



Watford Borough Council

Value for Money Conclusion 2009/10

November 2010

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1 Executive Summary

Background and purpose of the report

- 1.1 Under the Audit Commission's Code of Audit Practice we are required to reach a conclusion on whether Watford Borough Council ('the Council') has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion'). On the basis of the work completed we issued an **unqualified** Value for Money conclusion on 30 September 2010.
- 1.2 We described in our Audit Plan (March 2010) the areas of audit work that provide us with the assurance that contributes to our annual VFM conclusion. This report sets out our findings from these pieces of work:
- our assessment of the Council's Use of Resources ('UoR'), using the three themes within the Audit Commission's assessment framework and Key Lines of Enquiry ('KLoE'),
 - specific work on locally identified audit risks, which contribute to our VFM conclusion by feeding into our UoR assessment (now abolished - see below)

This report sets out our findings from these pieces of work to arrive at the unqualified conclusion.

Key findings and action required by the Council

- 1.3 The wider requirements of the Use of Resources (UoR) assessment have been abolished and will not be formally scored for this year. However, we set out in this report discussions of each theme and areas for improvement based on the work we had completed at the time the arrangements ceased.
- 1.4 The headline findings are as follows:
- The Council remains proactive in service planning based on stakeholder feedback and continues to utilise various forums to obtain feedback on services the public prioritise so resources may be directed into those areas.
 - The finance reporting has improved in the past year with the strengthening of the monthly budget reporting pack, distributed to members and staff, combined with the introduction of a series of key performance indicators ('KPI') to manage the business.
 - The Council's use of natural resources was considered for the first time this year. We noted that the Council had proactively put in place a detailed Sustainability Service plan with an associated action plan.

- Commitment to member development remains an area of strength and all members have Personal Development Plans and complete self assessments to identify development requirements.
- 1.5 The key actions for the Council, relevant to the areas covered by our VFM conclusion, are as follows:
- The Council should continue to put data sharing protocols in place to encompass all partners.
 - With the transition to IFRS accounting there will be significant changes to the way fixed assets are accounted for. The Council needs to maintain the momentum that has been built up to have adequate systems and processes in place ensuring the transition is a smooth process. Restating the 2009/10 accounts to an IFRS basis will assist in this process. The Council has been pro-active in seeking early transition advice.
- * The Council should formalise the reporting of the results of their carbon management strategy.
- Implement a comprehensive programme of governance reviews in respect of all the Council's partnerships.

Way forward

- 1.6 As the Use of Resources framework has now been abolished the key areas of improvement identified will not be followed up specifically through an assessment process. The Council should look to develop action plans on those areas that link directly with Corporate Priorities.
- 1.7 Given the scale of the pressures facing public bodies in the current economic climate, the Audit Commission has reviewed its work programme for 2010/11 onwards. As part of this exercise, the Commission has been discussing possible options for a new approach to local value for money (VFM) audit work with key national stakeholders. From 2010/11 we will therefore apply a new, more targeted and better value approach to our local VFM audit work. This will be based on a reduced number of reporting criteria specified by the Commission, concentrating on:
- o securing financial resilience; and
 - o prioritising resources within tighter budgets.
- 1.8 We will determine a local programme of VFM audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities. We will no longer make annual scored judgements relating to our local VFM audit work. Instead we will report the results of all the local VFM audit work and the key messages for the audited body in our annual report to those charged with governance and in a clear and accessible annual audit letter.

Grant Thornton UK LLP
November 2010

2 Scope of our work

Introduction

- 2.1 In carrying out our audit work we comply with the statutory requirements governing our duties, set out in the Audit Commission Act 1998, in accordance with the Code of Audit Practice (the Code). The Code requires us to issue a conclusion on whether Watford Borough Council ('the Council') has proper arrangements in place for securing economy, efficiency and effectiveness in the use of its resources ('VFM conclusion').
- 2.2 Our VFM conclusion is informed by our use of resources work which, in Councils, is based on the Audit Commission Use of Resources (UoR) assessment. However, prior to conclusion of our work the new Coalition Government abolished the Comprehensive Area Assessment (CAA), which included the requirement for a scored UoR assessment.
- 2.3 Notwithstanding this, although we are not able to report scores for 2009/10 it is important to provide feedback on the work that we have completed to date. We set out below improvements identified since the previous year and assessed where there are opportunities to address areas of weakness.

Approach to the audit

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

Acknowledgements

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

Use of this report

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

3 Managing finances

3.1 The managing finances assessment covers the following areas:

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

Our assessment of the Council's performance in these areas is set out below.

Planning finances to deliver priorities and sound financial health

3.2 The Council has fully integrated financial and service planning processes. The Council has a 5 year Medium Term Financial Strategy ('MTFS') in place, which was revised in year after scrutiny by the leadership team, Council members and employees. The MTFS is linked to the Service plans and the objectives of the Council as defined in the corporate plan. The service plans have budget allocations and review monthly in accordance with the budget monitoring process the Council has in place. The Council has forecast a £300,000 revenue gap in 2010/11, which will place the Council budget under significant pressure and will prove very challenging. This will, however, need to be updated for the detailed impact of the Spending Review announced in October 2010 and the frontloading of the reduction of revenue support grant in 2011/12. This represents a significant challenge.

3.3 The Council has continued to maintain its high level of engagement with stakeholders. The Council consult stakeholders on the budget via the 'citizens panel', comprising of over 1,100 members of the public to vote on and prioritise areas of spend where they wish resources to be directed and build this into the Council budget. The Council has previously consulted on the development of leisure centres and parks, more recently the Council have canvassed stakeholders as to the redevelopment of the Coliseum.

3.4 In 2009/10 the Council entered into an agreement with Three Rivers DC to jointly provide the services of revenues and benefits, finance, IT, human resources and payroll. Through this service re-design the Councils expects to produce significant savings although more may be needed in the context of the Spending Review challenges.

3.5 The revision and subsequent updating of the Treasury Management policy in 2009/10 and the development and introduction of treasury management KPIs circulated as part of the monthly monitoring financial cycle, has resulted in more stringent monitoring of the Council's investments in response to the declining interest rates and the Icelandic banking crisis. Financial training has also been provided on the financial statements and the impact of International Financial Reporting Standards (IFRS).

- 3.6 A process of ongoing scrutiny exists for the financial plans and management arrangements across the Council. This is achieved through a fully resourced annual internal audit plan, an effective Audit Committee, quarterly training events for the budget scrutiny panel and regular Section 151 update meetings. Additionally, Budget Scrutiny Panel challenge financial assumptions through the scrutiny of key decision reports on financial performance and the MTFS.
- 3.7 The Council has shifted resources to help meet its priorities and has been able to demonstrate outcomes have been achieved. It needs to ensure that there is a clear focus to use money to support priority areas of spend. This is increasingly important given the recent spending review.

Sound understanding of costs and performance/achieving efficiencies

- 3.8 The Council has a value for money strategy in place and the Council works towards understanding its costs versus activity over time and benchmarks its services with other similar organisations to determine whether value for money is being provided. The Audit Commission value for money profile toolkit placed Watford BC as having a cost of £550/taxpayer, which is the highest of any of its comparators, although the Council tends to benchmark against a different profile of councils to the Commission's groupings. The Council state their key priorities reflect high cost in the areas of street cleaning, waste collection and environmental health services but result in high outcomes as defined through public consultation. The Council has an understanding of its costs demonstrated in corporate documents such as the 'Managing Directors Stock take' presented to Cabinet- which focuses on the Council's performance for the year.
- 3.9 The Council has evidenced they have a good understanding of their costs when assessing the option of combining the services of revenues and benefits, IT, payroll, human resources and finance with Three Rivers DC, which resulted in savings being made in 2009/10 with over £1.2million savings programmed for 2010/11.
- 3.10 For all major investment decisions and service changes the Council undertakes full scenario analysis in order to evaluate the options for consideration, the risks that need to be mitigated, external factors that may have an influence and the whole life costs/benefits that are expected to result.

Timely and reliable financial reporting and meeting stakeholder needs

- 3.11 The Council has significantly improved financial reporting to Cabinet, scrutiny committees and all stakeholders of the Council through the strengthening of the Finance Digest, a monthly budget reporting pack, and the establishment and subsequent monitoring of a set of 28 key performance indicators assessing the Council's performance. Work performed confirmed that Budget monitoring procedures demonstrate that performance is robustly monitored with action plans put in place to correct variances.
- 3.12 The Council's accounts were submitted for audit in accordance with the required timetable. The Council provided a set of accounts and notes to the accounts supported by working papers in both paper and electronic format, all queries were responded to on a timely basis. The auditors provided an unqualified opinion on the accounts. From review of the ISA 260, there was no evidence of non-compliance

with accounting standards or agreed accounting policies and no delays were experienced in the audit process. The Council is currently on track for the implementation of IFRS and during 2009/10 there were 2 surveys carried out to check the progress of IFRS, marked in a traffic light format. The Council were rated as 'Amber' and are on track for the implementation of IFRS.

- 3.14 The improved performance monitoring noted in the last two years has aided a timely and efficient accounts closure. The timely provision of financial information throughout the year enables a clear understanding of the financial position. The accounts provided for 2009/10 were good, with clear working papers provided as requested. Going forward, the Council has engaged in significant discussions around IFRS and its likely impacts.

4 Governing the business

4.1 Governing the business theme considers four areas:

- commission and procure quality services tailored to local need
- produce relevant and reliable data and information to support decision making and manage performance
- promoting and demonstrating the principles and values of good governance
- managing risks and maintaining a sound system of internal control.

Our assessment of the Council's performance is set out below.

Commission and procure quality services tailored to local need

4.2 The Council has a procurement strategy in place, the aim is to develop a quality procurement and contract management culture which will assist in achieving the Council's corporate policies and objectives. The Council seeks an in depth understanding of its market which is demonstrated in its procurement bids for the Leisure Centre, redevelopment of the Colosseum and Civic Centre. The council acknowledges the importance of building good supplier relationships in delivering best value solutions. One aspect of this is providing information to suppliers including the Council's portal which include the capacity to display Council tender notices. The Council recorded procurement savings of £1.2m over a 2 year period covering 2007-08 and 2008-09.

4.3 The Council has a focused vision of outcomes linked to local needs and demographic considerations. This awareness is further demonstrated by their feedback and consultation exercises performed for certain key projects such as the new leisure centres and consultation as to the proposals for a cultural quarter and the development of the Colosseum as an entertainment venue.

4.4 The Council is an active participant in working in partnership with Three Rivers DC and in 2009/10 combined the services of revenues and benefits, human resources, payroll and IT in a move to reduce the overall cost of service and seek to make efficiencies where possible to provide a lower cost service for the local tax payer..

Produce quality data and information to support decision making

4.5 The Council's data quality strategy was substantially revised in June 2009 resulting in the formation of a management structure to oversee data quality and a comprehensive training programme designed to promote the importance of data quality across the Council. The Council has developed data sharing protocols with partners but they are not in place for all partners, where protocols are not in place the Council has been re-assured that the data quality is of a satisfactory standard.

The Council should formalise the data sharing process by adopting and putting in place data sharing protocols for all partners.

- 4.6 To confirm the data quality of the Council we relied upon the prior year data quality testing, which encompassed housing benefits data quality testing which did not highlight any significant issues. Furthermore, the results of the testing of national indicators, performed by internal audit and reported in August 2009, resulted in 16 out of a sample of 22 indicators being tested with recommendations being made but were not of a high level nature. The Council should continue the current programme of data quality testing in place and look to further enhance the programme to achieve a wider coverage of the Council's data.
- 4.7 The Council has a performance management team in place that utilises dashboards for managing the performance of KPIs. Where issues are identified, heads of services are required to provide explanations and advise on actions to address under performance, which is subsequently monitored by the Leadership Team and Call in and Performance Scrutiny Committee ('PSC'). The PSC receives quarterly performance reports, which is also distributed to Portfolio holders.

Promote and demonstrate principles and values of good governance

- 4.8 The Council has a constitution in place which describes the roles and responsibilities of officials and members published on the Council's website. The council ensures compliance by means of adherence to the code of corporate governance published by CIPFA. The Council has a strong commitment to member development and all members have personal development plans and complete self assessments to identify development requirements. The Council has achieved the East of England charter for elected member development reflecting its commitment to development. The Council has established a Member Development Group which meets regularly to consider the training requirements for members. The Council has demonstrated the effectiveness of this arrangement through the courses that have been arranged to meet identified member needs.
- 4.9 The Council is able to demonstrate a robust and well established ethical framework & culture. All members have signed up to the code of conduct as well as staff. There is a protocol for working relationships between members and officers and codes of conduct are included in contracts of employment. The monitoring officer is required to provide complaints information to the Standards Board for England on a quarterly basis. Members are referred to the Standards Committee for any breaches and HR has staff disciplinary procedures in place for all staff. Members are sent standard forms annually to declare their interests as well as any gifts and hospitality received. These are published on the website. Officers and staff are required to do the same, although no formal reminders are sent and these are not made public.
- 4.10 Summaries of all partnerships are held by the Council and each partnership has either an agreement, service level contract or terms of reference with the Council. There is also a data sharing protocol in place whereby the Council shares information with the Police and Health Authorities. The Council is working to strengthen its governance arrangements in its partnerships through formalisation of its data sharing protocol with partners.

Manage risks and maintain a sound system of internal control

- 4.11 The Council has in place a corporate risk register, which is maintained by the leadership team. The Council is embedding risk management into its business processes ensuring that each service maintains and reviews its own risk register. Significant risks are carried forward to individual service plans and the plans record the link between service and corporate objectives and the risks to achieving the objectives. The audit committee receives update reports on risk management and risks to recommendations are included in every committee report. There is a risk management group in place, which comprises heads of services, and they are charged with the responsibility of reviewing the risk management process. The Council has identified their partners and needs to put in place a comprehensive programme of governance reviews of their partners as identified through the partnership audit action plan..
- 4.12 The Council has a Member approved 'Counter Fraud and Corruption Strategy' with a 'Whistle Blowing Policy' annexed to it that was further revised in January 2010. The Council perform a limited number of governance reviews but should have a comprehensive programme of audit for all partners, risk assessed on a cyclical basis.
- 4.13 Regular training is provided to staff to increase risk awareness within the Council including a training course designed for managers, who in turn cascade the training to their team. In addition, there are also specific training given to staff where identified by management. Watford BC has rolled out an e-learning module for all staff on fraud and whistleblowing and also raised the profile via a mail shot of the policy was included within April 09 salary slips. The Council is active in the national data matching exercises and performed the match of electoral register against the council tax system resulting in £89,000 of savings. In addition, the Council publicises successful prosecutions and examples of cases of housing benefit fraud detected.
- 4.14 The Council is effective at enforcing the implementation of audit recommendations, reviewing outstanding actions at each meeting and holding responsible officers to account. The conclusions of the 2010-11 external audit, and work to date in 2011-12 indicate that the system of internal control remains.

5 Managing resources

Making effective use of natural resources

- 5.1 This KLOE was assessed for the first time in 2009/10 across three areas of activity:
- understanding and quantifying the use of natural resources
 - managing performance to reduce its impact on the environment
 - managing environmental risks and working effectively with partners to do so.

Our assessment is set out in the following paragraphs.

Understanding and quantifying the use of natural resources

- 5.2 The Council has a carbon management strategy in place, to deliver reductions in carbon emissions. The strategy is supported by delivery plans to address climate change mitigation and adaptation, achieve energy and water efficiency and optimize the use of renewable resources.

- 5.3 The Council has systems in place to quantify the following:
- Energy consumption
 - Carbon measurement
 - Water consumption
 - fuel consumption

The records are provided by an external organisation , ASDM, that measure the energy usage accurately and the results are informative but the arena for delivering these results is unclear and requires formalisation.

Managing performance to reduce the Council's impact on the environment

- 5.4 The performance measures are contained within the sustainability action plan and will be reviewed by the cabinet going forward. The cabinet will review and subsequently set targets prior to the commencement of the financial year. Going forward the Council will focus on monitoring the targets to identify the main areas of impact and put in place appropriate prioritised initiatives to support the delivery of the sustainability action plan.

- 5.5 Staff are encouraged to commit to the Council's approach to reducing its impact on the environment, which could become more formalised by presenting mandatory courses for staff every year.

Managing the environmental risks faced and working effectively with partners

- 5.6 The Council is attempting to manage the environmental risks it faces through the membership of the Hertfordshire climate change partnerships that comprises all council's in Hertfordshire, the county council, NHS and 38 voluntary organisations. The partnership was consulting and putting in place the strategy during 2009/10, after a period of consultation that resulted in a formalised strategy being introduced in May 2010. The Council are in the process of minimising further environmental risks through the above and increased partnership working to achieve their objectives.
- 5.7 Watford are part of the Hertfordshire and Essex Energy Partnership (HEEP) which offers grants towards a wide range of energy saving measures, including cavity wall insulation and loft insulation.

Appendix A Action Plan

This action plan includes recommendations intended to assist the Council in improving its performance in key areas of its activity. Our priority system grades the most significant recommendations as High priority (on a scale of High to Low).

Ref.	Recommendation	Priority	Management response	Implementation details
3.13	The Council should maintain momentum gained for the transition to IFRS reporting.	Medium	The Head of Finance Shared Services regularly reviews progress in this area and liaises closely with the external auditors.	Requirements for final account closure will be achieved by statutory dates.
4.5	The Council should continue to put data sharing protocols in place to encompass all partners	Medium	This work is ongoing but is reliant upon the cooperation of partners.	To be reviewed at 31 st March 2011 to identify 'gap' analysis.
4.6	The Council should increase the coverage of the programme of data quality testing	Medium	This work is in hand via the internal Data Quality audit action plan.	Will be reviewed 31 st March 2011.

Ref.	Recommendation	Priority	Management response	Implementation details
4.11	Implement a comprehensive programme of governance reviews at the Councils partners.	Medium	This has been reflected within the partnerships internal audit action plan.	The programme has slipped slightly due to work on service prioritisation. A revised programme will be completed by 31 st March 2011.
5.3	The Council should formalise the areas for reporting the results of their Carbon Management Strategy	Medium	<ul style="list-style-type: none"> There is now the internal Carbon Management Board and the Climate Change Strategy and Action Plan (which includes the existing Carbon Management Strategy) and will go to Cabinet in February 2011 for approval and subsequently be an annual report to Cabinet. 	Alan Gough, Head of Environmental Services.



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