

Annual Audit and Inspection Letter

Luton Borough Council

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles.

- Auditors are appointed independently from the bodies being audited.
- The scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business.
- Auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998, the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

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.

Reports prepared by appointed auditors are:

- prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission; and
- addressed to members or officers and prepared for the sole use of the audited body; no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

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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

Contents

Key messages	4
Action needed by the Council	4
Purpose, responsibilities and scope	5
How is Luton Borough Council performing?	6
The improvement since last year - our Direction of Travel report	7
Service inspections	10
The audit of the accounts and value for money	12
Looking ahead	14
Closing remarks	15
Availability of this letter	15

Key messages

- 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, from the inspections that have been undertaken in the last year and from a wider analysis of the Council's performance and its improvement over the last year, as measured through the Comprehensive Performance Assessment (CPA) framework.
- 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 Council has delivered positive outcomes in a number of its priorities, notably in the field of economic regeneration, the environment and in improving educational attainment.
- 4 The overall rate of improvement, based on performance indicators, has fallen behind the rate of most other councils.
- 5 Use of resources has improved, indicating stronger and more embedded processes in financial management and internal control and an improvement in financial standing.
- 6 There has been a change of administration with a subsequent review of priorities. There has been progress in aligning the Council's corporate plans and the community plan to produce a more consistent planning framework across the Council and its key partners.
- 7 The Council has invested in partnership working, strengthening the arrangements for managing the performance of partnerships from a low base and having stronger involvement in key partnerships.

Action needed by the Council

- 8 The Council needs to continue to focus on improving its priorities, particularly in relation to educational attainment and community safety.
- 9 The investment in strategic partnership working needs to be maintained, with continued engagement in, and leadership of, local area partnerships. The flow from area plans and priorities into the Council's planning framework needs to be strengthened.
- 10 There needs to be closer monitoring of performance against the Council's and the area's priorities, with a greater focus on managing progress towards priority outcomes.

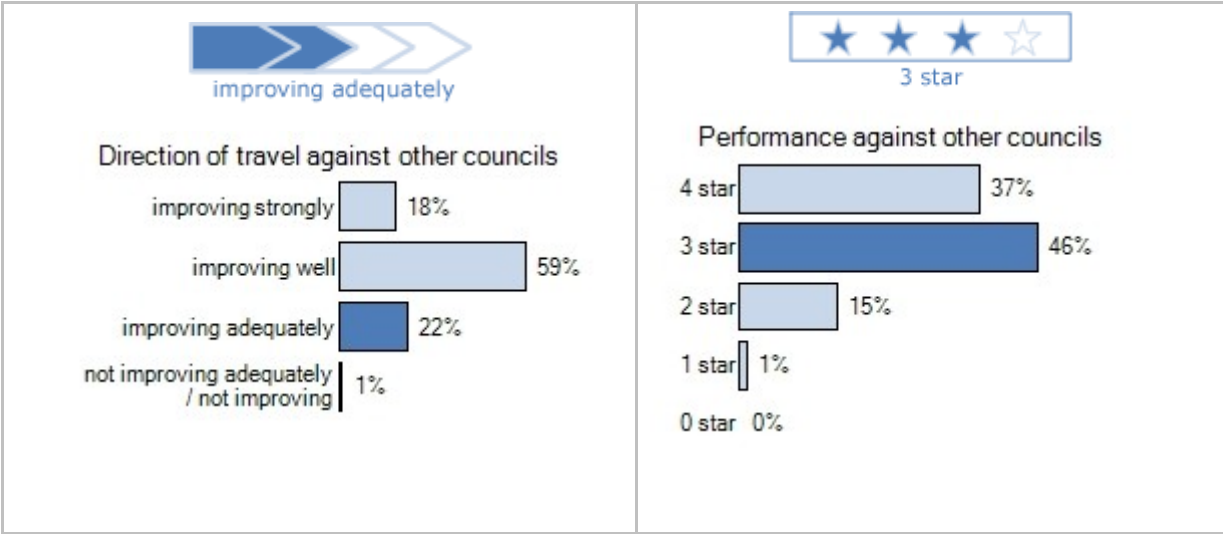
Purpose, responsibilities and scope

- 11 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the most recent Comprehensive Performance Assessment (CPA), the findings and conclusions from the audit of the Council for 2006/07 and from any inspections undertaken since the last Annual Audit and Inspection Letter.
- 12 We have addressed this letter to members as it is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. We have made recommendations to assist the Council in meeting its responsibilities.
- 13 This letter also communicates the significant issues to key external stakeholders, including members of the public. We will publish this letter on the Audit Commission website at www.audit-commission.gov.uk. [In addition the Council is planning to publish it on its website].
- 14 Your appointed auditor is responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, the auditor reviews and reports on:
 - the Council's accounts;
 - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion); and
 - whether the Council's best value performance plan has been prepared and published in line with legislation and statutory guidance.
- 15 This letter includes the latest assessment on the Council's performance under the CPA framework, including our Direction of Travel report and the results of any inspections carried out by the Audit Commission under section 10 of the Local Government Act 1999. It summarises the key issues arising from the CPA and any such inspections. Inspection reports are issued in accordance with the Audit Commission's duty under section 13 of the 1999 Act.
- 16 We have listed the reports issued to the Council relating to 2006/07 audit and inspection work at the end of this letter.

How is Luton Borough Council performing?

- 17 The Audit Commission’s overall judgement is that Luton Borough Council is improving adequately and we have classified Luton Borough Council as three star in its current level of performance under the Comprehensive Performance Assessment. These assessments have been completed in all single tier and county councils with the following results.

Figure 1



Source: Audit Commission

- 18 The detailed assessment for Luton Borough Council is as follows.

Our overall assessment - the CPA scorecard

Table 1 CPA scorecard

Element	Assessment
Direction of Travel judgement	Improving adequately
Overall	3 star
Corporate assessment/capacity to improve	3 out of 4
Current performance	
Children and young people*	3 out of 4
Social care (adults)*	2 out of 4
Use of resources*	3 out of 4
Housing	3 out of 4
Environment	3 out of 4
Culture	2 out of 4
Benefits	2 out of 4

(Note: * these aspects have a greater influence on the overall CPA score)
(1 = lowest, 4 = highest)

The improvement since last year - our Direction of Travel report

- 19 Luton Borough Council is improving adequately.
- 20 Luton is improving in some local priority areas. Regeneration activity is now delivering good outcomes such as a new Business centre and the redevelopment of St George's Square and there are improvements in recycling and educational attainment. However, there has been limited progress in meeting housing needs, processing of benefits, and services for older people. Adult social care services are increasingly meeting the needs of minority communities. Overall, the rate of improvement in performance indicators is well below the average for similar councils. Having achieved mixed results in achieving the local area agreement targets, there is now greater investment in strategic partnership working.
- 21 The Council has been through a year of transition, with a change of administration and subsequent review of strategic priorities. Progress is being made on re-aligning corporate and community plans and there are some sound plans in place to support improvement. The Council is investing in change management through the Luton Excellence programme, and the corporate improvement board is promoting more robust corporate working.

What evidence is there of the Council improving outcomes?

- 22** The Council has made steady progress against its priorities but overall indicators of performance show comparatively poor levels of improvement. The priorities are set out in Luton 2011 and focus on economic regeneration, the environment, community safety, deprivation, health and social care, leisure, education and transport. Maintaining and improving community cohesion is also an important local priority cutting across all these service areas. There is evidence of improvement in a number of the priorities, notably in regeneration, community cohesion and the environment. There has been improvement in other priorities though this is less marked. Overall performance is less positive, with forty-seven per cent of the Council's performance indicators improving. This compares poorly with the national average for single tier authorities where over sixty per cent of indicators improved. Also this shows a reduction in the number of indicators which improved last year. The Council has 23 per cent of its indicators in the best quartile compared to a national average of 29 per cent.
- 23** There have been particularly positive outcomes in regenerating the economy, improving the environment and improving community cohesion. These include the completion of the Butterfield Business Centre and the St George's Square redevelopment. The redevelopment of Napier Park is progressing well and funding is in place to improve access from the railway station to the town centre in conjunction with Network Rail. A number of environmental outcomes have improved, with increasing levels of recycling, a reduction in the level of air pollutants and far greater satisfaction with standards of cleanliness. In relation to community cohesion, a recent survey of Luton residents showed that a large majority felt that people from different backgrounds get on well together. These results demonstrate progress in priority areas.
- 24** There has been steady improvement in relation to housing, community safety, transport priorities and children's services. The Council is working well with neighbouring authorities to plan for future housing growth and improve the provision of affordable housing. Although the supply of affordable housing is increasing it is not meeting targets and slow processing of benefits applications is undermining the Council's support for vulnerable households. This is also reflected in the annual assessment by the Benefit Fraud Inspectorate which this year assessed the Council as level two, 'meeting minimum requirements', down from level three last year.
- 25** In relation to community safety, overall levels of crime have reduced, with reductions in distraction burglaries, violent crime in the town centre and incidents of criminal damage. The public's fear of anti-social behaviour has reduced by more in Luton than in any other English local authority. However, the town is not on track to meet government-set targets for reducing crime.

- 26** Educational attainment shows improvement at a number of key stages and although attainment levels remain below national averages, the gap has been reduced. There were significant improvements at key stage two, particularly in English. Results in key stages three and four did not show such improvement, but the numbers achieving five GCSE passes at A*-C increased. Outcomes from school inspections are improving and there are no schools in an Ofsted category of concern. Ofsted's annual performance assessment of services for children and young people was maintained as 'good', once again recognising good outcomes in all the elements of the assessment including 'good' capacity to improve further.
- 27** The Council is strengthening its contribution towards wider community outcomes. There is greater focus on Local Area Agreement (LAA) targets and there is stronger Council leadership of strategic partnership work. There is good partnership work in relation to children and young people with a number of positive outcomes such as on improving timescales for initial assessment and targets for child immunisation. The Council and its partners have responded positively to the recommendations of a Home Office report on the Crime and Disorder Reduction Partnership.
- 28** The Council continues to perform well in meeting the needs of the area's diverse and potentially vulnerable communities and is improving its user focus. The Council's approach to diversity is mature and embedded, reflected in its score of level three of the Local Government Equality Standard with plans to improve this rating. The Commission for Social Care Inspectorate's (CSCI) assessment confirms that services are increasingly meeting the needs of black and minority ethnic groups and hard to reach communities.
- 29** The Council has improved its use of resources. Overall the Council achieved a score of three for the 2007-08 Use of Resources judgements, meaning that it is performing well. This is an improvement on the previous year's assessment where the Council achieved adequate performance, with notable improvement in financial management, financial standing and internal control.

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

- 30** The Council is developing a more robust strategic planning framework. There is clear investment in re-shaping the Local Area Agreement and community plan to achieve a greater alignment between these and the Council's corporate planning processes. The emerging Sustainable Community Strategy will provide the direction for a new corporate plan, replacing Luton 2011. This will provide a hierarchy of plans and promote closer links between the Council's plans and those of its key partners.

- 31 The Council is also investing in the governance of partnerships. The Executive Leader now chairs the Luton Forum (the Local Strategic Partnership) and Executive Members are engaged on its theme groups. These have been aligned with LAA blocks. Performance against LAA and community plan targets has not routinely been reported but arrangements to strengthen the management of performance at a partnership level are now in place. The Council recognises that the Forum has not been adequately supported and it is planning to make several appointments to significantly improve partnership support. Achievement of plans and targets has been mixed. The Council's own assessment against LAA targets was 'amber' acknowledging that several were not going to be achieved. There has been tangible impact against some of the Council's own priorities.
- 32 The Council has the capacity to deliver its plans. There is evidence of strengthened community leadership of partnerships and a clear commitment to strategic member development. There is a more strategic approach to asset management and project management arrangements are sound. There is solid investment in change management through the Luton Excellence programme. Corporate working is being enhanced through the Corporate Improvement Board and the two new corporate directors. CSCI assessed the Council as having 'promising' prospects for improvement in adult social care and Ofsted were similarly positive about the capacity to improve in children's services.
- 33 Despite improvements in these areas, there remain gaps in the management of performance at a corporate level, including corporate analysis of customer feedback and complaints. The challenge role of scrutiny committees is not well developed.

Service inspections

- 34 An important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators who also review and report on the council's performance. Relationship Managers share information and seek to provide 'joined up' regulation to the Council. During the last year the Council has received the following assessments from other inspectorates.
- 35 The 2007 annual performance assessment of services for children and young people, conducted by Ofsted, concluded that Luton consistently delivers services at a good level, with a good contribution being made towards improving outcomes. The assessment maintained that children's services have played a very significant part in enabling children and young people to make a positive contribution. The overall judgement for the effectiveness of children's services is 'good'.
- 36 The Commission for Social Care Inspection (CSCI) carried out the annual performance assessment of social care services for adult services. The overall assessment for delivering outcomes in this area was 'adequate', though stronger outcomes were recognised in improved health and emotional well-being and maintaining personal dignity and respect. The assessment concluded that the capacity to improve was 'promising'.

- 37** The Benefits Fraud Inspectorate conducted an assessment of the Council's benefits service as part of the 2007 Comprehensive Performance Assessment (CPA) programme. Their report concluded that the Council's overall performance had deteriorated since the previous assessment. The report acknowledged an 11.4 per cent increase in caseload, and a corresponding decrease in resources available to handle this additional workload. The Council had implemented processes to improve performance, but the effects of these measures were not apparent at the time of the assessment. Whilst the score for user focus improved, the score for claims administration went down, reducing the overall score to 2 from 3 in the previous year.
- 38** During 2007/08, we have been carrying out a project examining health inequalities work across the east of England and this has included a focus on Luton. The work is still in progress, but early indications are that partners have begun working together to tackle this challenging agenda and the latest 2007 data indicates that good progress is being made in this area. We anticipate issuing our report in spring 2008.

The audit of the accounts and value for money

- 39 The 2006/07 financial year marked significant changes to the format and content of the accounts through the introduction of the 2006 SORP. We were pleased to note that the Council were proactive in their assessments of these changes and initiated discussions with us to reach an agreement on their proposed treatments. This approach reduced any impact on the overall completion of the audit, with the accounts approved in time for the 30 September deadline. We were also able to certify the audit as closed given that there were no objections from the public.
- 40 The overall quality of the Council's working papers to support the financial statements has remained consistent year on year, there is potential for further improvement through the availability of workpapers electronically.
- 41 We note that, despite facing significant financial challenges within the year, the Council met a balanced budget for the fifth consecutive year. The Council also managed its budget with no significant under or over spends in any one area and reserve balances remain stable.
- 42 The Council was also required to prepare Whole of Government Accounts (WGA), the Council complied with this requirement with no significant changes subsequent to audit review.
- 43 The Council's arrangements for the certification of grant claims and returns remains effective for the majority of grant claims and returns. In order to reduce fees payable for grant claims and returns an effective arrangement has been established with internal audit to reduce the amount of work required to certify larger claims and returns. However, significant control weaknesses exist within the housing and council tax benefit administration which has an adverse impact on the outcome of the certification of the housing and council tax benefit claim, which is mitigated to some extent through the work of internal audit to support our certification testing.
- 44 We have reported separately to the Audit Committee on the issues arising from the 2006/07 audit and have issued:
- an audit report, providing an unqualified opinion on your accounts and a conclusion on your vfm arrangements to say that these arrangements are adequate on 30 September 2007; and
 - a report on the Best Value Performance Plan confirming that the Plan has been audited.

Use of Resources

- 45** 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).
- 46** For the purposes of the CPA your auditor has assessed the Council's arrangements for use of resources in these five areas as follows.

Table 2

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

(Note: 1 = lowest, 4 = highest)

The key issues arising from the audit

- 47** We undertook our assessments of the Council's progress against the key lines of enquiry, this is the third year for these assessments and again the Council has been improving in the Financial Management, Internal Control and Financial Standing criteria. Overall the Council has improved from level 2 to level 3, consistently above minimum requirements, which is a reflection of the work that has been to embed arrangements.
- 48** The areas that require attention to improve to level 3 in all areas are in relation to the assurance framework and achieving value for money. The focus in future periods should be to further embed the processes for each key KLOE criteria, in particular to demonstrate that the arrangements in place drive improvement in processes and outcomes.

Looking ahead

- 49 The public service inspectorates are currently developing a new performance assessment framework, the Comprehensive Area Assessment (CAA). CAA will provide the first holistic independent assessment of the prospects for local areas and the quality of life for people living there. It will put the experience of citizens, people who use services and local tax payers at the centre of the new local assessment framework, with a particular focus on the needs of those whose circumstances make them vulnerable. It will recognise the importance of effective local partnership working, the enhanced role of Sustainable Communities Strategies and Local Area Agreements and the importance of councils in leading and shaping the communities they serve.
- 50 CAA will result in reduced levels of inspection and better coordination of inspection activity. The key components of CAA will be a joint inspectorate annual area risk assessment and reporting performance on the new national indicator set, together with a joint inspectorate annual direction of travel assessment and an annual use of resources assessment. The auditors' use of resources judgements will therefore continue, but their scope will be widened to cover issues such as commissioning and the sustainable use of resources.
- 51 The first results of our work on CAA will be published in the autumn of 2009. This will include the performance data from 2008/09, the first year of the new Local Area Agreements.

Closing remarks

- 52** This letter has to be discussed and agreed. A copy of the letter will be presented at the audit committee on 26 March 2008. Copies need to be provided to all Council members.
- 53** Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Council during the year.

Table 3 Reports issued

Report	Date of issue
Audit and inspection plan	March 2006
Annual Governance Report	September 2007
Opinion on financial statements	September 2007
Value for money conclusion	September 2007
Annual audit and inspection letter	March 2008

- 54** The Council has taken a positive and constructive approach to audit and inspection work, and I wish to thank the Council's staff for their support and cooperation during the audit.

Availability of this letter

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

Gary Hammersley
Relationship Manager

March 2008