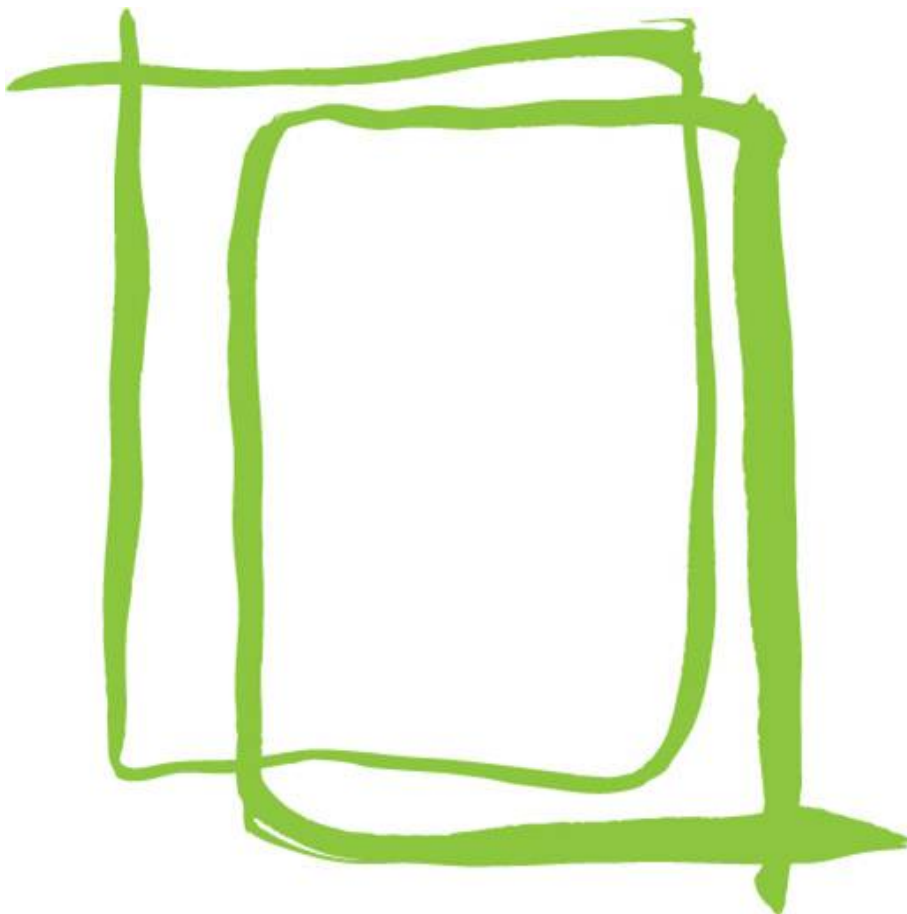


Use of Resources

London Borough of Tower Hamlets

Audit 2008-2009

November 2008



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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Introduction

- 1 The Use of Resources assessment evaluates how well councils manage and use their resources. This is the fourth assessment carried out at the Council and is the last under the Comprehensive Performance Assessment (CPA) framework. Next year there will be a new assessment which will form part of the Comprehensive Area Assessment (CAA). The Use of Resources assessment focuses on the importance of having strategic financial management, sound governance and effective financial reporting arrangements. These should support your Council in the achievement of its priorities and improving services, whilst delivering value for money.
- 2 This assessment relates to the financial year 2007/08 and is based on the key lines of enquiry for 2008. Changes to the criteria underpinning the key lines of enquiry were consulted on in April 2007 and the final key lines of enquiry were published in August 2007. These changes were made to:
 - reflect developments in professional guidance, legislative requirements and best practice; and
 - signal some of the changes proposed for the new use of resources under CAA, smoothing the transition to CAA.
- 3 The overall use of resources assessment is made up of five themes. Judgements have been made for each theme using the Audit Commission's scale, see Table 1 below. This scale is used across its inspection and performance assessment frameworks.

Table 1 Standard scale used for assessments and inspections

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

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- 4 In forming our assessment, we have used the methodology set out in the Use of Resources Guidance for Councils 2008, which can be found on the Commission's web site. We have also taken account of our findings and conclusions from previous years' assessments and updated these for any changes and improvements to the Council's arrangements.

- 5 The five theme scores for London Borough of Tower Hamlets are outlined overleaf. These scores are still subject to confirmation by our national quality control process. This seeks to ensure consistency across all suppliers and on a national basis. Consequently we are informing you that the scores reported here may change as a result of national quality control and should not be taken to be final. Following completion of national quality control, the Commission will notify you of your Council's overall score for use of resources and supporting the theme scores. This is scheduled for 8 December 2008.
- 6 This summary sets out our key findings in relation to each theme and key areas for improvement.

Use of resources judgements

Table 2 Summary of scores at theme and KLOE level

Key lines of enquiry (KLOEs)	Score 2008	Score 2007
Financial reporting	2	2
1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.	2	1
1.2 The Council promotes external accountability.	3	3
Financial management	3	3
2.1 The Council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities.	4	3
2.2 The Council manages performance against budgets.	3	3
2.3 The Council manages its asset base.	2	2
Financial standing	3	4
3.1 The Council manages its spending within the available resources.	3	4
Internal control	3	3
4.1 The Council manages its significant business risks.	3	3
4.2 The Council has arrangements in place to maintain a sound system of internal control.	3	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.	4	4
Value for money	3	3
5.1 The Council currently achieves good value for money.	3	3
5.2 The Council manages and improves value for money.	3	3

Theme summaries

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

Financial reporting

Theme score - 2
Key findings and conclusions
<p>KLOE 1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers</p> <p>The Council submitted its draft annual accounts in accordance with the timetable and in line with legislation. The draft annual accounts were materially correct with the exception of the cashflow statement. As reported in the ISA+260 report, and subsequently to the Chair of the Audit Committee, the draft annual accounts also contained several non trivial errors which the Council adjusted. Following these adjustments, an unqualified audit opinion was given by the 30 September deadline.</p> <p>Working papers provided to support the accounts have been strengthened, although there is scope for further improvement especially around the final review process. The timeliness of the Council's responses to audit queries improved from previous years.</p> <p>The Audit Committee received an explanatory paper that explained the key terms in the draft accounts. The paper did not explain to Members many of the key accounting issues impacting on the Council's accounts e.g. the Housing Choice programme, links with reports/events during the year etc. The Audit Committee approved the draft accounts although there was little challenge or questions asked to demonstrate robust scrutiny.</p>
<p>KLOE 1.2 The Council promotes external accountability</p> <p>The Council promotes external accountability effectively. Agendas, reports and minutes for meetings of full Council, committees and scrutiny panels are made available to the public on the Council's internet on a timely basis.</p> <p>The Council published an Annual Report following consultation with a range of stakeholders. The Annual Report contains summary financial information that details the Council's sources of income, revenue expenditure, capital spend and the balance sheet, though some key technical terms eg capital charges could be better explained. The Annual Report does not include details of the Council's environmental footprint.</p>

Theme summaries

Theme score - 2	
Improvement opportunities	
<p>KLOE 1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.</p>	<p>Improved quality assurance would help ensure that the annual accounts are prepared with fewer non trivial errors.</p> <p>The explanatory report on the draft accounts to Members could be strengthened to include more specific financial information and explanations of key issues impacting on the accounts.</p> <p>The level of Member challenge to the accounts prior to them being approved could be improved.</p>
<p>KLOE 1.2 The Council promotes external accountability.</p>	<p>The summary financial information provided in the Annual Report should contain explanations on key technical terms.</p> <p>The Annual Report or similar document could include an analysis of the Council's environmental footprint.</p>

Financial management

Theme score - 3

Key findings and conclusions

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

The Council's financial strategy and budgets are soundly based and designed to deliver its strategic objectives. The Council reviews its medium-term financial strategy on an annual basis. The plan models income and expenditure and balances over 3 years and is linked to the Council's key strategic objectives and communicated to staff and stakeholders.

The Council has set balanced budgets over a 3 year period. This process has increased the amount of certainty of planning for this year and the next two years. This has reduced the need for 'knee jerk' discussions on savings to set a budget for the current year and enabled more long term strategic discussions to take place.

Budgets are linked to business, activity plans and risk assessments. Budget holders are involved in the budget setting process and the budget is approved by senior management and the Cabinet.

The Council regularly reviews financial management arrangements, and keeps the financial services function under review.

KLOE 2.2 The Council manages performance against budgets.

The Council's budgetary control arrangements are operating effectively. The budget allocates resources to major spending activities and programmes and separately identifies revenue and capital items.

The Council's budget monitoring is predictive, related to operational activity indicators and is risk based. The Executive is focused on key variances, and there is evidence that these are acted upon. Significant balance sheet items are not though included in budget reports to Cabinet.

Savings and efficiency gains are profiled over the year and are monitored by senior officers and members. Relevant non-financial and financial information, in addition to the budget, is used by senior officers. Where departmental overspends have occurred, action plans have been drawn up and they have been managed with no adverse impact on service delivery.

A training programme is used to provide training on financial issues for Members and relevant non-finance staff.

Theme summaries

Theme score - 3

KLOE 2.3 The Council manages its asset base

The Council has a designated corporate property function. There is an up to date corporate capital strategy in place which is linked to corporate objectives and the medium-term financial and asset management plans.

A corporate fixed asset register is maintained and the Council has undertaken reconciliations to other systems to ensure it was up to date by the end of 2007/08. The Council makes investment and disposal decisions based on thorough option appraisal and whole life costing. Members have approved plans to address backlog maintenance.

The Council is in the process of implementing an asset database which will include data on the efficiency, asset values and running costs of all the Council's buildings. Work begun on this in the last few months in 2007/08 and is ongoing.

Improvement opportunities

KLOE 2.2 The Council manages performance against budgets.

Budget monitoring reports to Cabinet should include balance sheet items as well as revenue items.

KLOE 2.3 The Council manages its asset base.

Finalise the implementation of the asset database and ensure this incorporates all data on the efficiency, asset values and running costs of all of the Council's buildings.

Financial standing

Theme score - 3	
Key findings and conclusions	
<p>KLOE 3.1 The Council manages its spending within the available</p> <p>The Council sets a balanced budget that takes account of cost pressures and service developments and has a good record of maintaining its overall spending within budget. The Council monitors and maintains its levels of reserves. At 31 March 2008 the General Fund reserves had moved slightly outside the range determined by the Council's agreed policy as a result of better than expected returns on cash investments due to higher interest rates. The position was reported to Members and changes have been made to the medium term financial plan in that there is no longer a need to set aside funding to increase the reserve.</p> <p>Monitoring information is available that evaluates the effectiveness of recovery actions and the associated costs and the Council is aware of the cost of not recovering debt promptly. The Council has set challenging targets for income collection, although in 2007/08 some of these, including Council Tax and sundry debtors, were not achieved. The Council has set up a Collection Forum which is chaired by an 'income champion' and has commissioned a feasibility study on debt management arrangements.</p>	
Improvement opportunities	
<p>KLOE 3.1 The Council manages its spending within the available resources.</p>	<p>Strengthen processes to ensure that income collection targets are achieved.</p>

Internal control

Theme score - 3

Key findings and conclusions

KLOE 4.1 The Council manages its significant business risks

The Council manages significant risks effectively through a corporate risk management framework. The risk management process is reviewed annually and specifically considers risks in relation to significant partnerships.

All appropriate staff receive relevant risk management training. Members with responsibility for corporate risk management also receive risk management training and regular reports to ensure that corporate business risks are being actively managed. Members have received training materials on risk management where they haven't attended training courses.

Reports supporting strategic policy decisions contain a risk assessment but do not contain a sustainability impact appraisal.

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

The Council has put in place an assurance framework which is embedded in the Council's business processes and maps the Council's strategic objectives to risks, controls and assurances. The framework provides members with information to support the Annual Governance Statement.

Compliance with standing orders, standing financial instructions and the scheme of delegation is monitored by management and they are updated as appropriate along with procedure notes/manuals for the key financial systems.

The Council has implemented and tested its business continuity plans. However, they have not reviewed those of their partners or contractors.

The Council introduced a cross party Audit Committee in March 2008 which has strengthened its independence.

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 can demonstrate that its members, officers and agents exhibit high standards of personal conduct and that a strong counter fraud culture exists across departments.

The risk of fraud and corruption is specifically considered in the Council's overall risk management process and the use of publicity in successful cases of proven fraud/corruption is considered to raise awareness among staff and the public.

The Council has a track record for effective action in response to whistleblowing disclosures and weaknesses revealed have been reviewed and internal control arrangements strengthened.

The Council can also demonstrate that effective action has been taken to maximise the potential available through the National Fraud Initiative.

Theme score - 3	
<p>The Council has continued to strengthen arrangements for preventing and detecting fraud relating to grant funding awarded to third parties. All projects approved for funding are subject to conditions clearly stated in the service level agreements. This includes agreed levels of primary funding to be in place, agreement of confirmation of outputs, and confirmation that agreements and outputs are not duplicated. In addition, all monitoring information must be submitted to the Council together with clear evidence of delivery and achievement of agreed outputs and milestones. Claim workshops are also obligatory for all organisations in receipt of awards.</p>	
Improvement opportunities	
<p>KLOE 4.1 The Council manages its significant business risks.</p>	<p>Ensure all reports to support policy decisions and initiation documents for all major projects include a sustainability impact appraisal.</p>
<p>KLOE 4.2 The Council has arrangements in place to maintain a sound system of internal control.</p>	<p>The Council should obtain assurance, on a risk basis, of the viability of its significant contractors' / partners business continuity plans.</p>

Value for money

Theme score - 3

Key findings and conclusions

KLOE 5.1 The Council currently achieves good value for money

The Council continues to perform well and has continued to achieve high ranking performance across many services. For example, children's services which, in 2007, was rated three stars by OFSTED and in 2008 achieved an overall score of four in the JAR. Adult social care also maintained its rating from CSCI of three stars in 2007. The delivery of many high quality services is recognised by the local population and there is high and improving user satisfaction with the majority of Council services.

While performance is good, spending across many services remains comparatively high as the borough is one of the most deprived areas in the country with low income levels coupled with high unemployment. The Council is focused on delivering value for money and continues to explore ways of reducing costs. This is leading to efficiencies being achieved in certain areas such as aspects of children's services, where unit costs are reducing.

Spending patterns, including areas of comparatively higher spend are clearly in line with policy decisions and priorities. Investment is directed to under performing services and the capital programme is focused on delivering both national and local priorities. It is being used effectively to fund improvements to services such as CCTV, better street lighting and upgrading parks.

KLOE 5.2 The Council manages and improves value for money

The Council has good processes in place to review and challenge services and improve value for money. The budget setting process challenges service areas to benchmark their service using comparative cost information, identify efficiencies and demonstrate how value for money has been achieved.

A programme of VFM reviews of high cost services has been implemented and the resulting action plans are monitored by the Efficiency Board to ensure improved value for money. This has resulted in efficiencies and savings across many priority areas. Efficiency targets have been met and a programme of further efficiencies is being planned for the next three years.

Value for money is being improved through procurement and use of ICT. The Council is using an effective approach to procurement through the Tollgate process which is applied to all significant procurement activity. Effective procurement has led to savings being achieved in some service areas such as highways, energy provision and agency staff costs. There is growing use of consortia and collaborative activity to improve VFM and plans are developing to maximise the potential of partnership resources.

Theme score - 3	
<p>ICT is being used to secure service improvements as part of the accommodation strategy with new ICT desk top services to enable more flexible working. However while this is positive, the potential of ICT is not currently being fully utilised to secure value for money across all high costs services. Revisions to the ICT business case process means service areas will need to give a clear rationale for IT investment with identified intended outcomes. This provides a good basis for identifying how ICT can improve VFM.</p>	
Improvement opportunities	
KLOE 5.1 The Council currently achieves good value for money	The Council should continue to drive efficiencies and reduce costs.
KLOE 5.2 The Council manages and improves value for money.	<p>Continue to develop ways of linking cost and performance information together so that both Members and officers can identify whether value for money is improving.</p> <p>Maximise the potential of ICT to improve VFM particularly in high cost services.</p>

Conclusion

- 8** The Council's performance demonstrates that overall it continues to perform well. There were improvements in many areas including the preparation of the accounts and working papers, sound financial planning being taken further forwards and on aspects of asset management, albeit with the score not changing. Thus the overall direction of travel was positive.
- 9** While this is the final year for the current Use of Resources process, the Council is encouraged to consider our improvement opportunities as we believe that, regardless of the way Use of Resources is measured, they can assist the Council in continuing to strengthen its overall arrangements.

Use of resources 2008/09

- 10** From 2008/09, the auditors' assessment of use of resources will be based on new key lines of enquiry and will form part of the new performance assessment framework for local government and its partners, known as CAA.
- 11** Key lines of enquiry for use of resources were published in May 2008 following consultation. These reflect the needs of CAA and incorporate a number of improvements including: a clearer focus on value for money achievements and further emphasis on commissioning of services, outcomes for local people and partnership working.
- 12** The assessment is structured into three themes:
 - managing finances: sound and strategic financial management;
 - governing the business: strategic commissioning and good governance; and
 - managing resources: effective management of natural resources, assets and people.
- 13** The approach to use of resources will continue to be risk based and proportionate, drawing on evidence from previous years where relevant. Not all key lines of enquiry in the managing resources theme will be assessed each year.
- 14** The Commission will specify each year in its annual work programme and fees document which key lines of enquiry will be assessed in that year.

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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