| Report No.
DR 10076 | **London Borough of Bromley**

PART 1 - PUBLIC | Agenda
Item No. |

Decision Maker:	**Audit Sub Committee**
Date:	**16th September 2010**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**INTERNAL AUDIT AND VALUE FOR MONEY REPORTING**
Contact Officer:	Mark Gibson, Assistant Director Resources (Audit and Technical) Tel: 020 8313 4295 E-mail: mark.gibson@bromley.gov.uk
Chief Officer:	Paul Dale, Director of Resouces and Deputy Chief Executive
Ward:	All

1. Reason for report

   This is a follow up report requested by Members of the Audit Sub Committee to update them on our practical approach on Value for Money work carried out in two areas i.e. Building Control, Renewal and Recreation, Adult and Community Services including the VfM scoring for these areas. The report also explores benchmarking sites, elaborates on the practicality of using this data and the referral process to the Organisational Improvement Team under the Chief Executive's Office.

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2. **RECOMMENDATION(S)**

   (a) **Members are asked to note the report and comment on Internal Audit's VfM approach to the case studies and agree the suggested methodology to be adopted, including the scoring rating and a referral process to the Organisational Improvement Team.**
   (b) **Members to note that Internal Audit are currently reviewing the wider remit issues around VFM work and will report back as appropriate.**
   (c) **Members to agree the reporting requirements to this committee on VfM work undertaken for audits completed.**

Corporate Policy

1. Policy Status: Existing policy.

2. BBB Priority: Excellent Council.

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Financial

1. Cost of proposal: N/A

2. Ongoing costs: Recurring cost.

3. Budget head/performance centre: Internal Audit

4. Total current budget for this head: £587,520 excluding the benefit fraud partnership costs.

5. Source of funding: N/A

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Staff

1. Number of staff (current and additional): 10 FTE

2. If from existing staff resources, number of staff hours: 380 days per quarter

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Legal

1. Legal Requirement: Statutory requirement. Accounts and Audit Regs 2006

2. Call-in: Call-in is not applicable.

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Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 180 including Chief Officers, Head Teachers/Governors

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Ward Councillor Views

1. Have Ward Councillors been asked for comments? N/A.

2. Summary of Ward Councillors comments: None

3. COMMENTARY

3.1 We had previously submitted two reports on VfM to this committee – March 2010 and June 2010. Given the increase in scrutiny over Council budgets and therefore the need to achieve further efficiency savings the need to demonstrate VfM is seen as crucial. There is a need to ensure that all areas in this authority are making maximum use of their resources to provide maximum benefit in services.

3.2 Audit coverage of VfM is seen as the best way of ascertaining if an organisation is providing a high standard of service at low cost that ultimately benefits the Council tax payers and residents of Bromley.

3.3 Members expressed at the last Audit Sub meeting for a methodology to be adopted that could be used by auditors to assess and report on the VfM arrangements and in particular commenting on benchmark data that was available. The availability of potential benchmarking data and its use is expanded upon later on in this report.

3.4 Although VfM has traditionally covered the Es' i.e. economy (minimising cost of resources); efficiency (performing tasks well); and effectiveness (the extent to which objectives are met), it is primarily focussed on economy.

3.5 Economy tends to be the easiest area to tackle. In general reviews tend to be either input-based or output-based or a combination of the two depending on whether the review is concentrating on, respectively, economy, effectiveness or efficiency.

Input-based review

This involves a review of the inputs relating to a particular activity and is largely comprised of statistical analysis and comparisons including the use of performance measures to evaluate economy and efficiency.

Output-based review

This looks at what the function actually produces as an output. A review of policy objectives, the activities required to achieve the objectives and the use of output or performance indicators to measure the effectiveness of the policies

3.6 As previously reported VfM can be achieved in a number of ways, for example:

- through benchmarking an activity against similar activities in other organisations

- by using performance indicators

- through conducting VfM studies (possibly in conjunction with other institutions)

- by seeking out and then adopting recognised good practice where this can be adapted to the institution's circumstances

- through internal audit work. Although internal audit has a primary responsibility for assessing the internal control system, the auditor is frequently well placed to assess and comment on VfM in the areas reviewed. This should be reported in individual audit reports and in the internal audit annual report

- through retaining both documents that show how an activity has been planned to build in VfM, and evidence of the good practices adopted

- by examining the results or outcomes of an activity.

- by management leading a culture which puts VfM at its core and which rewards efficient, value based behaviours.

3.7 On discussions with other Boroughs it has transpired that there is not much progress made by individual audit sections on VfM – they indicated that they were not sufficiently skilled or had resources to undertake this type of work. Some Boroughs tended to rely on work performed by our External Auditors. We therefore had to design a simple but effective way of measuring VfM in addition to our normal audit role of testing systems of internal control.

3.8 We concluded that the audit methodology adopted would need to take into account the service sections' own benchmarking arrangements, customer/client satisfaction surveys, complaints, any external assessments, budgetary control and any VfM benchmarking that has already been conducted by the Organisational Improvement Team.

3.9 At the last meeting of this cycle Members suggested key questions that auditors could ask. These were:

- Has the service used evidence such as the IPF Statistical Review to identify those Councils which have either -
  (a) Cheaper unit cost; or
  (b) Reported a better outcome?
- If not, what other sources of comparison has the service used?
- Which Councils with a "better" performance has the service contacted?
- Has the service made (or is proposing to make) any changes from what it has learnt from other Councils?
- Which private sector entities have been identified as possible comparators?
- Has the service applied steps in the third and fourth points above?

3.10 A simplified scoring matrix for reviewing VfM risks and controls has been drawn up and scored on a scale of 1 – 4. Members were keen to pilot this in a service that was due to be audited. We have therefore looked at a couple of areas – Building Control that falls under the Planning Section in Renewal and Recreation and Homecare that falls under Adult and Community Services.
The overriding principle is the requirement that it is the section's responsibility to ensure VfM studies are being actioned.

- 1- would equate to not met in any areas of VfM arrangements (although this no way indicates that a poor service is being provided or that customers are dissatisfied at the quality level of service – it just reflects that there are no VfM arrangements in place); where there is a score of 1, the audit will attempt to research availability of benchmarking data, highlight such shortcomings in the audit report to management and refer the matter to the Organisational Improvement Team of the Chief Executive who would pick it up in a review of the service.
- 2 -would equate to VfM arrangements partially met where there are some aspects of VfM in place but these are not robust enough to reach an informed decision that the service is achieving VfM. (e.g. data submitted for benchmarking is not accurate enough or cannot be substantiated or customer satisfaction surveys have not taken place, although there may be a benchmarking exercise that was completed; or that the service is operating at high unit costs in comparison with other Boroughs costs although providing a satisfactory service). The matter would then be referred to the Organisational Improvement Team who would pick it up in a review of the service.

- 3-would equate to VfM arrangements being substantially met (e.g. benchmarking is complete with figures substantiated; benchmarking shows that the section is generally performing well in comparison with other Authorities; however the mark down could for instance relate to customer surveys not being carried out to ascertain quality of service)
- 4 would equate to VfM arrangements being fully met (e.g. the service is benchmarked; benchmarking figures are substantiated; benchmarking shows good performance; areas of good practice in other Authorities have been adopted; good customer satisfaction returns; the service operates within budget).

3.11 VfM control matrix has been designed to reflect benchmarking, customer focus, budgetary control. We have therefore come up with a matrix that reflects these key elements:

Key VfM Requirements	Not Met-1	Partially Met-2	Substantially Met-3	Fully Met	Comments	Action
Benchmarking						
1. Has a benchmarking exercise carried out recently?						
2. Methodology Correct-verified by audit						
3. Benchmarking figures supplied by service are correct?						
4. How does the service compare?						
5. Is there liaison with authorities who are performing well?						
6. Any improvements made to the service?						
External Assessment						
7. Recent external assessments?						
Customer Satisfaction						
8. Have customer views been sought?						
9. Feedback – satisfaction with service?						
Budget						
10. Is the service within budget?						
11. If not are there any variances - e.g. income not being maximised?						

3.12 As indicated in paragraph 3.10 above, we have discussed our approach with the Organisational Improvement Team, Chief Executives. We have agreed that where a section has come up short in the VfM scoring say 1 or 2, we refer this to the Organisational Improvement Team who may then take this forward with the section concerned.

3.13   Research of Benchmarking Sites

3.14   Improvement and Efficiency (I&E) plans are available internally and should cover all services – the exceptions and guidance do require benchmarking of cost and performance, as well as the 'value' based look at whether the functions are statutory, high local priority or even necessary.

3.15   Local Government Improvement and Development (formerly IDeA) is also used as a benchmarking tool by the Organisational Improvement Team.

3.16   There are a number of benchmarking sites that are available to us for comparative benchmarking data and these are detailed below. Bromley's Internal Audit service is part of a benchmarking group. Our peers are the London Borough of Bexley and Brighton & Hove City Council.

3.17   VfM Audit Commission Profile Tool 2008/09

The comparator group chosen for the profile is made up of the IPF statistical neighbours which compares Authorities with similar demographic and deprivation profiles.
 The authorities in the group with London Borough of Bromley are :
- London Borough of Redbridge
- London Borough of Ealing
- London Borough of Kingston Upon Thames
- London Borough of Harrow
- London Borough of Bexley
- London Borough of Sutton
- London Borough of Richmond Upon Thames
- London Borough of Hounslow
- London Borough of Enfield
- London Borough of Merton
- London Borough of Croydon
- London Borough of Wandsworth
- London Borough of Havering
- London Borough of Enfield
- London Borough of Barnet
- London Borough of Hillingdon

The data is compared across the following areas with various sub sets within these categories.
- Adult Social Care
- Children & Young People
- Cultural Services
- Environmental Services
- Housing & Benefits Services
- Sustainable Economy

Following the recent announcement that the Audit Commission has been disbanded this site may no longer be a viable option

3.18   Cipfa VfM ToolkitAudit Commission Profile Toolkit 2009/10
CIPFA has launched this new tool that 'will enable Councils to track costs and performance of their services, compare that to their peers and provide access to data

early enough to be useful in planning budgets and identifying efficiencies for the coming year'.

'The Value for Money (VfM) Toolkit was originally developed by Somerset County Council on behalf of the Society of County Treasurers, but has now been expanded to include District and Unitary functions as well as becoming fully interactive online service'.

This tool will be free to all Authorities and Bromley has already provided this data within the timescale and are now waiting for the launch in September 2010.

This site can be accessed via the link http://www.cipfastats.net. It should be noted that there are comparisons up to 2008-9 and reports can be published across a number of areas/comparator groups.

3.19   Cipfa statistical information 2008/09 and some 2009/10 data

Within the CIPFA, it is possible to produce Interactive Statistical Reports and it is here that you can refine the criteria and build your benchmarking data by selecting between comparator groups, grouping or creating your own sets. This could be all neighbouring Boroughs to Bromley for example.

There are various reports that can be produced for comparative data. An example of one appears elsewhere within this report. Appendix A shows Social Care actual statistics for 2008/09 (last available data). Whilst this is a useful tool, it may not give up to date information and may not be comparing like with like. The appendix shows that Homecare in-house provision for Bromley was one of the highest in London 2008/09 for income collectible of £3.628 million and one of the lowest in terms of gross cost per client per week at £112.53. This information is however based on August 2008 data. Similarly the website may not necessarily give information at a given service level e.g. for building control we would not be able to drill down further than planning costs.

3.20   National Audit Office – Value for Money Handbook – Guidance

The National Audit office published a Value for Money Handbook which is 'a guide for building quality into VfM examinations'. This provides a far more strategic approach to VfM compared to the other models detailed within this report. This is a guide to undertaking VfM reviews from start to finish.

3.21   LAPS(Local Area Performance Solution)

This provides comparative performance and expenditure data from London Boroughs across a range of service areas. This is a pan London and expenditure data from London Boroughs across a range of services indicators. It centres on the collection of quarterly performance data and cross –correlation with expenditure data to perform a Value for Money analysis.

Performance and expenditure data from each London Borough is indexed against the mean for London which produces an indicative score. Average performance or level of expenditure becomes 100, so any score above 100 indicates above average performance/expenditure and anything below 100 indicates below average performance/expenditure.

Examples of data that can be extracted are shown as Appendices B Social Care Adults, C- Social Care Children and D- Planning and Economic Development. Here again as with Cipfa statistical information benchmarking is shown at departmental level rather than at service level.

3.22   Building Control- review of VfM arrangements.

3.23   Benchmarking

3.24   Building Control is a section that operates under Planning within Renewal and Recreation. The 2010/11 budget shows a net surplus of £167,340 before recharges, with expected expenditure of £1,089,380 and expected income of £1,256,720.

3.25   Benchmarking is undertaken by the Building Control department, in comparison with all other London Authorities, as undertaken by the LDSA (London District Surveyors Association), who represent similar comparators in terms of size, location and who carry out a similar type and volume of work. Benchmarking is undertaken against 14 key performance indicators including the following areas: cost of service, customer service, work level of staff and time taken to respond. In addition information is collected against at total of 64 indicators.

3.26   Through this benchmarking it was highlighted that performance for Bromley overall has dropped for the Service from 3rd in April 2007 to 10th in 2009. Figures for after this for 2009/10 have yet to be compiled and published. Several reasons were attributable to this drop in performance, but mainly they included the loss of key staff, with the result that staff left in post, have an increased workload, with a resultant affect on quality of work completed.

3.27   It is worth pointing out from the benchmarking exercise (see appendix E) that the only areas Bromley really falls down in (i.e. are in the bottom 20 performing Councils) are for % plans vetted & response in 15 days (22nd), net cost of charge earning service per head of population (21st) and charge income per application (24). Bromley is however 1st in the percentage of decisions responded to in statutory time and the response time for all amendments. Bromley is also in the top 25% for the following indicators: 3rd for the 'Quality' of service, 4th for the number of site visits per technical officer and 7th for the completion of certificates and % of live sites visited in last 3 months. The overall cost of Building Control for Bromley is also considerably under the mean cost for London (£1.309million against a mean of £1.585million).

3.28   Additional Benchmarking is undertaken by the Audit Commission, for Sustainable economy. This includes the whole of Planning, of which Building Control is a part. It is worth pointing out that by comparison to other similar London Authorities, Bromley spends the 6th (of 16) highest amount per person on sustainable economy.

3.29   From undertaking the Benchmarking Bromley has improved various aspects, such as increased use of partnerships with LAPC services and making applications forms more efficient.

3.30   Customer Satisfaction Questionnaires

3.31   Customer satisfaction questionnaires are issued to customers. Of the 1893 issued in 2009 27.52% were returned. The results of this were mainly positive 86.86% of all completed surveys resulting in either a satisfied or very satisfied overall opinion of the

service, with 2.61% opinion unknown or 3.01% were either unsatisfied or very unsatisfied. 96% of completed surveys said they would consider using the service again. Management have indicated that this process could be improved by reaching a wider audience to include home owners as well as the builders, architects and other professional people.

3.32   External Assessment

3.33   A recent audit of this service resulted in a substantial assurance opinion. The service is not subject to external assessment.

3.34   Budget

3.35   During the course of the audit it was recognised that the predicted budget and actual budget for 2009-10 were massively varied. This was as a result of the poor state of the economy which resulted in a significant deficit in the amount of income expected, than what was actually obtained (£832,148.36 collected against a predicted £1,228,500). This was offset by vacancies held in the team, which saved £229,528.11, other savings in expenditure £33,644.91 and savings within planning overall which resulted in an overall neutral budget for Planning.

3.36   This year so far, as per last year, Building Control has received less income than expected. The figure of £348,928.21 has been received against an expected amount of £523,620.00 that was not considered to be realistic due to the economic downturn, (thus a deficit of £174,691.79). This has again been countered by saving in expenditure of £162,715 so far. A report is going to the Executive committee on 1st September 2010, explaining why there was a deficit and also why the predicted budget was inaccurate.

3.37   According to the *CIPFA guidance* on setting the charges, which regulates how charges are set, they can only be set to cover costs. Bromley's charges will be benchmarked against the neighbouring authority's charges, to ensure they are not set inappropriately (see appendix F). It should also be noted from this benchmarking that, the other authorities also increased their charges for 2009/10.

3.38   Management have benefitted from the benchmarking exercise in respect of information flow resulting in improving application forms. They are also currently seeking to increase partnership   working arrangements with architects, builders etc that would benefit both parties.

3.39   Having discussed our findings with management and based on the control matrix above, a score rating of 3 i.e. substantially met was appropriate for the VfM arrangements for this service. This score of 3 is based on:

- benchmarking marked as an overall 3 given comparison with other Boroughs and that the section still perceives that improvements can be made;
- customer surveys a rating of 3 as management have indicated that these surveys need a wider audience;
- external assessment- in the absence of an external assessment we would rate this area as a 3 based on our substantial assurance opinion;
- budget as 3 given the volatility of income generated and pressures of running a deficit.

3.40   Homecare

3.41   Benchmarking

3.42   Homecare is the in- house service that provides care to vulnerable clients enabling them to live independently within their own homes. It operates through a trading account. The service operates a 24 hour/365 days service. The original controllable budget was set at £482,000 credit (an excess of income over expenditure). The latest outcome suggests that this will be considerably less.

3.43   A recent internal benchmarking exercise by management compared the unit costs of the in-house service to other private sector providers. The average hourly cost for an hour of private sector care was calculated at £13 and the chargeable unit cost for the in house care team was calculated at £22.23. To calculate unit costs for the in-house service a basic hourly rate of £8.86 was used to which on costs, direct and indirect overheads were added as well as an allowance for Saturday and Sunday rates.

3.44   To calculate an hourly cost of care from private providers, eleven block providers were selected and hourly costs were calculated using rates for half hour, three quarter hour and a full hour's care resulting in figures of £17.80, £14.82 and £13.

3.45   The basis for the calculations appears to be reasonable. Direct overheads for the service includes officers pay, indirect employee costs, premises, transport, supplies and services, third party payments and insurance. Indirect costs are internal and external recharges.

3.46   There is no evidence that the cost of the in-house service provision was compared with other Local Authority costs. Internal audit accessed the Institute of Public Finance (IPF) Statistical Review and compared statistics for 2008-09. (see Appendix G). Figures for 2009/10 are not available.

3.47   This suggests that the overall cost of provision by Bromley was the lowest; further interrogation of these statistics would have to be done to establish that like for like information was being compared and all relevant factors were taken into consideration especially around recharging costs. It appears that LB Bexley and LB Merton are considerably more expensive.

3.48   Management are currently reviewing the service including VfM and have made a proposal which is going to Members and consultation with staff on closure of the service.

3.49   Customer Satisfaction Questionnaires

3.50   The last report dated April 2010 titled 'Quality Monitoring of Domiciliary Services' to ASC PDS mentioned that there were 96 complaints from clients. About 36% related to the Home Care in-house provision. In addition 200 clients (70%) were canvassed about the quality of care. The issues raised in both were addressed.

3.51   External assessment

3.52 The in-house team has a current Care Quality Commission star rating of 2 (good) after the last inspection visit in June 2009.

3.53 Budget

3.54 There are monthly monitoring reports. There are financial pressures in the service as indicated in the latest projections for July 2010. There is a projected drop in income estimated to be £1.254 million as it is unable to deliver on the hours that it was contracted to do. This is partly offset by a drop in expenditure of £0.835 million. The service is projecting a £0.419million deficit that will partly be offset by using agency staff at a lower rate.

3.55 Based on the findings above we would score the VfM arrangements as a 3 i.e. substantially met and is based on:

- Benchmarking exercise carried out by management is rated at 3. The internal comparison is probably the best method available given the difficulty in extracting up to date and like for like data from other Authorities. As a result of the unit costs management are reviewing the service.
- Customer service satisfaction would rate a 3 given that complaints are recorded, a detailed survey was carried out and issues raised by clients have been addressed as reported to ACS PDS.
- External assessment - there was an inspection visit last year that rated the service as good and therefore would score a 3 rating in our assessment.
- Budget - owing to the volatility of the budget and the potential deficit arising due to a shortfall in meeting the contracted hours we would give this area a rating of 2 – i.e. partially met.

FINANCIAL IMPLICATIONS

4.1 The additional work involved in undertaking the assessments will be contained within the existing Audit budget.

4.2 All value for money studies may result in efficiency and economy savings.

Non-Applicable Sections:	POLICY IMPLICATIONS LEGAL IMPLICATIONS PERSONNEL IMPLICATIONS
Background Documents: (Access via Contact Officer)	CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom Various websites such as Cipfa stats, LAPS and NAO