Deloitte.

London Borough of Hillingdon

Indicative Stage
Use of Resources Report

June 2010

Draft Report

DRAFT

Contents

Executive summary

We have pleasure in setting out in this document our report to the London Borough of Hillingdon ("the Council") on the indicative stage use of resources assessment for the year ended 31 March 2010. This report summarises the principal matters that have arisen from our assessment.

On 26 May 2010, it was confirmed by the Audit Commission that following an announcement by the Government that Comprehensive Area Assessment ("CAA") was to be abolished, all work on Use of Resources ("UoR") assessments at local authorities was to stop with immediate effect. We completed the Council's assessment to the fullest extent possible for the indicative stage submission in April 2010, however will not now be making a final submission in July 2010. Our UoR report at this stage in 2008/09 included recommendations for improvement where appropriate, but also 'evidence gaps', where our indicative assessment had identified that additional evidence to that provided to us may be available which would enable potentially higher scores to be reached. This report does not include 'evidence gaps', as there is no further opportunity for us to assess additional evidence.

Introduction	The UoR assessment considered how well organisations were managing and using their resources to deliver value for money and better and sustainable outcomes for local people. The assessment comprised three themes:
	• Managing finances, focusing on the sound and strategic financial management of the local authority;
	• Governing the business, focusing on the strategic commissioning and good governance of the local authority; and
	• Managing resources, focusing on how the local authority manages its natural resources, assets and people.
	The UoR assessment formed part of the CAA from 2009 and fed into other relevant performance assessment frameworks. As explained above, CAA has been abolished by the new Government, and no further work will be performed on UoR assessments at local authorities.

Executive summary (continued)

Scope	An annual requirement of local authority appointed auditors was to perform an assessment of an authority's UoR. This indicative stage assessment was carried out during March 2010 in order to provide indicative scores to the Audit Commission by their deadline of 21 April 2010. Within the report, we have outlined: • A summary of our findings in reaching the indicative scores reported; and • Recommendations for improvement based on our indicative 2009/10 assessment. Due to the abolition of CAA, no moderation of the scores submitted for local authority indicative stage UoR was completed by the Audit Commission this year. The scores reported in this report will not, as far as we are aware, form part of any judgement or assessment of the Council going forward.

Indicative findings	The UoR assessment is made under three overall areas: Managing finances, Governing the business, and Managing resources. Within each of these themes there are a number of key lines of enquiry ("KLoEs"). We assess each KLoE by considering what auditors would expect to see at authorities which are performing adequately or well. There are some areas that could only be reviewed at the final submission stage, for example, those relating to the preparation of the final statement of accounts and the Annual Governance Statement, which could not have been prepared for the indicative stage of the assessment. In those circumstances, we rolled forward the scores achieved in the prior year assessment as we have no evidence that performance in these areas had deteriorated from prior year. We assessed all three themes of the Council at level 3 at this indicative stage of our review. This compares very favourably to prior year, when the Governing the business and Managing resources themes were scored at level 2. This significant improvement in scores is a noteworthy achievement, for which the Council should be congratulated. For a breakdown of the score by individual KLoE please refer to Appendix 1. Details of the scoring process have been included at Appendix 2.

Executive summary (continued)

Recommendations for improvement	Throughout this report we have included recommendations. These stem from areas where we believe that the council can deliver improved outcomes for local residents either by enhancing its processes or by increasing the information and evidence available.

The recommendations made as a result of our work are:

Recommendation	KLOE
The Council should enhance its use of benchmarking	KLoE 1.2 – Understanding costs KLoE 2.2 – Use of information
The Council should finalise an organisation-wide Corporate Procurement Strategy, and ensure that it is publicised.	KLoE 2.1 – Commissioning and procurement
The Council should continue to identify and evaluate opportunities to use technology in innovative ways	KLoE 2.1 – Commissioning and procurement
The Council should continue to explore opportunities to work with a wider range of suppliers, specifically with the third sector	KLoE 2.1 – Commissioning and procurement
The Council should continue to develop its approach to addressing wider sustainability considerations in all of its procurement activity	KLoE 2.1 – Commissioning and procurement
The 'Annual Questionnaire for Councillors' should include a question on how Members have used their Personal Development Toolkit, so the Council can monitor the use and effectiveness of these Toolkits	KLoE 2.3 – Good governance
The Counter Fraud and Corruption strategy should be updated on an annual basis and should contain a strong message against 'tipping off''	KLoE 2.4 – Risk management

Please see more detail in the body of the report in relevant sections for each KLoE.

1. Introduction

The "UoR" assessment considers how well organisations are managing and using their resources to deliver value for money and better and sustainable outcomes for local people. The assessment comprises three themes and ten KLoEs.

Theme 1	Managing Finances - How effectively does the organisation manage its finances to deliver value for money?		
KLoE	1.1	Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?	
	1.2	Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?	
	1.3	Is the organisation's financial reporting timely, reliance and does it meet the needs of internal users, stakeholders and local people?	
Theme 2	Governing the Business - How well does the organisation govern itself and commission services that provide value for money and deliver better outcomes for local people?		
KLoE	2.1	Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?	
	2.2	Does the organisation produce relevant and reliable data and information to support decision making and manage performance?	
	2.3	Does the organisation promote and demonstrate the principles and values of good governance?	
	2.4	Does the organisation manage its risks and maintain a sound system of internal control?	
Theme 3	Managing Resources - How well does the organisation manage its natural resources, physical assets, and people to meet the current and future needs and to deliver value for money?		
KLoE	3.1	Is the organisation making effective use of natural resources?	
	3.2	Does the organisation manage its assets effectively to help deliver its strategic priorities and service needs?	
	3.3	Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?	

Our findings in relation to each individual KLoE follow in sections 2 to 4 of this report.

2. Managing finances

In assessing 'Managing Finances' the key question addressed is how effectively the organisation manages its finances to deliver value for money. This question is answered through three KLoEs, which are further broken down into more focused areas, detailed in sections 2.1 to 2.3 below. The scores assessed for each KLoE within this theme, along with the 2008/09 final score for comparison, are shown in the table below. See Appendix 1 for a full listing of scores. Details of the scoring process have been included at Appendix 2.

Overall area	KLoE	2009/10 Indicative KLoE score	2009/10 Indicative Theme score	2008/09 final KLoE score	2008/09 final Theme score
Managing finances	1.1 Planning for financial health	3	3	3	3
	1.2 Understanding costs and achieving efficiencies	3		2	
	1.3 Financial reporting	3		3	

2.1) KLoE 1.1: Planning for financial health

Overall summary

This KLoE asks for an assessment on whether "the organisation plans its finances effectively to deliver its strategic priorities and secure sound financial health". This KLoE has five individual areas of focus:

- Integrated financial planning;
- Medium to long term financial planning;
- Managing spending;
- Engages with stakeholders; and
- Financial leadership and governance.

We scored this KLoE as a '3' overall as the Council has maintained the standard set in 2008/09 whilst demonstrating outcomes in 2009/10.

2. Managing finances (continued)

Areas of focus

2.1.1 Integrated financial planning: The Council has robust financial planning processes which are integrated with business and delivery planning, and clearly linked to the strategic priorities of the Authority. The primary output of this is the track record of achieving budget, including significant efficiency savings identified year on year, while maintaining services at a level which has seen resident satisfaction with the Council increase over the years. The Council has significant investments with the Icelandic banks but responded to the banking crisis by reviewing and updating its Treasury Management policies in line with latest guidance.

2.1.2 Medium to long term financial planning: The Council has implemented and embedded a Medium Term Financial Forecast ("MTFF") which links directly into the strategic plans and priorities of the Council, dictated by the Sustainable Communities Strategy ("SCS"). The budget setting process involves considerable planning at a service by service level, including sensitivity analysis and probability analysis. The results feed into the overall budget through setting budgets for individual services, along with a separate contingency sum to ensure that risks are covered.

Use of resources both by the Council and the Hillingdon Partnerships are regularly challenged, with resources redirected to priority areas as necessary. The most significant outcome of this process is the achievement of significant efficiency savings while increasing resident satisfaction levels. When savings are derived in one area of expenditure these have been reinvested in priority areas. As such, overall expenditure has not decreased, but discretionary expenditure in priority areas is generating improved outcomes in those areas.

2.1.3 Managing spending: The Council has established a track record of delivering efficiencies, building up reserves, whilst maintaining service delivery and improving residents' satisfaction levels. The Council produces a monthly Financial Digest which includes key performance statistics including collection rates for Council tax. In 2008/09, while the collection of debts for material income streams was monitored, not all had targets set, and collection rates did not appear to have improved for those which did have targets. The 2009/10 financial digest shows that the Council now have targets set for housing revenue. In general, targets have been set higher than the 2008/09 actuals and the majority of targets were met.

2. Managing finances (continued)

2.1.4 Engages with stakeholders: The Council communicates with residents in a variety of ways, and the effectiveness of this is evidenced through strong feedback in the residents' survey. The SCS provides the strategic direction through which the Council delivers its goals and priorities. Partner organisations are engaged with through the Partnership Board and LAA meetings and performance against targets to date has been strong. Ward budgets, a scheme where Members use individual funds allocated to their wards to address local concerns, have also been used by the Council in 2009/10. Information from these sources is fed back through service areas, into budgets, the MTFF and Hillingdon Partners SCS.

2.1.5 Financial leadership and governance: The Council meets its budgets and has a build up of unallocated reserves which is a result of the significant refocus in the financial leadership of the Council. This demonstrates value for money for residents as it has enabled the Council to hold Council Tax at the same level for successive years.

The Leader is considered by senior officers to provide strong and effective leadership, whose over-arching priority is delivering what residents need. Significant work was undertaken in 2008/09 to develop a SCS, with detailed delivery plans for each service supporting the strategy and MTFF which ties directly into the strategy (the 2009/10 SCS will not be finalised until June 2010).

Officers have been provided with the tools to develop and deliver focused, challenging budgets and the Audit Committee has demonstrated a proactive approach to monitoring the implementation of recommendations made in internal and external reports, including requesting the presence of senior officers in order to question them regarding specific issues.

2.2) KLoE 1.2: Understanding costs and achieving efficiencies

Overall summary

This KLoE focuses upon whether "the organisation has a sound understanding of its costs and performance and achieves efficiencies in its activities". This KLoE has three individual areas of focus:

- Understanding costs;
- Decision making; and
- Making efficiencies.

2. Managing finances (continued)

We scored this KLoE as a '3' overall as the Council has improved on the standard demonstrated for the 2008/09 assessment whilst also demonstrating current year outcomes. A further year of significant efficiency savings has been achieved (although these are as yet unaudited). A robust understanding of costs across service areas, and the drivers of those costs, has been demonstrated by the Council, which helped the Council identify further efficiencies. Issues in 2008/09 were centred around a lack of demonstrable understanding.

Areas of focus

2.2.1 Understanding costs: The Council has demonstrated a good understanding of its costs and what is driving those costs, and has continued in its delivery of significant efficiency savings in 2009/10. In 2008/09 we reported £45m of savings made over the previous four years. This Council has added a further £7.5m savings in 2009/10.

Whilst these achievements are significant, we note that the Council is still higher cost than other authorities in a number of key areas. This indicates that there are either special circumstances (such as Heathrow being in the borough) within Hillingdon which make unit costs for particular items high (due to either areas of priority spend for the Council or other external factors), or that there are further efficiency savings which can be driven out of costs. It is likely that a combination of both points apply. We would have liked to have seen further evidence around benchmarking and the understanding of the total resources at the disposal of significant partnerships.

2.2.2 Decision making: The Council has demonstrated that it has an improved understanding of costs in different areas, and an understanding of what makes them different on a unit cost basis. We have seen improvements in the two areas we have looked at specifically (adult social care and housing). While we understand that whole-of-life costing and scenario analysis are used as a matter of course in planning and making investment decisions, we were provided no evidence of this for the indicative stage submission. These processes are key to successful planning, and we recommend that they are documented clearly.

2.2.3 Making efficiencies: Planned outcomes are generally achieved, but overall costs are high. However, there are some local area context issues which increase costs for the Council (including the various effects of Heathrow). We understand that wider use of benchmarking has been undertaken than in previous years following recommendations from previous reviews, though we were not provided at this stage with evidence of significant outcomes derived from this.

The Council is working with key partners in a strategic way (most notably the local Primary Care Trust), and is a member of the West London Alliance.

2. Managing finances (continued)

> **Recommendation:** The Council should continue to enhance its use of benchmarking. A suggested approach would be to identify those areas of spend which are not priority areas and for which no significant external factors are present but for which the Council is above average spend for a comparable group of authorities. The best performing authorities in these areas can be asked to provide explanations as to how they run at lower costs. Lessons from these authorities may then be able to be applied in Hillingdon to help reduce costs and increase efficiency.

2.3) KLoE 1.3: Financial reporting

Overall summary

The aim of this KLoE is to determine whether the "organisation's financial reporting is timely, reliable and meets the needs of the internal users, stakeholders and local people". KLoE 1.3 specifically focuses on the preparation of accounts and publishing reports which are activities which predominantly take place at year end. Due to the timing of our interim work, we have been unable to obtain evidence to support a 2009/10 score for this KLoE and therefore, in accordance with guidance from the Audit Commission, we have rolled forward the 2008/09 score of 3.

3. Governing the business

In assessing 'Governing the business' the key question addressed is how well the organisation governs itself and commissions services that provide value for money and deliver better outcomes for local people. This question is answered through four KLoEs, which are further broken down into more focused areas, detailed in sections 3.1 to 3.4 below. The scores assessed for each KLoE within this theme, along with the 2008/09 final score for comparison, are shown in the table below. See Appendix 1 for a full listing of scores. Details of the scoring process have been included at Appendix 2.

Overall area	KLoE	Indicative KLoE score	Indicative Theme score	2008/09 final KLoE score	2008/09 final Theme score
Governing the business	2.1 Commissioning and procurement	2	3	2	2
	2.2 Use of information	3		2	
	2.3 Good governance	3		2	
	2.4 Risk management	3		2	

3.1 KLoE 2.1: Commissioning and procurement

Overall summary

This KLoE considers whether "the organisation commissions and procures quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money. This KLoE has six individual areas of focus:

- Clear vision of expected outcomes;
- Extensive involvement in commissioning;
- Improvement through service redesign;
- Understanding the supply market;
- Evaluation of procurement options; and
- Reviewing service competitiveness and achieving value for money.

3. Governing the business (continued)

Overall, we assessed this KLoE as a 2. The Council has made considerable progress since the previous year within this KLoE, and has developed a number of key areas, for example, learning more about, and working with its local supplier base. There remain a number of key areas that the Council is in the process of developing and implementing, including a Corporate Procurement Strategy; however, the Council is working hard to address these areas.

Areas of focus

3.1.1 Clear vision of expected outcomes: The Council continues to have a clear picture of the needs of its local communities, and is informed by a number of key processes including the Sustainable Communities Strategy and the Joint Strategic Needs Assessment. The Council has identified a number of areas where it can co-operate more with its partners to ensure that it obtains an up to date assessment of the community, for example through workshops held with the local Children's and Family Trust.

The Council has continued to develop and strengthen the capacity of its Procurement department, and this has increased the profile of the team within the Council. For example, the Head of Procurement has regular one-to-one meetings with the Chief Executive. There are specific directorate procurement plans which address the expectations from each directorate. However, these plans have not been derived from an overall council-wide Corporate Procurement Strategy, and this is an aspect of the procurement arrangements that the Council is working on.

Recommendation: The Council should finalise an organisation-wide Corporate Procurement Strategy and ensure that individual directorate procurement plans comply with it. This Corporate Procurement Strategy should link identified needs to Council priorities and specific actions. Once fully developed, this should be publicised on the Council's website, to support stakeholders in determining how they can work effectively with the Council.

3.1.2 Extensive involvement in commissioning: The Council has implemented a range of means to obtain the views of stakeholders and thus inform its procurement activity. The Council consults on specific issues and also uses a range of User Panels. Further views are obtained through partnership groups, such as the West London Alliance which sought views on the provision of adult social care. Furthermore, the Council has developed a network of 900 Street Champions, who contribute user experience on all areas of service provision, most notably waste management. The Council uses a number of mechanisms to obtain user views of services currently being delivered, for example, through the Care Inspection Team. Overall, the Council has developed its approach to obtaining user views in all areas of service delivery, for example, through the Active Involvement Strategy for Children's Services.

The Council has developed a range of ways through which it is actively seeking the views of a wider range of stakeholders within its local communities. These include the 'Unlocking the Heathrow Supply Chain' networking group which includes BAA, and the Credit Crunch Group, aimed at supporting local suppliers through challenging economic circumstances. The Council publishes information on working with the

3. Governing the business (continued)

Council, but, as there is not an overriding Council Commissioning Strategy, this has not been publicised. If it were, this would strengthen the way in which stakeholders can interact with the Council (see recommendation on the previous page).

3.1.3 Improvement through service redesign: The Council is making progress in enhancing customer experience through the use of technology, although this is at an early stage and should be further developed. The Council is looking at other new ways to deliver services, and a key element of the Business Improvement Delivery ("BID") programme is a review of Fleet Management and Passenger Services. The Council has continued to develop the range of services that are being offered through the Contact Centre, for example, the introduction of a 'Welcome to the Borough' information pack for new residents.

The Council monitors procurement activity through the Capital Ambition Programme, purchased through the Regional Improvement and Efficiency Partnership ("RIEP"), which allows regular internal monitoring of commissioning activity. As a result it has introduced a full set of Contract Registers.

The Council is increasing the volume and value of opportunities being offered through e-procurement sites. However, whilst IT is being used to drive and support service redesign, there is not a clear link between the corporate strategy for IT and commissioning, and this relationship could be strengthened in order to support further improvements in commissioning practices.

> **Recommendation:** We recommend that the Council continues to identify and evaluate opportunities to use technology in innovative ways to enhance the experience of the service user and organisations which it commissions.

3.1.4 Understanding the supply market: The Council is making progress in engaging with the supply market, so developing its knowledge of the market. Key activities have included working with the Credit Crunch Group, and the 'Unlocking the Heathrow Supply Chain' network. A key example of where the Council is working with its partners to fully understand its supply market is through the West London Alliance which is reviewing the provision of residential and domiciliary care across its area.

The Council has undertaken considerable work during the year in order to improve understanding of its supply base from an internal perspective. The Council is making use of Capital Ambition Programme to analyse its internal procurement activity, in order to adopt a more pro-active approach to its commissioning activity. As a result of this work, the Council has established Contract registers and a Contract Review Board process with its directorates. The Council is continuing to develop its commissioning and procuring links with the third sector, but not yet on a consistent or co-ordinated basis across the Council.

3. Governing the business (continued)

> **Recommendation:** We suggest that the Council continues to explore opportunities to work with a wider range of suppliers, specifically with the third sector.

3.1.5 Evaluation of procurement options: The Central Procurement Team has been restructured and aligned to the six directorates, and Directorate Procurement Delivery Plans have been introduced. The Head of Procurement has been in post for twelve months, and has supported the strengthening of the framework of procurement within the Council. The Corporate Procurement Department has a high profile within the Council, for example, regular one-to-one meetings are held with the Chief Executive.

The Council is looking to work with a wide range of suppliers, incorporating local and third sector entities. All contracts are advertised using the Due North portal, and there has been an increase in the volume and value of contracts awarded in this way.

Contract management has been a key area of focus of the Council, and as such is being addressed through the BID Programme. This is resulting in a more proactive and managed approach to procurement, rather than a reactive approach to contract management. For example, the contract with Mitie was identified as being underperforming, and the Council successfully acted to improve its conditions.

The Council is aware that it needs to develop its approach further to incorporate sustainability into its procurement activities. This is an area that is already considered in all contracts that are tendered, but has not yet been addressed within the overall commissioning strategy, and the Council should ensure that this is undertaken on a coherent and consistent basis.

> **Recommendation:** We recommend that the Council should continue to develop its approach to addressing wider sustainability considerations in all of its procurement activity, and develop a consistent and coherent Council wide approach. This should be reflected in the Corporate Procurement Strategy.

3.1.6 Reviewing service competitiveness and achieving value for money: The achievement of value for money is more clearly identified in some service areas than others across the Council. A key example of this in the current year has been in the contract with Mitie which is mentioned in 3.1.5.

The Council is developing its approach to benchmarking its performance, for example, through a number of external networks including the West London Alliance and the Performance Co-ordinators Group. This approach is beginning to deliver improvements, for example, through the review of residential and domiciliary care packages, but we feel that more could be done in order to continue to achieve efficiency savings and value for money. A recommendation on benchmarking has been made in section 2.2.

3. Governing the business (continued)

3.2) KLoE 2.2: Use of information

Overall summary

The KLoE seeks to determine whether "the organisation produces relevant and reliable information to support decision making and managed performance". This KLoE has four individual areas of focus:

- Relevant and reliable data;
- Supporting the decision making process;
- Data security; and
- Monitoring performance.

Overall we have assessed this KLoE as level '3'. We have found that the Council has responded in a positive and proactive manner to the findings from our assessment for 2008/09, and this has contributed to an overall increase in the score for this KLoE to a '3'.

Areas of focus

3.2.1 Relevant and reliable data: Within this section of the KLoE, we are required to consider the outcomes of Spot Checks of performance indicators. We have not found from our work any significant issues to bring to your attention.

The Council has taken a number of steps to improve and develop its data quality in the past 12 months. A Data Quality Strategy has been implemented, supported by a clear action plan. Data quality and performance, is monitored through a number of regular forums within the Council, including Corporate Management Team and Cabinet. Performance indicator champions are in place across the Council, and central support is provided to directorates through the Corporate Performance Team.

The performance indicator clinics have continued to be implemented, and have identified and addressed specific areas of underperformance, for example, in waste and recycling. There has also been further co-ordination between the Corporate Performance Team and Internal Audit to develop an approach to reviewing performance indicators, for example, sharing the approach to spot checks.

3. Governing the business (continued)

There is an overall Partnership Performance Protocol in place, which includes a partnership data quality protocol between the Council and the partners it works with. This has been further strengthened through establishing a Performance Indicators Co-ordinators Group, which is chaired by the Deputy Chief Executive. This forum allows discussion of issues across the partners, and sharing of good practice where this is identified.

3.2.2 Supporting the decision making process: Quarterly performance information is reported to Corporate Management Team ("CMT"), Cabinet and Policy Overview Committees. These reports identify and discuss significant variances in performance of service critical issues. The information in these reports has been analysed and assessed at a local level within the Council so variances and proposed actions can be discussed at more senior forums within the Council.

The Council is working to rationalise and reduce the number of systems that it uses to produce data, and progress has been made in this area during the year.

The Council has increased and improved the range of sources from which it derives information on the needs of its local communities. A key example of this is Insite 7, purchased through the Local Strategic Partnership ("LSP"), which allows the local community to be analysed in more detail than previously. An increased number of impact assessments have also been undertaken during the year, for example, Green Spaces and Schools Improvement.

There have been clear examples of the Council working effectively with its partners to resolve particular performance issues, reflecting a further developed approach to the Partnership Performance Management Framework. The Council can also demonstrate improvements in how it works with its internal staff to take on board views around performance, for example, implementing improvements within the Contact Centre.

3.2.3 Data security: The Council has addressed recommendations raised in an Internal Audit review of data security, and a follow up report assesses the Council as making *'good progress'.* The Business Continuity Plan has been tested by the Operational Management Group, and is being reviewed further for appropriateness in the light of the requirements under the Civil Protection Policy. The plan will be tested again once these requirements have been incorporated. The Council is in the process of developing service continuity plans, and there is an expectation that these will be fully tested within the next twelve months. The Council has considered the requirements of ISO 27001 in obtaining its Code of Connection for its GSI network.

3. Governing the business (continued)

3.2.4 Monitoring performance: There is clear evidence that performance is monitored and managed on a regular basis, and is considered with supporting financial information. Reports incorporate a variety of data, and consider progress against both Council and shared priorities. Between formal reports to high-level forums such as Cabinet and CMT, specific aspects of performance are considered at departmental level, and supported through the Performance Clinics that are in operation.

The Council has developed a suite of indicators that allow it to monitor and manage its performance against its strategic priorities. It has made improvements in a number of areas in respect of benchmarking its performance. This includes further work through the West London Alliance, and also the establishment of a Performance Co-ordinators Group, which is chaired by the Deputy Chief Executive. A recommendation to further enhance the use of benchmarking has been made in section 2.2.

3.3) KLoE 2.3: Good governance

Overall summary

This KLoE is seeking to verify whether "the organisation promotes and demonstrates the principles and values of good governance". This KLoE has four individual areas of focus:

- Principles of good governance;
- Ethical framework and culture;
- Partnership governance; and
- Purpose and vision.

Overall, we assessed this KLoE as a level 3 as the Council has made considerable progress since 2008/09, specifically demonstrating value for money partnerships and developments to Member training enabling Members to tailor their training needs.

3. Governing the business (continued)

Areas of focus

3.3.1 Principles of good governance: The Constitution clearly outlines roles and responsibilities; a Scheme of Delegation; and Codes of Conduct for Members and Officers. However, despite having a review date scheduled of May 2009, evidence suggests that the Member/Officer protocol is not regularly reviewed with the last review date being 2008.

Since 2008/09, improvements have been made to the Member training with this now accessible on line. Self assessments have also been carried out to enable Members to tailor their training needs. These were done late in the year so the results have not yet been compiled.

Member training attendance statistics indicate that the take-up of training by Members is variable, however, we consider that Members are supported in their roles. Member Development allows Members access to a wide range of training from both internal and external sources. There is scope for some Members to take further advantage of the training offered, for example, through use of the Personal Development Toolkit.

> **Recommendation:** Evidence of the use by Members of their Personal Development Toolkit is limited. In 2008/09 a question on this was included in the 'Annual Questionnaire for all Councillors' to enable the Council to monitor this; however, this question did not appear in the 2009/10 questionnaire. We recommend that the Council include this question to enable them to monitor the use and effectiveness of the Personal Development Toolkits.

3.3.2 Ethical framework and culture: The role of the Standards Committee has developed since its inception, and further more so as a response to the Audit Commission's Ethical Governance review. Referrals to the Standards Committee in the year have been investigated, and no serious issues have been identified. The Committee has an independent Chair and Members are required to declare interests. Further training on ethics has been provided to all members and arrangements are in place to enable review and monitoring of claims made by Members and Officers for expenses. The ethical agenda is disseminated and expected of staff as well as Members and Officers.

Complaints are closely monitored and managed, as well as compliance with codes and procedures. The policies are communicated to staff, including the Whistleblowing Policy. The residents' survey demonstrates that a high proportion of residents think highly of the Council.

3. Governing the business (continued)

3.3.3 Partnership governance: The Council has implemented a Partnership Governance Framework, which includes a partnership database (utilising CIPFA guidance) and sets out the roles and responsibilities required from each partner and the process for taking on a new partner. The Council updated its partnership register in 2009/10.

Significant achievements are being made. For example, the Council is on course to claim 90% of the performance LAA stretch reward target which equates to over £7 million in reward grant paid over 2 years. The LAA is the product of strong partnership working and collective action and this result demonstrates success in achieving key priority outcomes for residents. This return on investment of both reward grant and improved resident outcomes demonstrates excellent value for money for Hillingdon Partners.

The Council have also provided us with outcomes demonstrating value for money from a number of other partnerships e.g. Hillingdon Primary Care Trust and the move of the Public Health and Commissioning teams into the Civic Centre; Blue Skies project workers carrying out environmental work; and the Targeted Youth Support work.

3.3.4 Purpose and vision: The Council's vision is clearly outlined in the 2007/10 strategic plan, and this is supported by the Sustainable Community Strategy which the Hillingdon Partners are responsible for delivering through the 2008/11 Local Area Agreement (LAA).

The Audit Commission's review of Ethical Governance highlighted that the Council's culture was open and transparent with a strong relationship between the Leader and Chief Executive and Chair of the Standards Committee.

3.4) KLoE 2.4: Risk management

Overall summary

The focus of this KLoE is around how does the "organisation manage its risks and maintain a sound system of internal control". This KLoE has three individual areas of focus:

- Risk management;
- Counter fraud and corruption; and
- Systems of internal control

Overall we assessed this KLoE as level '3' as the Council has made considerable progress in a number of areas since the previous year, specifically: higher uptake of Member risk management training; recognition by the Home Office for its risk management partnership work; and the highlighting of the issue of 'tipping off' in the Council's manager training program.

3. Governing the business (continued)

Areas of focus

3.4.1 Risk management: The Risk Management Strategy outlines the risk management process, emphasising that risk management is the duty and responsibility of all employees and Members, with some groups having particular responsibilities.

The Risk Register is reviewed and updated at both group and corporate levels, and at each Senior Management Team meeting. The risk register includes the risks associated with key partnerships and has been updated during 2009/10. There are now 14 partnership projects that are rated as major or highly significant. From discussion we understand that there are risk registers in place for all of these projects and we have seen examples of these for eight of the projects. These demonstrate that actions are planned to mitigate these risks and a method of measuring the success of these outcomes has been considered.

Since 2008/09 all Members have either taken up the Risk Management training or have been emailed the training materials which have also been posted onto the Member page on the Council website making them more accessible to Members.

3.4.2 Counter fraud and corruption: The Council has a Counter Fraud and Corruption Strategy, approved by members and communicated to staff. It is supported by a range of policies, including Codes of Conducts and Standing Orders. The Strategy is overseen by the Head of Audit and Corporate Governance to ensure that it is up to date and complies with good practice guidance. Training to support the strategy has been rolled out across both staff and Members. The latest fraud training attendance statistics state a number of managers had not attended training at the end of the year but we have seen evidence showing that these individuals have been personally contacted; we are aware that the training material is available on the intranet; and a new e-learning tool has been implemented.

A separate Internal Audit plan to consider anti-fraud is in place which identifies high risk areas. Results of any investigations are reported to the Audit Committee. Where fraud is identified Internal Audit investigates promptly and prosecutes where necessary. A protocol is in place between Internal Audit and the Housing Benefit Fraud team, allowing joint investigations to be held, and arrangements are in place to share information with police. The Housing Benefit Team conducted a successful investigation in the year which resulted in 474 individuals withdrawing their applications from the Housing register.

Since the issue that was raised in 2008/09 with regard to 'tipping off' the Council has included a specific point about this issue in the manager fraud training session. As a result of this the Council have stated that there have been no instances of 'tipping off' in 2009/10. However, the counter fraud and corruption strategy does not mention this specific point and it has not been updated since 2008.

Recommendation: The Counter Fraud and Corruption strategy should be updated on an annual basis and should contain a strong message to prevent cases of alerting individuals being investigated ("tipping off").

3. Governing the business (continued)

3.3.3 Systems of internal control: The Audit Committee is chaired independently by a qualified accountant, and the Committee works to Terms of Reference that are in line with CIPFA guidance. The Committee has been seen to provide robust challenge to key areas, for example, action taken after the collapse of the Icelandic banking system.

The Council has developed an Assurance Framework based upon CIPFA/ Society of Local Authority Chief Executives ("SOLACE") guidance, bringing together assurance sources from across the Council. This is supported by arrangements within each directorate which require Directors to provide assurance of internal controls annually as part of the Annual Governance Statement

The grants certification work that was conducted by Deloitte for the 2008/09 year end identified very few errors and, the one grant that did include a qualification, was in relation to an error of less than £300 which is not considered a significant issue. The Council is proactive in its approach to grants, requesting information from us in advance of it becoming available through normal 'guidance' channels.

4. Managing resources

In assessing Managing Resources the key question addressed is how well the organisation manages its natural resources, physical assets and people to meet the current and future needs and deliver value for money. This question is answered through three KLoEs which are further broken down into more focused areas, detailed in sections 4.1 to 4.3 below. The scores assessed for each KLoE within this theme, along with the 2008/09 final score for comparison, are shown in the table below. See Appendix 1 for a full listing of scores. Details of the scoring process have been included at Appendix 2.

Overall area	KLoE	Indicative KLoE score	Indicative Theme score	2008/09 final KLoE score	2008/09 final Theme score
Managing resources	3.1 Natural resources	2	3	2	2
	3.2 Strategic asset management	3		3	
	3.3 Workforce	3		-	

Overall we have scored this theme at level 3. KLoE 3.1 Natural resources was not assessed in 2009/10. In line with Audit Commission guidance, the 2008/09 score for this KLoE has been rolled forward. KLoE 3.3 Workforce has been assessed for the first time in 2009/10, and as such there is no comparative score.

4.1) KLoE 3.1: Natural resources

Overall summary

The Audit Commission directed that this KLoE would not be assessed in 2009/10 for single tier local authorities. As such, the prior year score has been rolled forward in line with guidance from the Audit Commission, and no further work has been performed in this area.

4. Managing resources (continued)

4.2) KLoE 3.2: Strategic asset management

Overall summary

The intention of this KLoE is to demonstrate whether "the organisation manages its assets effectively to help deliver its strategic priorities and service needs". This KLoE has three individual areas of focus:

- Strategic approach;
- Partnership and community working; and
- Asset management.

Overall we assessed this KLoE as level 3 as the Council has maintained the standard of 2008/09 whilst demonstrating current year outcomes.

Areas of focus

4.2.1 Strategic approach: The Council has applied its high level capital asset strategy consistently over the year. It also outlines how the Council will move forward in future years to develop further efficiencies and service improvements. A Strategic Property Group oversees all asset related decisions to ensure a consistent cross-Council approach, and Council priorities are considered alongside all decisions made and future planning. The Council has achieved a number of significant outcomes in 2009/10 related to capital assets matching its priorities. These include the opening of two new leisure centres, which has been a long running process to address resident concerns over quality of leisure facilities in the borough and continued improvement in Libraries, using corporate partners to assist development, leading to a very high proportion of residents reporting satisfaction with the libraries in the Borough.

4.2.2 Partnership and community working: The Council has continued to work with partner organisations, both in the public, corporate and third sectors, and this is at the level above an individual project by project basis. For example, the local strategic partnership has a Sustainable Community Strategy behind it with specific priorities, with tasks assigned to those priorities, including asset related issues. It is this which has progressed the delivery of new youth centres and children's centres.

4. Managing resources (continued)

4.2.3 Asset management: The Council is continuing its detailed review of all assets, challenging their use and value for money. The process has directly led to £2m of capital receipts in 2009/10, through the identification of underutilised and underperforming assets. After an appraisal process the Council decided to dispose of the assets. Many other such instances are in the process of being resolved, with poorer condition assets either having decisions to invest and bring them up to standard, or dispose. Hillingdon undertakes capital asset benchmarking with both CIPFA and ACES.

4.3) KLoE 3.3: Workforce

Overall summary

The intention of this KLoE is to demonstrate whether "the organisation plans, organises and develops its workforce effectively to support the achievement of its strategic priorities". This KLoE has four individual areas of focus:

- Productive and skilled workforce;
- Workforce planning;
- Organisational change; and
- Diversity and good people management.

Overall we assessed this KLoE as level 3. In this first year of assessing the Workforce KLoE, the Council has demonstrated very strong performance, exceeding minimum requirements and performing well.

Area of focus

4.3.1 Productive and skilled workforce: Processes are in place to address skills gaps through recruitment, learning and development. A number of skill development programmes operate within the Council which have produced skilled professionals from CIPFA qualified accountants to Social Workers. Use of agency workers is falling as skills gaps narrow and recruitment processes improve.

There are performance management arrangements centred on the Performance and Development Appraisal (PADA). There is a golden thread linking the Council priorities to individual objectives and targets set for staff. Performance rating levels have increased as a result of employing this system.

There are systems for monitoring and managing levels of accidents and sickness absence. Innovations to manage absence rates have been put in place, and have seen rates fall from 13.4 days per person per annum in 2002/03 to 8.1 days per person per annum in 2008/09.

4. Managing resources (continued)

4.3.2 Workforce planning: This is integrated with service planning and directly tied to strategic objectives. In 2009/10 the BID project was launched aiming to deliver even greater savings and efficiencies than have been delivered to date. Within this is an organisational design element re-addressing all services of the Council and its people.

Agency staff expenditure is closely monitored. HR acknowledge that there are occasions where the flexibility offered by using agency staff is valuable, however they also recognise that it is an expensive longer term option. The Council has put procedures in place throughout the year to reduce agency costs – by having one key agency supplier at better rates which also improves recruitment lead times – and have managed to save a projected £700,000 in 2009/10 on 2008/09 agency costs.

A bi-annual staff survey is undertaken, the most recent results of which demonstrate improvement in staff views on a number of key management and organisational aspects, including equalities and diversity and learning and development.

There is an annual Equalities report commissioned by the Council, which demonstrates that Hillingdon is actively implementing its equalities and diversity policy, and fulfilling its pledge to ensure that the workforce represents the diverse communities of the Borough.

4.3.3 Organisational change: Senior managers are provided specific training covering Organisational Change and Change Management. Using the skills developed through this training, they communicate with staff in a wide variety of ways through change processes. These include provision of information ("team Hillingdon" staff magazine, intranet etc), and also communication allowing staff the opportunity to input into the decision making process and to ask questions about changes which are or will be happening.

4.3.4 Diversity and good people management: The Council has adopted the new Equalities Framework for Local Government, having been peer reviewed at level 3 and self assessed at level 4 for the former Equalities Standards in Local Government. This means that the Council is ranked as 'Moving towards Excellence'.

The council has built a workforce which is broadly representative of the local community in many ways, although some further focus is needed in terms of gender and disability representation on the workforce.

Staff views indicate a good level of staff satisfaction, and retention levels are very similar to the average for local government determined by the Chartered Institute of Personnel and Development. Retention in key areas with skills shortages is aided by learning and development programmes which require a period of further employment with the Council once completed.

5. Responsibility statement

Our audit work has been performed in accordance with the Audit Commission's Code of Audit Practice and has taken account of associated guidance issued by the Audit Commission. The respective responsibilities of the Council, its officers and members, the Audit Commission and ourselves as external auditors in connection with the audit and accounts of the Council are set out in the "Statement of Responsibilities of Auditors and Audited Bodies" issued by the Audit Commission.

The matters raised in this report are only those that came to our attention during our audit and are not necessarily a comprehensive statement of all weaknesses that exist or of all improvements that might be made. You should assess recommendations for improvements for their full implications before they are implemented. In particular, we would emphasise that we are not responsible for the adequacy and appropriateness of the national use of resources judgements methodology as they are derived solely from the Audit Commission. This report has been prepared solely for the use of the Council. No responsibility to any third party is accepted as the report has not been prepared and is not intended for any other purpose.

It is the responsibility of audited bodies to maintain adequate and effective systems and to arrange for a system of internal controls over the systems. Auditors should evaluate significant systems and the associated internal controls and, in doing so, be alert to the possibility of fraud and irregularities. Our findings are based upon an assessment of the design of controls at the time of review. We did not review the operation of controls throughout the financial year.

For your convenience, this document has been made available to you in electronic format. Multiple copies and versions of this document may therefore exist in different media - in the case of any discrepancy the final signed hard copy should be regarded as definitive. Earlier versions are drafts for discussion and review purposes only.

Deloitte LLP

Chartered Accountants

Birmingham

28 June 2010

Appendix 1: Interim scores

We have assessed the Council with the following scores at this interim stage of our review:

Overall area	KLoE	2009/10 Indicative KLoE score	2009/10 Indicative Theme score	2008/09 final KLoE score	2008/09 final Theme score
Managing finances	1.1 Planning for financial health	3	3	3	3
	1.2 Understanding costs and achieving efficiencies	3		2	
	1.3 Financial reporting*	3		3	
Governing the business	2.1 Commissioning and procurement	2	3	2	2
	2.2 Use of information	3		2	
	2.3 Good governance	3		2	
	2.4 Risk management and control	3		2	
Managing resources	3.1 Natural resources*	2	3	2	2
	3.2 Strategic asset management	3		3	
	3.3 Workforce**	3		-	

* This KLoE was not assessed in 2009/10. The 2008/09 final score has been rolled forward in line with Audit Commission requirements

** This KLoE was assessed for the first time in 2009/10, so there is no comparative score.

Appendix 2: Use of resources 2009/10 scoring

Background to 2009/10 scoring

The use of resources assessment uses the Audit Commission's current four-point scale from 1 to 4, with 4 being the highest. The scores awarded have the following definitions:

Level 2 – meets only minimum requirements, performs adequately;

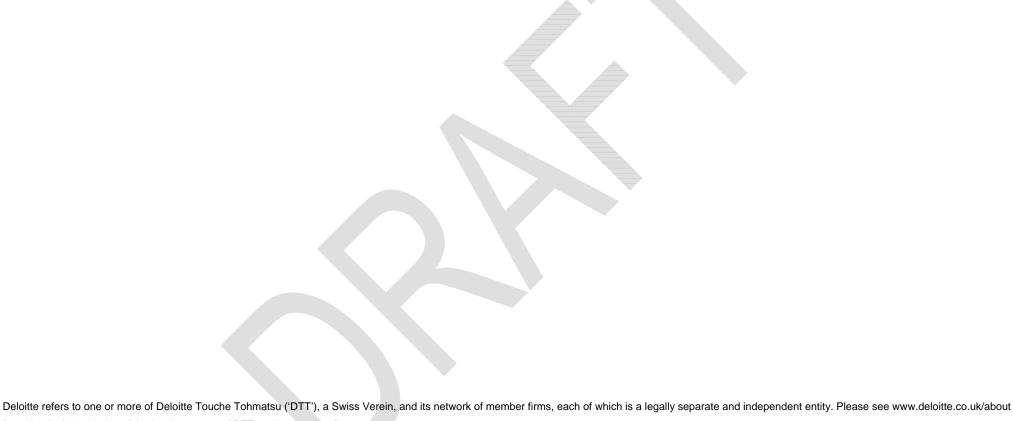Level 3 – exceeds minimum requirements, performs well; and

Level 4 – significantly exceeds minimum requirements, performs excellently.

There will be an overall UoR score that the Audit Commission will determine by calculating the average of the appointed auditor's scores for each of the three themes in the assessment framework.

Auditors will normally reach their scores for each theme by calculating the average of the scores for each KLoE within the theme. The exceptions to this relate to themes where there is an even number of KLoEs. In these circumstances, the Audit Commission have specific certain KLoE which will have the effect of determining the direction of the rounding of theme score averages, as follows:

- For the Governing the Business theme, if the scores for the four KLoE's average 1.5, 2.5 or 3.5, then the score for KLoE 2.2 regarding use of information will determine whether the rounding is up to the next whole number, or down.

For 2009/10, where a KLoE is not specified for assessment but was subject to assessment in the previous year, the Commission will carry forward the score without requiring a reassessment for a maximum of two years. The exception to this is when the score for the previous year is level 1; there were no scores of level 1 for the London Borough of Hillingdon in 2008/09.