

Annual Audit Letter

Leicester City Council

Audit 2009/10

December 2009



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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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Key messages

This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources. It also includes a summary of the findings of the Council's 2010 Managing Performance assessment.

Financial statements

- 1 I have given an unqualified opinion on the financial statements. The quality of the Council's accounts is good overall although the draft financial statements were changed to correct some errors. Officers have agreed to address the issues identified by our audit, which should improve further the quality of next year's financial statements.

Value for money

- 2 I have also given an unqualified value for money conclusion as you have adequate arrangements in place to manage and use your resources to deliver value for money. The next step is for you to demonstrate that these processes are actually helping to deliver better services to local people. My overall conclusion is also supported by reviews of specific areas of Council activity, including the Health Inequalities, the Curve theatre project, the Building Schools for the Future programme, project management and disciplinary procedures. These have identified both good arrangements and areas which need to be strengthened.

Financial position

- 3 The Council is managing its financial position well and avoided exposure to Icelandic banks in 2008/09. It has adapted its financial plans appropriately in the light of the economic downturn. The impacts of the recession will continue to present a challenge to the Council in the coming financial years.

Organisational assessment

- 4 Our assessment is that you perform adequately overall. The Council manages its money adequately but is not making enough progress in all the areas that it has listed as its priorities. Crime is falling but slower than elsewhere and it was high to begin with. People in Leicester are less healthy than the national average and the gap is widening. Some things it does have made a difference though. The city centre has been transformed, more waste is being recycled and school results are improving. But some things are poor, such as the way the Council deals with housing and council tax benefits. While the Council has agreed a long term improvement plan, it is not clear how everything in it will be achieved. In the past it has been slow to recognise the need for improvement and to make necessary changes. Although it has brought in new senior managers to turn this around, it is too early to see if this has worked.

Fees

- 5 We have delivered the audit largely within the fee agreed at the start of the year (Table 1). A small increase in fee was necessary to cover additional testing of the payroll system due to weaknesses in controls over starters and leavers (paragraph 10).

Table 1 Audit fees

	Actual £	Proposed £	Variance £
Financial statements and annual governance statement	149,319	147,898	+1,421
Value for money	208,880	208,880	Nil
Total	358,199	356,778	+1,421

Actions

- 6 Recommendations are shown within the body of this report and have been agreed with the audited body.

Independence

- 7 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

Significant issues arising from the audit

- 8** I issued an audit report including an unqualified opinion on the financial statements on 29 September 2009. The financial statements presented for audit contained three material errors and twelve non-trivial errors. Management agreed to amend the financial statements for all errors with the exception of 'other items' within the Statement of Total Recognised Gains Losses.
 - 9** The unadjusted error consisted of various capital accounting errors and reconciling items. The Council decided not to adjust the financial statements on the basis that the value to be gained by users of the accounts would be minimal in comparison to the amount of officer time necessary to investigate the items and that there was no material impact on the financial statements.
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Material weaknesses in internal control

- 10** There is no evidence of formal management authorisation of starters and leavers on the payroll and no periodic confirmation of the payroll master-file by managers or budget holders. Consequently, we were unable to place full reliance on payroll controls to support the completeness and accuracy of the employee costs in the financial statements and additional testing was required. Furthermore, officers were unable to identify the relevant line-managers for a sample of starters and leavers selected for testing.
- 11** The Council has agreed to improve controls over starters and leavers in future.
- 12** I do not provide a comprehensive statement of all weaknesses which may exist in internal control, or all the improvements which may be made. I report only those matters which have come to my attention because of the audit procedures that we have performed

Accounting Practice and financial reporting

- 13** I considered the qualitative aspects of your financial reporting. I reported four issues to the Audit Committee in my Annual Governance Report:
- we found that five councillors did not respond to requests for information in respect of related party transactions;
 - testing of the housing benefit system identified a number of cases with errors and uncertainties which could impact on the accuracy of the financial statements, although the sums involved were not material in the context of the Council's statement of accounts
 - there were a significant number of capital accounting issues arising from the audit and early departure of the temporary capital accountant led to delays and inefficiencies in the completion of our work; and
 - there are a large number of fixed assets that need to be reviewed following clarification within the statement of recommended accounting practice (SoRP) about the use of depreciated replacement cost (DRC) as a basis for valuation.
- 14** My report included a number of recommendations to address these issues, which the Council has agreed to implement.

International Financial Reporting Standards (IFRS)

- 15** International Financial Reporting Standards will apply fully to local government for the 2010/11 published accounts. These will include comparative figures for 2009/10. This means that the Council needs to be in a position to provide the necessary financial and operational information from 1 April 2009.
- 16** I have reviewed the Council's plans for transition to IFRS which included a self assessment by Council finance staff. The assessment identified a number of significant and challenging issues for the Council and arrangements are being made to comply with the new requirements in a timely manner. Accounting for existing PFI schemes will be particularly challenging due to the complexity of the requirements and earlier implementation (2009/10).

Recommendation

- | |
|---|
| R1 Ensure that sufficient resources are allocated to implementation of IFRS and monitor progress against the project plan. |
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Value for money and use of resources

I considered how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources judgements

- 17** In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). As has been well publicised, the framework was changed this year and is now broader and more challenging than previously. Consequently, no direct comparison of scores can be made with the previous year.
- 18** Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 19** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 20** The Council's use of resources theme scores are shown in Table 2 below.

Table 2 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	2
Governing the business	2
Managing resources	3

-
- 21** The Council's overall arrangements are sound; meeting expected standards in two themes and performing well in the third. The Council's financial planning and monitoring arrangements are also performing well. Detailed findings and areas for improvement are in Appendix 1.

VFM conclusion

- 22** I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the areas are set out in Appendix 1.
- 23** I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.
- 24** Other work undertaken to support my Use of Resources judgements and VFM conclusion is set out below.

Ethical governance

- 25** This audit was carried out in two stages. In October and November 2007 we carried out a diagnostic survey and interviews with key councillors and officers. In March 2009 this was followed up with a workshop and review of arrangements.
- 26** Understanding of ethical governance was variable in 2007. The response to the survey was low and indicated a lack of interest in ethical governance, particularly amongst councillors. The Standards Committee was not fully effective. Cultural and behavioural aspects of good governance were underdeveloped and some misunderstanding existed about roles and responsibilities. Officer/councillor relations were not always good. Registers of interests, hospitality and gifts were not used effectively and not regularly reviewed.
- 27** However, arrangements have improved since our original review. There is now a higher level of understanding of the ethical agenda and the Council has developed a more systematic approach to councillor training. The Standards Committee is becoming more proactive in promoting high ethical standards and has begun to regularly review registers of interests, gifts and hospitality. The Council has adopted a modern and wide-ranging approach to governance and has updated its Corporate Governance Code to reflect the principles set out in the CIPFA/Solace's code of good governance.
- 28** Our report included recommendations to build upon the progress made and further strengthen the revised arrangements.

Disciplinary procedures

- 29** Following a disclosure made under the Public Interest Disclosure Act 1998, we carried out a review of the Council's management arrangements for and conduct of a disciplinary hearing.

Value for money and use of resources

30 Our report identified a number of issues, including:

- a lack of understanding and clarity on the relationship between Internal Audit and the officer with overall responsibility for preparing the disciplinary case;
- scope to reduce the time taken to conduct the disciplinary process;
- a lack of clarity over how some key decisions were made such as the selection of issues taken forward to the formal disciplinary hearing; and
- a lack of clarity over the basis for selection of the Chair of the hearing and how to deal with potential conflicts of interest.

31 Following completion of the audit the Council commenced a review of disciplinary procedures as part of a wider review of HR policies and procedures and a number of changes are being put in place, including:

- development of a new disciplinary procedure together with new management guidelines to provide more in-depth guidance; and
- a compulsory training programme for all managers covering investigations and hearings.

Partnership working - health inequalities

32 There are significant health inequalities in Leicester's population. Big differences in life expectancy occur in different areas of the city and overall mortality rates are higher than average. In addition, there are higher than average rates of drug and alcohol abuse, teenage pregnancy and diabetes.

33 Our audit examined how well Leicester City Council and Leicester City Primary Care Trust (LCPCT) are working together to reduce inequalities.

34 We concluded that both the Council and the PCT show strong commitment to reducing health inequalities. Appropriate strategies and partnerships are in place and there are some good examples of effective joint working. There are, however, areas where relationships have not been translated into planned outcomes and further work is needed to ensure strategies are fully integrated.

35 The relevant data and information available to the Council and the PCT is being used to manage performance in reducing health inequalities but sometimes it is interpreted differently by each organisation. This could limit its effectiveness.

36 Some targets are not being achieved. Progress has been limited, to an extent, by capacity issues, but this has been largely addressed. We would now expect the pace of development to increase and further work to be undertaken to ensure the partnership functions effectively in all key areas.

37 The Council and PCT have agreed an action plan to make improvements and we will monitor progress over the next year.

Building Schools for the Future (BSF)

- 38** BSF involves a large financial commitment over a long period of time and represents significant financial and operational risks for the Council. We are carrying out an ongoing review of the Council's arrangements for implementing and managing its BSF programme. Our latest review covered the period from June 2006 to phase 1 financial close in December 2007.
- 39** As well as the significant inherent risks associated with a project of this nature, the Council faced the additional challenge of being part of the first wave of BSF meaning the overall approach and underlying documentation continued to evolve and develop during the procurement period. Furthermore, phase 1 authorities did not have access to experienced advisors or authorities in previous waves.
- 40** Whilst recognising the difficult and evolving environment within which the Council was operating, we identified a number of weaknesses in the Council's arrangements during the early stages of phase 1 procurement. Improvements were made in the latter stages and all phase 1 schools were ultimately completed within the agreed timetable and budgets. However, it is important for the Council to learn the lessons from the early stages and ensure arrangements are strengthened for future phases and other projects. Some of the key issues identified were as follows:
- low corporate prioritisation and support, together with an absence of strong leadership;
 - failure to provide phase 1 BSF schools with strategic direction on how to optimise opportunities for improvements in teaching and learning as part of BSF;
 - inadequate initial project management arrangements;
 - lack of formal reporting of progress, emerging risks and updates on the affordability position to Cabinet between July 2006 and May 2007; and
 - inadequate consideration of the client-side structure and impact on costs prior to financial close.
- 41** The Council has recognised the need to refocus BSF and is rebuilding its BSF resources as part of a wider strategic review called 'Transforming the Learning Environment' (TLE). This involves the development of a clear strategic vision for Education, within which BSF has a major role to play. The client-side structure and resources are now more commensurate with such a major project. However, overall capacity and resources will need to be kept under review following recent proposals to accelerate the programme and deliver all the remaining schools within a compressed timeframe.
- 42** We will continue to review and monitor the Council's management arrangements and affordability of the project as it progresses.

Value for money and use of resources

The Curve theatre project

- 43** Curve is the flagship of Leicester's Cultural Quarter and supports a significant range of regeneration, cultural and inclusion policies. The development and building of Curve was led by Leicester City Council in partnership with Leicester Theatre Trust and Leicester Arts Centre Trust. The project was initiated in autumn 2001 and the theatre opened on 14 November 2008.
- 44** We reviewed the robustness and clarity of the planning, briefing, implementation and management of the project, including cost control and value for money, together with the key decisions which enabled the project to progress.
- 45** Curve was delivered over budget and a year behind schedule. Progress was monitored and decisions on cost increases were made appropriately throughout its implementation. However, the total cost of the project rose from an initial estimate of £26.5 million to £61.5 million, with the Council contribution rising from £4.4 million in 2001 to at least £36.8 million in 2008. The increases in projected costs and delays were partly due to changes in specification but also arose because of:
- inadequate identification and management of risks;
 - construction starting before detailed design work was complete; and
 - weak project management arrangements at the start of the project prior to the adoption of Prince 2.
- 46** Consequently, we were unable to conclude that the Council's arrangements ensured value for money in the development of Curve.
- 47** All recommendations arising from our report were agreed by the Council and corporate arrangement for project and programme management are being strengthened as part of the work of the Organisational Development Initiative.

Project management - follow-up

- 48** Based on previous audits, the Council's track record of project management has been mixed. Some projects have led to good outcomes but compliance with Prince II and the overall corporate framework has been inconsistent. We therefore decided to undertake a follow-up audit of the Council's project management arrangements in conjunction with an inspection of regeneration in March 2009.
- 49** We concluded that project management within the Council is still variable. A well structured approach which combines an improved process at strategic and operational level with cultural changes was in the early stages of implementation. One Leicester, which is the Council's partnership vision for the next 25 years, requires a strong programme and project management approach to ensure that it delivers positive change for local people. This means that the Council needs to make sure its programme management approach is implemented effectively and urgently.
- 50** As noted in paragraph 42 above, this is now being addressed as part of the Council's Organisational Development Initiative.

Treasury management

51 Following the difficulties faced by some authorities last year, the Audit Commission asked auditors to review the overall arrangements in place at council's for treasury management. We found that the Council had adopted a prudent strategy in 2008/09, recognising the increased risks in the international financial system and avoiding exposure to Icelandic banks and other failed institutions. We took our findings into account in the Use of Resources assessment and there were no issues that we wish to draw to the attention of members.

Financial position

52 The last year has seen the country enter a significant economic downturn. The consequence nationally, is an increasing demand for public services and the likelihood of reduced levels of central government funding. Together, these provide a significant challenge for local councils as they seek to continue to provide services to local residents, whilst maintaining a sound financial position.

53 The Council has responded positively so far. Financial plans have been adjusted appropriately, including reduced expectations of income from planning applications, land searches, development control and investment interest. Resources are being refocused on priority areas and efficiency savings have continued to be delivered. The Council has also temporarily scaled down its capital programme and targets for achievement of capital receipts.

54 The impacts of the recession will continue to present a challenge to the Council in the coming financial year. I will continue to monitor the Council's response and actions in this key area.

Organisational assessment

The Comprehensive Area Assessment Lead has used my use of resources assessment along with an assessment of how well the Council manages its performance to come to an overall assessment for the Council. This is known as the organisational assessment.

- 55** Organisational assessment is a part of Comprehensive Area Assessment, or CAA. This is a new way of assessing local public services in England. It examines how well councils are working together with other public bodies to meet the needs of the people they serve. It is a joint assessment made by a group of six independent watchdogs and will provide an annual snapshot of quality of life in the area.
- 56** The organisational assessment brings together the use of resources judgement with the Council's managing performance assessment.
- 57** In summary, our assessment concluded that although the Council manages its money adequately it is not making enough progress in all the areas that it has listed as its priorities. Crime is falling but slower than elsewhere and it was high to begin with. People in Leicester are less healthy than the national average and the gap is widening. Some things it does have made a difference though. The city centre has been transformed, more waste is being recycled and school results are improving. But some things are poor, such as the way the Council deals with housing and council tax benefits. While the Council has agreed a long term improvement plan, it is not clear how everything in it will be achieved. In the past it has been slow to recognise the need for improvement and to make necessary changes. Although it has brought in new senior managers to turn this around, it is too early to see if this has worked.

Table 3 **Organisational assessment**

Managing performance	2 out of 4
Use of resources	2 out of 4

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- 58** The Council scores 2 out of 4 for managing its performance. Some council services work well and the end results for local people are improving. Children are protected from harm well, school results are improving, more waste is being recycled, traffic congestion is lower and the city centre has been transformed.
- 59** The Council works quite closely with other organisations, such as the police and health, but this partnership working isn't as effective as it should be. Crime levels are high. Crime is falling overall but not as fast as elsewhere and some crimes are increasing. Leicester people are more unhealthy than average and the gap between life expectancy in the city and elsewhere is widening. Teenage pregnancy is now falling but it is still too high. Unemployment is rising due to the recession. Adult skills levels are lower than average and falling behind other areas.

- 60** Ofsted has rated the Council's children's services overall as adequate. Services to make sure children are safe and well protected from harm are good. The Council is successfully raising educational standards from very low levels. But big differences remain between children from different backgrounds. And GCSE results are still below other areas.
- 61** The Care Quality Commission has rated the Council's adult social care as good. The Council does some excellent work so that people who need care get personalised services. Disabled and older people are living more independent lives at home. And more people are taking control of their care arrangements through direct payments where they decide what will help them most. Not enough learning disabled adults are being helped to move out of institutions to live in ordinary homes. Physically disabled people are waiting too long for the Council to make adaptations to their homes. The Council needs to do more to help people live healthier lives.
- 62** While most poorer services are improving, one council service is not effective and doesn't meet the needs of local people. The way the Council deals with housing benefits and council tax benefits is poor. In the past the Council has been slow to do anything about poor services. In many cases they needed to be prompted by an outside agency to make changes. The Council recognises the need to take charge of improving its poorer services. It has started to do this by reorganising its top management to try to make sure all parts of the Council are effective. It is too early to see if this has worked.

Closing remarks

- 63** I have discussed and agreed this letter with the Chief Executive and the Chief Finance Officer. I will present this letter at the Audit Committee on 3 February 2010 and will ensure that copies are provided to all Councillors.
- 64** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Table 4

Report	Date issued
Ethical Governance	July 2009
The Curve Project	June 2009
Building Schools for the Future (2)	October 2009
Disciplinary Procedures	September 2009
Health Inequalities	October 2009
Project Management Follow-up	August 2009
Audit Plan	April 2008
Opinion Audit Plan	June 2009
Annual Governance Report	September 2009
Opinion and VFM conclusion	September 2009
Organisational Assessment	December 2009

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- 65** The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Neil Bellamy
District Auditor
December 2009

Appendix 1 – Use of resources key findings and conclusions

The following tables summarise the key findings and conclusions for each of the three use of resources themes.

Managing finances

Theme score: 2
Summary
<p>Financial management is adequate:</p> <ul style="list-style-type: none"> • The Council has a good track record of managing spending within budget, sound treasury management, risk based balances and reserves, and improving income collection rates. The capital programme is monitored as a percentage of total spend with the 2008/09 outturn at 92 per cent being the best ever; • Financial planning is good with clear links between the three year medium term financial strategy (MTFS) and the Council's priorities set out in the sustainable community strategy (SCS). It has shifted resources to its priority areas leading to some improved outcomes but improvements in key areas such as educational attainment are not on track to hit targets. • The Council benchmarks and uses unit costs well. It has a good understanding of its costs and performance and has achieved significant efficiency savings. Value for money (VFM) is adequate. • The Council has a well established budget setting system and carries out regular monitoring throughout the year. The 2008/9 accounts were produced in accordance with statutory requirements but, unusually, the planned date of approval was delayed and councillors had limited time to scrutinise them prior to approval. There were material errors in the accounts submitted for audit.

Appendix 1 – Use of resources key findings and conclusions

<p>KLOE 1.1 (financial planning)</p> <p>Score</p> <p>VFM criterion met</p>	<p>3</p> <p>Yes</p>
<p>Key findings and conclusions</p> <p>The Council integrates financial and performance planning well with clear links between the MTFs and the Council's priorities which are aligned directly with the SCS. It does some modelling of different financial scenarios to assess impact on the MTFs. It has shifted resources into to its priority areas leading to some improved outcomes. These include £10,000 per ward for people to spend on local priorities (rising to £15,000 in 2009/10), free swimming for older people, increased spending on youth service, £0.5 million for 'transforming Leicester's learning' programme', £200,000 for additional work following the baby P case, a pilot project for keeping the city centre clean and evening cleaning in the Cultural quarter. From 2009/10 an extra £65,000 each year has been allocated to reducing teenage pregnancies. Public feedback on the city centre is that it is cleaner. Improved educational outcomes and lower teenage conceptions show a closing of the gap between Leicester and the national averages, but these remain at risk of not achieving local area agreement (LAA) targets. Other achievements include no budget overspend year on year, good treasury management, full funding of the equal pay project of £12 million without capitalisation and increasing proportions of council tax and rent collected every year for the last six years.</p> <p>The Council engaged with schools on excessive schools balances resulting in an overall reduction. It plans claw-back and redistribution based on a formula to be agreed with the schools forum. The Council involves local communities and other stakeholders in broad priority setting but in little direct financial planning. It devolves a limited amount of expenditure to local people or interested groups. Tenants and residents groups control £395,000 of environment budgets, the Youth panel controls £750,000 expenditure; ward meetings control £15,000 each for locally determined priorities. The Council works with the voluntary and community sector in building capacity.</p> <p>Spending is well managed with outturn falling within a small margin of the planned budget. The capital programme for 2008/09 had a spend outturn of 92 per cent; being the best ever. Most projects are on budget and within or close to timescales. However the Curve project, which opened in November 2008, required significant additional funding to be identified in previous budget years. The Council has responded well to the effects on its capital programme of the economic downturn. Capital receipts have reduced and the programme has identified £1.4 million savings by reducing schemes such as Disability Discrimination Act (DDA) works and Town Hall improvements and dropping lower priority schemes such as the Manor House improvements. Uncommitted resources of £11.9 million are being used as well as funds allocated for new housing developments which are not required at the moment and will be replaced later by capital receipts when the economic picture improves.</p> <p>Financial leadership is sound. Cabinet members oversee financial plans alongside performance reporting and managers understand and operate within budget requirements. Members are involved in review primarily at Performance and Value for Money Scrutiny Committee and the Audit Committee where officers are called to account. For example, Scrutiny questioned the low take up of direct debit payments for council tax and NNDR, suggesting financial incentives. Scrutiny also reviewed and commented on the budget for Cabinet, including a proposal for more editions of the Council newspaper.</p> <p>Areas for improvement:</p> <ul style="list-style-type: none"> • Improve the performance of services benefiting from additional financial investment. • Engage stakeholders, including the public, in proposed spending decisions. 	

<p>KLOE 1.2 (understanding costs and achieving efficiencies)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>The Council's spending profile is similar to last year when it was judged to be a relative high spender. Service performance overall is adequate but it is well below the average of other councils. There is great variation between and within services absolutely and in terms of improvement. Environment and housing are rated as excellent while educational attainment was rated inadequate by Ofsted in 2008 within the children and young people's (CYP) service which was rated adequate overall.</p> <p>The Council benchmarks and uses unit costs well. There is a 'star chamber' process in the budget cycle comprising a group of leading members, which examines unit costs. Last year it queried variable subsidies to different lunch clubs which ranged from a few pence to £21 per meal. Subsidies have been reduced with an upper limit of £5 total cost per meal (£ 3.70 paid by attendee.) Housing benefits show reduced unit costs from £53.52 in 2005/06, to £46.78 in 2006/07 and to £44.82 in 2007/08. Cashiers function uses the per transaction measure as a key indicator of unit cost and a reduction from 60p in 2003/04 to 57p in 2007/08 also saw an improvement in ranking from 18th lowest to 7th lowest and a saving of £98k between 2003/04 and 2007/08.</p> <p>Individual services use the VFM profiles as a starting point to compare costs and this has led CYP to investigate higher than average SEN costs. The adult care service looked at high unit costs of aids and adaptations and this has highlighted the need to apply VFM criteria as well as need criteria. For example, one adaptation could cost as much as five others combined. In addition the Delivering Excellence programme includes a priority based budgeting programme which is being piloted this year on costs of SEN and aids and adaptations. This will be extended to all budget areas to compare spend against priorities.</p> <p>Members and officers routinely review and challenge performance information including VFM. The VfM framework includes detailed information on how to evaluate costs when looking at key decisions around service delivery.</p> <p>Cost analysis is undertaken for revenue and capital projects. For example, by reviewing the most appropriate means of commissioning older people's homes, saving over £1.5 million in the first three years and purchasing a sawmill which would pay for itself and provide a surplus over five years by reducing payments to dispose of sawn timber. However, the figurehead Curve project significantly overspent and overran.</p> <p>The Council analyses its service arrangements well to improve efficiency. The BIP programme has included reviews of HR, ICT and Creativity Works. The latter has led to savings of £200,000 per year through new contracts for bulk printing and copying. Agency savings are now almost £2 million per year, twice as much as originally planned. Conversely, sales of surplus property have not been realised due to the slump in property prices and sales. Total efficiencies gained in 2005/06 to 2007/08 were £28.55 million (cashable) against a target of £20.95 million. The target for 2008/09 to 2010/11 is £38 million. It has carried forward £9.42 million from previous years and in 2008/09 achieved a further £1.67 million. Efficiencies are now managed through the Delivering Excellence programme which has identified £5.3 million of 'quick win' efficiency savings in the three years beginning 2009/10. Six out of seven initiatives in the DE programme are crosscutting, for example 'one council, one contact' and priority based budgeting.</p> <p>Area for improvement:</p> <ul style="list-style-type: none"> • Continue to target poorer performing services for improvement, and improve the cost/outcome ratio. 	

Appendix 1 – Use of resources key findings and conclusions

<p>KLOE 1.3 (financial reporting) Score VFM criterion met</p>	<p>2 Yes</p>
<p>Key findings and conclusions</p>	
<p>The Council has a well established budget setting system and carries out regular monitoring throughout the year. Budget monitoring reports are produced for all cost centres each month for the individual cost centre managers. Variances are reported up to the next level in the monitoring hierarchy so that only those cost centres at real risk of over or under spending are reported to members.</p> <p>The Council considers finance and performance together so that decisions about each are related and councillors have a full understanding of the implications of their decisions. Reports explain the important changes and variances and necessary remedial action. Corporate level monitoring reports are quarterly, with monitoring reports going to Directors Board one month after the period end. Portfolio holders also receive these reports which are also considered at Cabinet briefings and full Cabinet so that timely action can be taken. While in-year reports are used to ensure that budgets remain on track, the council does not use them to identify additional efficiency savings in year.</p> <p>Standard reports are used in departments with limited customising taking place, in part due to the restrictions of the old financial management system. The Council has introduced a new system which is more flexible in this respect.</p> <p>The Council regularly reviews the financial performance of partnerships alongside performance information. A quarterly combined performance and finance report is now used for monitoring Area Based Grant (ABG) spend by the Leicester Partnership and it is clear that the LP executive is actively managing the ABG and Working Neighbourhood Funds budgets. Budgetary control is allocated to theme groups, such as the health and wellbeing partnership and these are reviewing ABG allocations to ensure that projects are directly aligned with One Leicester priorities and LAA targets. The information is now timelier, being available five weeks after the end of the period and partnership meetings are being rescheduled so that reports can be considered sooner.</p> <p>The 2008/09 accounts were produced in accordance with statutory requirements but, unusually, the planned date of approval was delayed and councillors had limited time to scrutinise them prior to approval. Working papers were generally good but not all were available at the start of the audit. There were material errors in the accounts submitted for audit. The capital accountant was an agency contractor who left the council before completion of the audit leading to delays and uncertainty in some areas.</p> <p>The Council publishes information about its finances in several ways. The Link magazine publishes summary statements including request for comments and feedback. It is delivered to homes throughout the city and is available on the council's website and in different formats. The financial statements are also available on the council's website. The leaflet issued with council tax bills shows very summarised financial information. Reporting does not currently include an analysis of the Council's environmental footprint. The current plan is to include finances and performance including environmental performance and diversity issues in a State of the City report through the Leicester Partnership and to break this down into geographical areas. The Council seeks responses to its reporting of its finances when it includes these in the LINK magazine or on the website. Responses are few and usually issue specific.</p> <p>Areas for improvement</p> <ul style="list-style-type: none"> • Consider how in-year reporting can contribute to achieving greater efficiencies and value for money. • Use the new financial management system to improve the financial reports available for service managers. • Ensure more time for councillors to scrutinise the statement of accounts before approval. 	

Governing the business

Theme score: 2	
Summary	
<p>The Council's arrangements for governing the business are adequate:</p> <ul style="list-style-type: none"> • The Council has raised the profile of strategic commissioning with the appointment of cross-cutting strategic directors. It is reviewing services to identify improvements and value for money but it is too early to see any impact yet. • Arrangements for ensuring data quality to support decision making and manage performance are adequate, although some areas are good. • The Council has responded positively to issues raised in the corporate assessment about ethical governance. The Standards Committee is more proactive and has agreed an improvement programme which it monitors at every meeting. Among councillors and senior officers there is a good level of understanding of the ethical agenda. • The Council ensures that its risk management processes are reviewed and fit for purpose. Good risk management has led to lower insurance claims and, in turn, lower premiums. • The Council has robust counter fraud and corruption arrangements actively pursuing fraud by claimants and staff. • The Council has an adequate system of internal control. • Arrangements for commissioning, governance, risk management and counter fraud and corruption measures are all less robust in the Council's partnerships than for itself. 	

Appendix 1 – Use of resources key findings and conclusions

<p>KLOE 2.1 (commissioning and procurement)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>Key findings and conclusions</p> <p>The Council has a clear understanding of its diverse communities but this is not fully reflected in commissioning and procurement strategies and practices. It does not have a corporate commissioning strategy with each department having its own. The LSP has a commissioning framework although most commissioning is still in single agencies. Some joint commissioning is in place, such as learning disability services where the joint board commissions £34 million of services annually, but this is not systematic. There are pooled budgets in mental health and learning disabilities and are being developed for drugs/alcohol work. The new economic partnership with the County Council provides a framework for shared approaches to economic development. The Council has raised the profile of strategic commissioning by appointing crosscutting strategic directors who will commission services for the Council and on behalf of partners.</p> <p>The Council involves service users in service planning and design, and some in the full range commissioning cycle. For example, tenants and residents associations help design the capital build programme and the Youth Council and older peoples' groups inform social care services. Users sit on the learning disabilities service commissioning board and the home care programme board. Agencies are jointly providing services in a single project building. Some suppliers are directly involved in the design of services, eg the company responsible for delivering the BSF programme is also advising schools on design.</p> <p>The Council is reviewing services to identify improvements and VFM. The Delivering Excellence programme has seven change programmes including 'priority based budgeting', 'transforming adult social care' and 'improving supplier management'. It is too early to see any impact yet. The Council is improving access to services. It has made payments available through Paypoint so that people can pay council bills in local shops with a big take up since its inception in January 2009. The Council holds events to inform and engage stakeholders about commissioning and procurement. Its website contains clear accessible information on procurement for potential suppliers including a section to help SMEs and holds 'Meet the Buyer' events where suppliers can meet council officials to learn how to improve their chances of bidding.</p> <p>The Council has adequate procurement practices following improvements after inspection reports. Only approved staff can procure services and procedures for contract management have been improved. Procurement with partners takes place through the Eastern Shires Purchasing Organisation (ESPO) and with the Regional Improvement and Efficiency Partnership (RIEP) where plans about sharing services such as passenger transport, winter maintenance and revenues/benefits with other councils are developing. ESPO's advance buying of energy has realised savings of £225,000 in year one. Innovative approaches include a demonstration competition which led to a better value contract for kitchens and bathrooms. Highcross included working with public and private sector partners to train and recruit local people to work in the centre. The Council complies with the code of practice on workforce matters, eg in using TUPE for 14 staff transfers when handing over the Highfields community centre to the local community association.</p> <p>The Council uses benchmarking well in some services, eg in adult social care, benchmarking of domiciliary care against other councils before re-tendering the contract.</p> <p>Areas for improvement</p> <ul style="list-style-type: none"> • Ensure that stakeholders are systematically involved in the full commissioning cycle so that they influence how services are delivered as well as what services. • Develop shared commissioning with partners so that services are increasingly customer focused, integrated and accessible. 	

Appendix 1 – Use of resources key findings and conclusions

<p>KLOE 2.2 (data quality and use of information)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>Key findings and conclusions</p> <p>The Council's overall management arrangements for ensuring data quality to support decision making and manage performance are adequate, although some areas are good.</p> <p>Improvements continue in reporting and skills, all through the roll out of Performance Plus (PP). However, there are areas in the Council where local systems are still used, rather than PP, and this means the Council is not getting the full benefit from the systems and policies it has. Performance Plus continues to make a positive contribution to improving performance management and ensuring data quality is maintained. All departments, and the Leicester Partnership statutory partners, are linked to the system and it provides sufficient controls to ensure data is entered 'right first time' rather than relying on data manipulation. Users can establish automatic uploads from their own databases, which provides for greater security, and adequate controls are in place to maintain IT security when partners from outside the Council access the system although there is manual inputting from some partners as agencies' systems are not compatible.</p> <p>The new data quality policy has not yet been fully implemented. There is now a protocol on data quality assurance for partnerships, but it is the responsibility of the partners to validate their own data. However, it only extends to those partners in the Leicester Partnership and its associated theme partnerships. It does not extend to contractual partners who may provide key performance and financial data to the council. There is also limited testing on the controls operating in the system with plans that internal audit will undertake a bi-annual survey into these.</p> <p>The Council and its partners use information well to aid decision making. The Council considers finance and performance together so that decisions about each are related and councillors have a full understanding of the implications of their decisions. Reports are by exception and include graphics to explain the important changes and variances and necessary remedial action. The Leicester Partnership quarterly performance monitoring report contains graphics generated from the Performance Plus system showing a summary scorecard and exception reporting with colour coded indicators and symbols to demonstrate whether on target.</p> <p>The Council procedures comply with government guidance and legal requirements for data handling and security such as FOIA and ISO27001. The Council is a best practice site for compliance with private sector standards on electronic card payments.</p> <p>Both the Council and the Leicester Partnership monitor progress against the seven joint priorities although this is primarily by tracking progress against LAA targets and there is less rigour in determining progress against other targets.</p> <p>Areas for improvement</p> <ul style="list-style-type: none"> • Ensure full compliance with the corporate performance system so that all corporate data is collected and collated more efficiently. • Implement fully the data quality policy and ensure arrangements for the quality of data provided by all partners including contractual partners. • Ensure that progress against all priorities is monitored fully. 	

Appendix 1 – Use of resources key findings and conclusions

<p>KLOE 2.3 (good governance)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>Key findings and conclusions</p> <p>The Council sets out members' roles and its scheme of delegation in its constitution which was updated in November 2008. The Council has adopted the latest national code of conduct for members and has a code of conduct for officers. Members and officers work closely together through a team working ethos supported by away weekends and regular briefings and meetings between councillors and senior officers. Officers also brief Opposition councillors and Opposition Leaders sit in on Cabinet.</p> <p>The Council takes its strategic direction directly from 'One Leicester', the SCS. It has developed strategic alignment of the seven priorities in One Leicester with seven strategic theme groups, responsible strategic directors who oversee the LAA targets in each theme. It is currently drafting its corporate plan using the same priorities. The Council has maintained a focus on its strategic objectives during the process of appointing its new strategic directors through the DE programme using additional capacity to maintain momentum.</p> <p>The Council has responded positively to issues raised in the corporate assessment about ethical governance. The Standards Committee has agreed an improvement programme which it monitors closely. During 2008, a new delegation scheme was approved. Half the councillors attended workshops on the Council's code of conduct with others having received individual briefings. The constitution has been revised and political conventions are under review. The Council is working through a scrutiny development plan and scrutiny now has an annual work plan. Among councillors and senior officers there is a good level of understanding of the ethical agenda. The Standards Committee is now more proactive. The Chair has made visits and presentations to political groups and Cabinet on the member complaint issues and the updated Code of Conduct. The Council has recently reviewed the register of members' interests and reminded councillors of the importance of compliance. The register of members' interests is available on the Council website although the register of gifts and hospitality is not. The Council raises awareness of probity among pre-election candidates. There is cross party support and signing of IDEA Members Development Charter. It is too early to gauge whether these changes are embedded in the behaviour and attitudes of all councillors.</p> <p>There was a high turnover of councillors in 2007 and the Council has developed a more systematic approach to councillor training. This includes ethical government elements in the induction process. It has started to use PDPs with about 20 councillors (out of 54) accepting the offer of an individual skills audit leading to PDPs. Training for members previously run by departments is now coordinated centrally. The Scrutiny forum has been established and it is to analyse role of chairs and deputies and this will feed into the annual training programme. While selection for Cabinet is now more systematic; based on interviews against a skill specification, officers lead on checking whether members have completed their agreed training programme, not senior councillors.</p> <p>Governance arrangements for the Leicester Partnership are contained in its constitution but there are no dispute resolution procedures. While differences have been settled so far through discussion and compromise, the Council has recognised the need for procedures. It is reviewing the constitution and terms of reference of the partnership and plans to include dispute resolution procedures. There is a compact with the voluntary and community sector that includes dispute resolution procedures.</p> <p>Areas for improvement:</p> <ul style="list-style-type: none"> • Ensure that all councillors are fully aware of ethical governance issues through a systematic, personalised programme. • Ensure that partnership governance arrangements are robust including dispute resolution procedures. 	

<p>KLOE 2.4 (risk management and internal control)</p> <p>Score</p> <p>VFM criterion met</p>	<p>2</p> <p>Yes</p>
<p>Key findings and conclusions</p>	
<p>The Council ensures that its risk management processes are reviewed and fit for purpose. The risk management strategy has been reviewed and updated. At present the leader of the council takes the lead on risk management, although this may change in future to the cabinet lead for finance. Good risk management has led to lower insurance claims and lower premiums following re-tendering of the insurance portfolio in September 2008 resulting in a £4 million surplus. The Council provides suitable training on risk management for relevant members. Audit committee received targeted training on Risk Management in 2008, Cabinet in 2009, and it is planned to run both programmes annually. The Council does not systematically consider risk management in its partnerships. It maintains a register of all partnerships and IA has undertaken a risk assessment of children's services partnerships but this has not been extended beyond. Partnerships do not have their own risk registers although the Council assesses the risk of service delivery that is the responsibility of partnerships.</p> <p>The Council has robust counter fraud and corruption arrangements with two separate teams. The HB/CTB counter fraud team is in the top ten performers in the country. It issued 42 sanctions (including cautions, prosecutions and other penalties) in 2005/06, 194 in 2006/07, 288 in 2007/08 and 259 in 2008/09, with almost twice the target rate of sanctions. The corporate counter fraud team completed 142 cases in the year. The team's activities are well publicised through Council publications and the local press to act as information and a deterrent. The Council participates fully in the NFI. However, CF&C activities do not extend into the Council's partnerships. The Council has recognised that counter fraud and corruption expectations should be extended into its partnerships and is planning to include them. Organisations that receive partnership funding are subject to commissioning/contracting arrangements which include CF&C requirements.</p> <p>The Council has an adequate system of internal control. The Annual Governance Statement identifies the risks and controls to manage them. A review of the risks and controls identified that most were robust and includes an action plan to improve identified weaknesses. The Audit Committee has extended its work to cover external assessments (such as in schools) as well as internal assessments and these are reported quarterly. Its role was reviewed by the Council recently and concluded that it was operating effectively.</p> <p>Areas for improvement:</p> <ul style="list-style-type: none"> • Extend risk management arrangements to all significant partnerships, at least those in the Leicester Partnership 'family' of partnerships so that risks are identified and mitigated against. • Ensure development of risk registers to enable internal audit findings to be included and to reflect corporate structure changes following organisational reviews. 	

Appendix 1 – Use of resources key findings and conclusions

Managing resources

Theme score: 3

Summary

The Council manages resources well.

- The Council makes effective use of natural resources by understanding and reducing its impact on the environment. It is registered with the eco-management and audit scheme (EMAS) and through this it performance manages its environmental effects including carbon emissions.
- The Council has reduced its CO2 emissions, water consumption, fuel use in fleet vehicles, miles travelled by staff undertaking council business and increased publicly accessible green space and the area of council owned sites important for nature conservation.
- The Council manages its assets well to support and deliver strategic priorities. The asset management plan (AMP) is directly aligned with One Leicester.
- Asset management VFM is good. Maintenance of properties is based on a detailed analysis of condition, need and cost which means that scarce funds are well targeted.
- The Council is working well with partners in maximising the use of all public assets in Leicester.

Appendix 1 – Use of resources key findings and conclusions

<p>KLOE 3.1 (use of natural resources)</p> <p>Score</p> <p>VFM criterion met</p>	<p>3</p> <p>Yes</p>
<p>Key findings and conclusions</p> <p>The Council is making effective use of natural resources. One of its priorities is to reduce its carbon footprint. It is proactive in understanding and reducing its impact on the environment. The Council is registered with the eco-management and audit scheme (EMAS) and through this it performance manages its environmental effects including carbon emissions. Procurement policy seeks to achieve benefits for the wider community, for example: environmental purchasing; encouraging small and medium sized local businesses and the voluntary sector; and encouraging use of Fairtrade products.</p> <p>The Council has a robust knowledge of its environmental performance. It has reduced its annual CO2 emissions from 74,000 tonnes to 54,000 tonnes; reduced electricity consumption in council buildings by six GWH; reduced water consumption by 2000 cubic metres; reduced fuel use in fleet vehicles by 100,000 litres; reduced miles travelled by staff undertaking council business by 11.9 per cent; increased publicly accessible green space by 30 hectares; and increased the area of council owned sites important for nature conservation by 2.35 ha. It is innovative in including schools in the EMAS programme, currently with 68 participating and on target to achieve 90 by 2011. The new Digital Media Centre is subject to an environment impact assessment and includes sustainable features including ground source heat pumps, rainwater harvesting and testing for compliance with the Code for Sustainable Homes. A set of corporate environmental improvement objectives and targets are in place, together with an action programme. The new appointment of an officer dedicated to sustainable procurement will take the procurement plan for 2009/10 and work through each programme to see how the sustainability agenda can fit in with those programmes. An annual review of the council environmental performance is reported to Cabinet and then published for stakeholders as an annual environmental statement.</p> <p>Areas for Improvement</p> <ul style="list-style-type: none"> • Ensure that sustainability impact assessments are undertaken for all major projects and programmes so that environmental impacts are minimised. 	

Appendix 1 – Use of resources key findings and conclusions

<p>KLOE 3.2 (strategic asset management)</p> <p>Score</p> <p>VFM criterion met</p>	<p>3</p> <p>Yes</p>
<p>Key findings and conclusions</p> <p>The Council manages its assets well to support and deliver strategic priorities. The asset management plan (AMP) is directly aligned with One Leicester and aims to support the delivery of priorities by providing sites for development, sale of land to fund priorities or improving VFM and reducing the impact on the environment. Asset management VFM is good. Disposals may be freehold sale, leasehold sale or rental depending on the best return with current depressed market conditions focusing disposals on particular need. For example, the Council has recently sold sites with particular local interest by auction at prices similar to those being obtained before the downturn. Discussions are taking place about the possible release of land now for affordable housing to ‘pump prime’ the local economy and ensure that sector infrastructure is in place when confidence and credit return. The disposals policy allows for development conditions to be imposed in order to get both the financial receipt and regeneration benefits for the city, thus maximising the value for money. Maintenance of properties is based on a detailed analysis of condition, need and cost which means that scarce funds are well targeted at properties with a long term corporate future. Consultancy Framework Contracts have previously been identified as notable practice.</p> <p>The Council is working well with partners in maximising the use of all public assets in Leicester. The Leicester public sector property forum includes all major public sector agencies to share and map property information and explore options for more efficient and shared use of public buildings. For example, the recently opened Charnwood centre accommodates the PCT, a Health Centre, and adult social care office based staff, and a council customer service centre. A new park and ride scheme based at Enderby is a joint venture with the county council and Blaby district council. Plans are in place for a Joint Service Centre in Southfields which will include a library, community facility, customer-service access point, office accommodation, GP and dental surgeries with an intermediate care facility. It will also include voluntary sector staff providing meals and day care on the Saffron estate. The Council uses assets well for wider community benefits; One Leicester includes plans for a community facility in each ward. Community centres in Highfields and at Cort Crescent are being transferred to community control and properties have been sold to third sector organisations such as Clarence House to Age Concern. Mapping of third sector properties including faith based organisation is being added to the city wide multi agency mapping exercise as the start of a long term strategic approach to all public assets used by public bodies in the area.</p>	

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Audit Letter 2008/09 Recommendations						
6	R1 Ensure that sufficient resources are allocated to implementation of IFRS and monitor progress against the project plan.	3	Chief Finance Officer and Audit Committee	Yes		See project plan.

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