and quality of service need to be taken into account in arriving at value for money judgements;

- full long-term costs and benefits should be taken into account, not just immediate costs;
 - numerical data on costs and performance provide a starting point for questions, not answers;
 - value for money judgements need to allow for local policy choices (alongside a national policy context) about priorities and standards of service;
 - judgements should address current performance in achieving value for money and how well value for money is managed and improved over time and the extent to which a long-term approach is taken; and
 - judgements should rely primarily on evidence of outcomes achieved and the effectiveness of activity to improve value for money.
- 31 Value for money judgements should be based on evidence of outcomes achieved. Although it is necessary to look at the processes used to deliver and improve value for money, it is their effectiveness that really matters.

Objectives

- 32 This section will help you to form an overall assessment on value for money based on the two KLOEs as follows:
- 5.1 the council currently achieves value for money
 - 5.2 the council manages and improves value for money
- 33 In addition, there are specific areas of focus in each of these that your self-assessment should consider to help inform the overall assessment.
- 34 Your auditor will take a similar approach and will score each key line of enquiry using the descriptors for different levels of performance to determine which most closely matches your council's performance. Once the auditor has scored the two key lines of enquiry, they will reach an overall score for value for money that will feed into the Audit Commission's overall use of resources assessment. The 5.1 KLOE on achieving value for money will hold more weight within the overall score for value for money as it relates more to actions and outcomes achieved and reflects current performance. If, for example, you were scored 3 for KLOE 5.1 and 2 for 5.2, the overall value for money score would be 3.

Current achievement of value for money

- 35** This heading is for you to demonstrate an understanding of your council's costs and how they compare to others, taking account of the local context. The areas of audit focus cover the following:
- costs compare well with others allowing for external factors;
 - costs are commensurate with service delivery, performance and outcomes achieved; and
 - costs reflect policy decisions.
- 36** The self-assessment should provide an overview of how the council's costs compare to others. It should identify and explain any areas where costs are out of line. We ask you to use two comparison groups for this – all England (all types of council that provide particular services) and CIPFA 'nearest neighbour' groups. The reason for the all England comparison is that all citizens should reasonably expect similar levels of service and performance, whatever the nature of their council (London Borough, unitary, county, metropolitan borough or district). The costs of providing a particular level of service will, however, reflect local circumstances. For this reason, spending comparisons should use statistical neighbours using established CIPFA groups.
- 37** This analysis should not be an over-complicated process that seeks perfect comparisons but a high-level exercise taking an overview of service and corporate costs. Problems with the consistency, availability and reliability of data mean detailed benchmarking can sometimes become over-complex and unproductive. We do not expect you to look at all costs in great detail, but to focus on those that are most out of line. If most or all costs are significantly adrift in comparison to others, it is likely that there are common reasons and these should be explained. If only some are adrift, focus on these and why this is so and any action the council is taking if there are not good reasons for it.
- 38** From mid-June 2005, you will be able to use a 'VfM Profiles' analysis tool that allows high-level comparisons of spending and performance using nearest neighbour groups and authority type comparisons. Single tier and county councils will receive a standard report from this in advance of it being available on the web. You should use this tool to carry out the initial high-level analysis and explore the data it contains further to help with your self-assessment. You may wish to use additional sources, such as that held by IPF, to further support your analysis and explain significant variations in your costs, which are shown by the high-level analysis.

- 39 The self-assessment should demonstrate a clear understanding of costs and show a link between financial resources and strategic priorities. The questions in the KLOE follow a logical sequence designed to take the council from costs to value:
- Start by knowing broadly the level of local taxation and overall expenditure, and then drill down further to what costs are and whether they are higher or lower than other councils (using appropriate comparisons, normally per head of population).
 - Secondly show how local external factors affect costs. For example, a disproportionately older population would explain higher spending per head of population on elderly care costs. You would need then to look at unit costs (per person receiving care) to know whether costs were relatively high or low.
 - Thirdly, show a similar understanding of factors that affect costs that are within the council's control. Does the council provide a wide range of discretionary services that increase spending and/or do standards of delivery reflect a 'gold standard' with higher costs, or lower cost and basic quality? (Although high quality does not necessarily require high spending.) Is good procurement practice (in line with the National Procurement Strategy) used to manage costs effectively? Explain where investment in future improvement has been made, increasing short-term spending, if it is not yet showing results. Access to services is also a relevant issue here – performance and outcomes should be equitable across the whole community. High-quality services only available to part of the community are not value for money for those excluded.
 - Finally, the council's stated priorities, local needs and citizens' requirements may also affect costs so such links should be explained and evidenced. Areas of higher spending and investment should reflect these priorities. Evidence of local wishes being taken into account should also be provided.
- 40 This sequence allows you to form a judgement about the council's current performance in delivering value for money. High quality and high costs might still mean good value is provided, but only if others in similar circumstances do not achieve similar standards at lower costs. Similarly, low quality and low costs would only represent good value if other comparable councils are not providing higher standards at similar costs. Whatever the level of relative spending, value for money will not be high where services are not performing well and quality of life outcomes are not improving.
- 41 An important factor when looking at service and corporate costs can be how overheads are accounted for. Councils are expected to comply with the Best Value Accounting Code

of Practice (BVACoP) that gives standard definitions for consistency. A council-wide view is required of how overheads / support service and corporate costs are actively managed to ensure value for money in both front line and supporting activities, and to ensure maximum resources are available for the front line.

- 42 From April 2004, new rules applied to council borrowing. Government determined borrowing limits have been scrapped and replaced with a 'prudential framework' that requires councils to demonstrate that their capital plans are affordable, prudent and sustainable through compliance with a new prudential code. The council should be able to provide evidence of how the council has satisfied itself that their investment plans are affordable in line with the new prudential framework. Some councils have historical debt that is expensive to service but more expensive to clear. If this is a factor in relatively high costs, this should be briefly explained and quantified with supporting evidence that options to minimise its impact have been reviewed and appropriate action taken.
- 43 Councils should also include evidence of the extent to which short- and longer-term costs are considered when making key decisions. For example, when considering projects that attract time-limited external funding, does the council assess not only what resources it will need to devote to supporting the project alongside the external funding, but also what happens when the external money stops? Does the council look at the costs of acquisition, on-going running/maintenance costs and cost of disposal/exit and does this just cover the council's own costs or consider the wider impact in terms of costs and/or outcomes for the community, including longer-terms impacts? Are new spending plans subject to rigorous challenge to ensure they deliver value for money in line with local priorities?

Managing and improving value for money

- 44 This section of the self-assessment addresses question 5.2 in the KLOEs. You should take an overview of what the council does to improve value for money and the impact this has over time. It is about whether or not the council has good processes, uses them effectively and what impact they have. Evidence of changes in cost and quality over time should provide a starting point. Indicate where changes in statutory responsibilities are reflected in overall service spending. The areas of focus cover the following:
- the council monitors and reviews value for money
 - the council has improved value for money and achieved efficiency gains (limited to the last three years); and

- procurement and other spending decisions take account of full long-term costs.
- 45 As important as having good processes is how focused the council (managers and councillors) is on value for money. Evidence of a 'value for money culture' where opportunities to improve economy, efficiency and effectiveness are constantly sought and pursued should be shown. Demonstrate how value for money is built into thinking, priorities and day-to-day decisions. Value for money should not be seen as just the concern of finance staff rather than service managers. Show what information on costs is used as part of performance management. Explain any benchmarking and whether it is routine and effective with challenging comparators. Describe any key processes that challenge value for money. Show the extent to which value for money considerations are built into key processes and decision making, including the annual budget setting process. Most of all, show what impact all this has on value for money – provide evidence of improvement that has resulted from how you manage value for money. Different approaches work in different situations and at different times – what matters here is what works, not compliance with fixed processes.
- 46 Evidence of using targets to improve value for money should also be provided. For example, whether the council sets realistic but challenging targets for value for money improvements through procurement and monitors performance against these. Targets might be for lower cost for a specified or higher quality or improved quality at the same cost. Intelligent use of targets requires good understanding of where the scope for improvements lies so a corporate need to achieve X per cent is unlikely to be best delivered by applying X per cent targets to all budgets.
- 47 Explain how the council applies national efficiency targets locally. Are these supplemented with additional local targets and, if so, how are these determined and are they met? Are they targeted at areas with relatively high costs or where there is known scope for efficiency savings? Is the council using ICT effectively to achieve efficiency savings and is this part of their corporate strategy and IEG statement? From summer 2005 councils will have to produce an annual statement of how they intend to achieve national efficiency targets (equivalent to 2.5 per cent a year over three years) and report on the progress made towards this. These statements should be incorporated into, or appended to, self-assessments and will be a key piece of evidence.
- 48 Value for money should apply for the whole community – show how the council understands and addresses disparities in relation to its diverse communities.

- 49 Consistently delivering value for money requires good practice to be the norm, not the exception. A textbook procurement strategy and process is of no value unless it is implemented well and delivers improved value for money. 'Before and after' evidence should be provided in relation to procurement, reviews and any other means used to pursue value for money improvements. Include the costs of managing the process in these comparisons. Joint procurement is increasingly used to improve value and efficiency and you should include evidence of positive efforts towards this, for instance working with the local strategic partnership and other partners. Joint procurement can also be used to improve effectiveness, for example through collaborative/ consortia purchasing and framework contracts where leverage on price can be secured for goods and services that offer higher quality. For example, higher environmental specifications (such as products made from recycled content – aggregates, building materials, paper – or more energy efficient products) might be secured with no price increase. Procurement can also be used to secure community benefits such as social enterprise, training, skills and work opportunities for local people as part of achieving common regeneration goals and targets to revive and build the local economy and to maintain a 'mixed economy', including small and medium sized enterprises. For low strategic procurement activity a key area for efficiencies is improved transaction costs.
- 50 Procurement is a key means of improving value for money when done well. Decisions over whether to procure or use in-house provision, how procurement should be structured and when to go to the market should be based on skilled or professional procurement advice. Comprehensive business cases, linked to key objectives, should be developed that support decision making at all stages of major procurements. Evidence should show how extensively and appropriately skilled procurement advice is used, where it is targeted and how it is used when decisions are made. The level of interest of councillors and senior managers and how early they are involved in major procurements is also important. The extent to which procurement practice ensures a 'whole life' approach is taken to look at the full, long-term impact on costs across the public purse and how this is addressed is also relevant; that is costs of acquisition, on-going running/maintenance costs and cost of disposal/exit. As part of this the likely pollution impacts/ costs, especially emissions of CO₂ and other greenhouse gases should be considered. Sustainable procurement forms the core of best practice procurement and auditors will credit efforts that are made to adopt government's evolving technical guidance on this as part of the quality consideration in value for money.

- 51 The National Procurement Strategy produced by ODPM and the LGA provides an overview of best practice. Excellent procurement is primarily about the appropriate use of procurement as a tool for the effective achievement of corporate and service objectives. Rarely is there one best way. Nonetheless the questions asked in the National Procurement Strategy are a useful guide to the level of expertise and commitment to excellent procurement outcomes in a council, and hence the probability of the achievement of such outcomes.
- 52 They cover issues such as appointing a procurement champion, owning a corporate procurement strategy aligned with the council's strategic objectives, awarding contracts on value for money not lowest cost, and executive and scrutiny member involvement in procurement. The value of a centre of expertise in procurement and project management is covered, as is the need for training for officers and members and the need to commit appropriate resources to procurement projects.
- 53 The National Procurement Strategy also recommends a strategy to counter the threat to value for money that arises from fraud and corruption, and to maintain ethical standards.
- 54 Transparency in procurement is important to secure both probity and value for money. For both reasons, the more information that is easily available, for example on the council's website, the better. Documentation available could for example include the procurement strategy, Contract Standing Orders, a forward procurement plan, a 'selling to the council' guide and other procurement procedures, select lists, the central contracts register, and advertisements posted in the official Journal of the European Union. The clarity and user-friendliness of documentation is equally important in ensuring it is genuinely available to all those that may need or want to access it.
- 55 Evidence that external investment is used to support the council's strategic plan and local priorities, rather than sought opportunistically and resulting in priorities being skewed towards available funding should be shown. Show how use of external funding is supported by clear objectives and that these are followed through and the impact evaluated. Explain how any continuing funding commitment after the external funding has finished is planned into the council's medium- to long-term financial planning from the outset or supported by a robust exit strategy.

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searchable version of this report.

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