

## Luton Borough Council

### Use of Resources Report

November 2010

**Draft for Discussion**

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# 1 Executive summary

## Background & purpose of the report

- 1.1 Under the Audit Commission's Code of Audit Practice we are required to reach a conclusion on whether Luton Borough Council ('the Council') has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').
- 1.2 We described in our Audit Plan (December 2009) the areas of audit work that provide us with the assurance that contributes to our annual VFM conclusion, being:
  - our assessment of the Council's Use of Resources ('UoR'), using the three themes within the Audit Commission's assessment framework themes and Key Lines of Enquiry ('KLoE')
  - specific work on locally identified audit risks.
- 1.3 Following the Government's abolition of the Comprehensive Area Assessment ('CAA') in June, the Audit Commission determined that the finalisation of the 2009/10 UoR scores in local government would no longer take place. With the exception of updating our findings for the outcome of the 2009/10 accounts audit and confirmation of the audited financial outturn for the year, our UoR assessment and local risk based work was complete at the time of the announcement. Therefore, whilst not reporting scores, we are in a position to report on the strengths and areas for development in the Council's management arrangements.

## Key findings and action required by the Council

- 1.4 In September 2010 we issued the Council with an unqualified audit conclusion on Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources.
- 1.5 The headline findings from our Use of Resources work are as follows:
  - Managing finances is an area of strength for the council in regard to financial planning and understanding costs.
  - Governing the business is an area where the Council demonstrated satisfactory performance.
  - Managing Resources was also assessed as satisfactory.
- 1.6 To support our conclusions in the good governance theme, we undertook spot-checks of three national indicators, and found no significant data quality issues. The results of our mandatory work on housing benefits did not give rise to any significant data quality concerns.
- 1.7 High risk areas requiring action for the Council, relevant to the areas covered by our value for money conclusion, were:
  - the need to reduce sickness absence levels which remain high compared to other councils.
  - the Council has an ambitious capital programme, which currently has a significant funding shortfall due to declining economic conditions affecting the availability of Council resources allocated to the programme. A range of steps have been taken to bridge the shortfall although a degree of uncertainty persists, particularly in regard to the knock on effect of these measures on services.

### The way forward

- 1.8 The agreed action plan is set out in the Appendix to this report (Appendix A). The Council should follow this up to ensure actions are implemented as planned.
- 1.9 The Audit Commission has implemented a new value for money approach for 2010/11 and we will update our indicative risk assessment and audit plan to reflect the revised focus of our work.

### Acknowledgements

- 1.10 We would like to record our appreciation for the co-operation and assistance provided to us by the Council's management and officers during the course of our audit.

### Use of this report

- 1.11 This report has been prepared solely for use by the Council to discharge our responsibilities under the Audit Commission Code of Audit Practice and relevant auditing standards and should not be used for any other purpose. No responsibility is assumed by us to any other person.
- 1.12 This report includes only those matters that have come to our attention as a result of performance of the audit. An audit of Use of Resources is not designed to identify all matters that may be relevant to those charged with governance. Accordingly the audit does not ordinarily identify all such matters.

**Grant Thornton UK LLP**  
**November 2010**

## 2 Detailed findings

### Introduction

- 2.1 In carrying out our audit work we comply with the statutory requirements governing our duties, set out in the Audit Commission Act 1998, in accordance with the Code of Audit Practice (the Code). The Code requires us to issue a conclusion on whether the Council has proper arrangements in place for securing economy, efficiency and effectiveness in the use of its resources ('VFM conclusion').
- 2.2 Our VFM conclusion is informed by our use of resources work which, in Councils, is based on the Audit Commission Use of Resources ('UoR') assessment. However, prior to its conclusion the new Coalition Government abolished the Comprehensive Area Assessment which included the requirement for a scored UoR assessment.
- 2.3 With the exception of updating our findings for the outcome of the 2009/10 accounts audit and confirmation of the audited financial outturn for the year, our UoR assessment and local risk based work was complete at the time of the announcement. Therefore, whilst not reporting scores, we can report on areas for development in the Council's arrangements.
- 2.4 The UoR KLoEs were prescribed by the Audit Commission and applied at all local authorities. However, as our audits are tailored to local risks, we specifically identify and consider certain areas of greater audit risk for each Council, to support our VFM conclusion. For the Council, we identified a number of areas for further consideration in our Audit Plan. These are set out in the table below, with a reference to where we carried out the additional work.

**Table 1: Consideration of local risks in our work**

Local VFM risk identified in our Audit Plan	Where considered
The Council is facing significant financial impact from the recession and the knock on effect to its annual funding for 2009/10 and 2010/11.	Managing Finances theme.
The Council is embarking upon an extensive capital programme which includes building schools for the future.	Managing resources theme & asset management project.
The way in which the Council are funding their financing arrangements, including the use of prudential borrowing, requires close monitoring.	Managing resources theme & asset management project.

### Our approach

- 2.5 The assessment was carried out between December 2009 and May 2010. We reviewed the Council's arrangements against eight KLoEs within the three UoR themes prescribed by the Audit Commission. Our work was based on review of written evidence, meetings with senior management and officers.
- 2.6 The key findings in each of the themes, and areas for improvement, are set out in sections 3-5.

## 3 Managing finances

### UoR Theme 1

3.1 The managing finances assessment covered the following areas:

- planning finances to deliver priorities and sound financial health.
- sound understanding of costs and performance, achieving efficiencies.
- timely and reliable financial reporting and meeting stakeholder needs.

The Council has performed well in managing finances overall. We consider that the Council has good procedures in place to manage finances and in regard to financial planning, can demonstrate strong outcomes as a result of these policies, has improved both the analysis and understanding of underlying costs that drive the VFM agenda, and that there is greater clarity and integration in the information provided to those charged with governance.

### Planning finances to deliver priorities and sound financial health

3.2 The Council has a fully integrated financial and service planning process in place, which incorporates medium term financial projections and references longer term aims. The Council uses community impact assessments for all reports to committee, has demonstrated a good track record of managing spending and has a sound financial position in the medium term with healthy levels of reserves. The Council has a impressive track record on savings when compared to its peers and has a track record of financial training for members and service managers. These measures have contributed to good financial and performance outcomes in recent years.

### Sound understanding of costs and performance, achieving efficiencies

3.3 The Council has demonstrated a good understanding of its service costs and this has filtered through into direct cost efficiency improvements in several areas. The Council has demonstrated examples where costs analysis has been used to influence committee decisions. Progress against cost targets are monitored in the monthly budget and monitoring report to the Resources Committee. The Luton Excellence programme is a key delivery vehicle for service improvement, efficiency and customer focus.

### Timely and reliable financial reporting and meeting stakeholder needs

3.4 The Council has had a track record of producing reliable and accurate financial information both for internal use and for publication. While there remain developments to be made in the quality of asset accounting, significant progress has been made since 2008-09. The quality and clarity of financial and performance reporting was assessed in the audit of the 2009-10 accounts and, although there were a number of amendments to the accounts, we found the general quality of the process to be satisfactory. A number of recommendations were made in our report to those charged with governance (ISA 260).

## 4 Governing the business

### UoR Theme 2

- 4.1 Our work on the governing the business theme considered whether the Council:
- commissions and procures quality services tailored to local need
  - produces relevant and reliable data and information to support decision making and manage performance
  - promotes and demonstrates the principles and values of good governance
  - manages risks and maintains a sound system of internal control.
- 4.2 Luton Borough Council's governance arrangements are considered adequate.

### Commission and procure quality services tailored to local need

- 4.3 The Council has an effective procurement service that has attracted external recognition, and is effectively supporting VfM improvements. However the wider commissioning process is not quite as cohesive and central purchasing is not used across all directorates. The Council can point to a range of approaches to working with local businesses, working in consortia to secure lower prices and understanding it's own spending through category analysis and management. The Council undertakes a series of "business breakfasts" run by the regeneration team and attended by corporate procurement, who discusses supplying to the Council with local businesses. The Council has also undertaken analysis of suppliers at risk in the current economic climate. The Council has a highly focused vision of outcomes linked to local needs and demographic considerations but only an adequate understanding of the market.

### Produce quality data and information to support decision making

- 4.4 Arrangements for data quality are satisfactory and the council has worked with partners and developed the infrastructure for a shared performance management and data quality assurance portal. Good arrangements are in place for data security. The risk management process also identifies risks to data quality and has put in place actions to address them. Formal protocols and policies have been developed with some partners but this continues to be an area of weakness for the Council. The issue is being addressed under the Councils Data Quality Strategy. Spot checking of the Council's national performance indicators did not indicate any significant issues.

**Table 2: Results of performance indicator spot-checking**

PI ref	Description	Significant concerns?	Recommendation
<b>NI 065</b>	% Children subject of Child Protection Plan for a second or subsequent time.	No	N/a
<b>NI 132</b>	Timeliness of social care assessment (all adults)	No	N/a
<b>HB</b>	Housing Benefits Return	No	N/a

#### Promote and demonstrate principles and values of good governance

- 4.5 The Council's constitution is clear and the roles and responsibilities it entails are well understood. The Council has a track record of adequate standards of conduct, which are assessed annually by the Standards Committee. Training and development opportunities are available to members and senior managers, appropriate to their roles. The Council is able to demonstrate a robust and well established ethical framework & culture. The Council has extended the application of its governance principles to include its strategic partners. The requirements of an effective corporate anti-fraud and corruption team and a system of internal control are fulfilled. The Council maintains focus on its purpose and vision as in engaging with stakeholders including minority and vulnerable groups. The Council and partners are working on refreshing governance arrangements for the local strategic partnership, although more could be done to consider key partnerships outside the LSP.

#### Manage risks and maintain a sound system of internal control.

- 4.6 The Council operates a detailed corporate risk register which assesses risks in terms of likelihood and impact, and assigns a RAG status to each, and provides the main corporate tool for operational risk management. A set of strategic risks is monitored by the corporate management team and the executive. A risk management group and a network of risk champions support this process. Corporate risk management arrangements are appropriate, and work is underway to embed an effective risk management approach within partnerships. The Council provided a number of reports which demonstrate that internal audit is active in this area, with a number of alleged frauds investigated during the year.
- 4.7 An "assurance map" has been developed which set out key strands of the Council's approach to internal control. This sets out key assurance steps required, and summarises the arrangements in place in each area. Key arrangements for ensuring the effectiveness of internal control include internal audit, service inspections, an automated risk management process, risk-based audit reviews, review of financial and performance information, production of the annual governance statement.



## 5 Managing resources

### UoR Theme 3

5.1 Our work on managing resources themes covered the following areas:

- Making effective use of natural resources.
- managing assets effectively to deliver strategic priorities.
- managing the workforce effectively to achieve strategic priorities.

5.2 In addition, we conducted an in depth review of the Council's Capital Programme to support our value for money conclusion, this covered the following areas:

- Performance of the Capital Programme.
- Financing of the Capital Programme.
- Capital Asset Management.

We have assessed all three areas as meeting basic standards this year, we believe that the Council is well place to deliver good outcomes in both areas over the next twelve months. Our review indicates that the Council's Capital management arrangements are relatively robust with some room for improvement. We consider that human resource management is generally an area of significant strength, however sickness absence management remains an area that requires improvement.

### Making effective use of natural resources

5.3 Although evidence for environmental management has been rolled forward from our previous assessment, the Council is working well to minimise its consumption of natural resources, but is aware of the need to develop a more coherent strategic approach to this area. Systems of measurement are adequate for energy consumption and carbon emissions from property and transport, but need to improve for water in particular. Through its work with the carbon trust and ongoing efforts in other areas, the Council should be in a position to show good outcomes in future.

### Manage assets effectively to deliver strategic priorities

5.4 We performed an in-depth review of asset management arrangements across the Council and found that a comprehensive asset management plan is in place, which sets out an ambitious vision for improvement and sharing of assets within the Borough. Delivery against this has produced some outcomes such as the closure of various properties and the reallocation of service provision, but is still at a relatively early stage. The Council has made progress on further embedding these techniques across the organisation. Since this review, the capital programme has been subject to significant review following changes to the governments funding allocation for local government.

### Management of the Capital Programme

5.5 In our view, the value for money currently being delivered in regard to the Council's asset base is adequate, but with some development needed. While we consider that Council management and controls are broadly effective in regard to asset management, there are a number of areas where progress against planned outcomes has been slow, where the Council is having to manage changes to its planned assumptions and where controls over the accounting process are in the process of being strengthened. These areas include:

- The Council is significantly behind schedule in delivering its planned capital programme. This is primarily due to external factors causing delays in specific areas.
- The Council has an ambitious capital programme, which currently has a significant funding shortfall due to declining economic conditions affecting the availability of Council resources allocated to the programme. A range of steps have been taken to bridge the shortfall although a degree of uncertainty persists, particularly in regard to the knock on effect of these measures on services.
- The Council has a significant backlog of planned maintenance. Although there is a plan in place to clear this, it is under pressure from the need to bridge the funding gap for the capital scheme.
- There are a number of historic weaknesses in asset accounting procedures which are in the process of being addressed or where interim arrangements are in place. This includes the fixed asset register system and the process of updating it with changes to the asset portfolio in year.

5.6 The detailed findings from our review of the capital programme, including a separate action plan, has been provided to Council officers.

### Manage workforce effectively to achieve strategic priorities

5.7 This is the first time that human resource arrangements were assessed and the Council has a good track record of effective staff management arrangements which have produced an effective and skilled workforce. The Council have received Audit Commission recognition for their progress with workforce planning and development. In addition, the Luton Model was nominated for the Partnership in Procurement Award 2009 and made the final shortlist of five (including national organisations). However sickness levels are very high in comparison to other Councils contributing to significant agency staff costs and this is an area where further improvement needed.

## A - Appendix: Action Plan

No. / Ref.	Recommendation	Priority	Management response	Implementation details
3.4	We made a number of recommendations following our audit of the 2009/10 financial statements in our Report to those Charged with Governance. These will need to be actioned in order to improve the Council's financial reporting arrangements.	High	Agreed	Tasks have been assigned, much of the key work required has to be done in 2011.
5.7	The Council should demonstrate that measures taken to address high sickness absence levels among staff have been effective.	High	Agreed. Quarterly reports by Head of Service are assessing sickness compared with the previous quarters and the targets for each Service. These are being reviewed by the Chief Executive	Being implemented as a key corporate priority.
4.3	The Council has an effective centralised procurement service, however this is not fully utilised across the Council. The Council should take steps to ensure that the benefits of this function are taken up by all parts of the organisation.	Medium	Agreed. CLMT have agreed a project to strengthen the procurement service and its use.	A LEX project manager is currently assigned to the development of procurement.

No. / Ref.	Recommendation	Priority	Management response	Implementation details
4.4	The Council should work to strengthen arrangements relating to data quality in regard to partner organisations.	Medium	Agreed.	The performance management system for 2011/12 is being designed to facilitate this.
5.5	We have made a number of recommendations in our report to Council officers on the management of the Capital programme. These should be actioned, taking into account recent changes in central government resources allocated to capital schemes.	Medium	To be confirmed by the Head of Capital and Asset Management	