



INFRASTRUCTURE AND GOVERNMENT

Bolton Metropolitan Borough Council

Local Area Agreements - Stage 1 Emerging Issues

DRAFT - June 2007

AUDIT

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1 Executive summary

1.1 Introduction

Local Area Agreements (LAAs) have been established in local authority areas to encourage public, private and community and voluntary sector bodies to pool their efforts and financial resources in order to improve services and quality of life for local people. The initiative builds on the experience of partnership working that has developed over recent years, particularly through Local Strategic Partnerships (LSPs).

Bolton Metropolitan Borough Council (the Council) is amongst the second wave LAAs with a three year agreement commencing on the 1 April 2006. The agreement is between central government, represented by the Government Office, and the local area represented by the Council, and other key local partners. It will be refreshed annually to enable changes in national or local priorities to be reflected.

These new ways of working create new opportunities for more effective joint working but they also create potential risks for the stewardship of resources by public bodies. Under the Audit Commission Code of Audit Practice we are required to carry out work to evaluate significant risks to the body subject to audit. Therefore, we have agreed with the Council that we will carry out a review of the risks associated with its participation in the Bolton LAA as part of the 2006/07 Audit and Inspection Plan.

1.2 Key findings

- ⑩ The LAA is directed by informed decision making, both in terms of financial and performance information, which are monitored on an ongoing basis;
- ⑩ Arrangements are in place to provide assurance over the robustness of performance indicators;
- ⑩ Appropriate controls are in place over the utilisation of LAA funds
- ⑩ There are no significant concerns in respect of the achievement of performance indicators

1Executive summary (continued)

1.3Key issues arising

We also identified the following key areas for consideration:

- The LAA has not undertaken a formal risk identification and assessment, and a Risk Management Strategy is not in place.
- ⑩ Funding received can be vired within but not between individual LAA blocks. This has been adhered to in 2006/07, but indications are that funding for 2007/08 is not wholly consistent with committed expenditure. The lack of financial freedom in respect of viring between blocks and between revenue and capital may have a significant impact on the achievement of LAA plans, especially in respect of the NRF funding stream.

1.4Way forward

We will agree with officers the areas to review as part of stage two of our audit.

2 Introduction

2.1 Background

LAAs are three-year agreements that set out the priorities for a local area agreed between central government, represented by the Government Office, and a local area, represented by the local authority and LSP, and other key local partners. They will be refreshed annually to enable changes in national or local priorities to be reflected. The Government intends all single tier areas to have LAAs by 2007.

LAAs are based on outcomes. They should enable local authorities and their partners to deliver national outcomes in a way that reflects local priorities identified in community strategies. They are intended to identify common ground between central and local government as to the key priorities for local communities, but also to give local authorities and their partners the flexibility to find local solutions to local problems, and to prioritise spending to achieve the outcomes identified in an LAA. The full range of local stakeholders with an interest in these outcomes is expected to be involved in drawing up an LAA, including the voluntary and community sector.

Each agreement is made up of outcomes, indicators and targets aimed at delivering a better quality of life for local people through improving performance on priorities grouped into four blocks:

- ⑩ Children and Young People;**
- ⑩ Safer and Stronger Communities;**
- ⑩ Healthier Communities and Older People; and**
- ⑩ Economic Development and Enterprise.**

The Bolton LAA has split 'Safer and Stronger Communities' into three blocks ('Safer Communities', 'Stronger Communities' and 'Cleaner and Greener Communities'). It has also split 'Healthier Communities and Older People' into two blocks ('Healthier Communities' and 'Older People'). As such the Bolton LAA has sub-divided the four national blocks into seven local blocks.

These blocks provide very wide ranging coverage of issues in a local area. However the priorities need not be confined to these blocks. LSPs are encouraged to consider other cross-cutting priorities that do not fit into the four blocks, but that can also be tackled through the LAA and contribute to the drive for more sustainable communities.

2Introduction (continued)

The LAA should therefore reflect the local community strategy, the local neighbourhood renewal strategy where relevant, and in the case of the economic development block, the regional economic strategy. Depending on the funding streams LSPs choose to include in LAAs, the value of the agreement could be many £millions. The value of funding brought together in the first wave of 21 pilot LAAs was £800 million in more than 100 funding streams, such as neighbourhood renewal funds.

LAAs represent a substantial challenge to the leadership and capacity displayed by LSPs in co-ordinating delivery of outcomes which lead to more sustainable communities. The increasing expectations to deliver being placed on LSPs - and the potential for enhanced status to match - make clear systems of accountability ever more important. These should be a key feature of the governance arrangements operated by each LSP, through the local authority as accountable body for many of the relevant funding streams.

2.2Objectives

Our objective is to provide the accountable body (the Council) with assurance on the areas in which it is performing effectively and to clearly identify the key issues that require further action. We will support the accountable body in exploring the way forward on these issues.

Our work will comprise of two stages. The first stage incorporated within the 2006/2007 audit plan will use the Audit Commission diagnostic which focuses on governance, financial management and performance management arrangements. Stage two will build on the findings of the diagnostic and will be undertaken as part of our 2007/08 Audit and Inspection Plan.

2.3Audit approach

The audit has used a variety of methods, including:

- ⑩ Reviewing key documents;
- ⑩ Interviewing key staff in the accountable body;
- ⑩ Providing constructive challenge and support.

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2Introduction (continued)

2.4Acknowledgements

We would like to take this opportunity to thank all those staff at the Council who have supported this review.

3Governance

3.1Introduction

The Audit Commission has identified six areas that are fundamental to the delivery of good governance within LAAs. They are as follows:

- ⑩ clarity of objectives and outcomes;
- ⑩ effective leadership;
- ⑩ informed decision-making;
- ⑩ strong controls and risk management;
- ⑩ involvement of service users, stakeholders and the wider community; and
- ⑩ a clear accountability framework.

3.2Key findings

3.2 1 Clarity of objectives and outcomes

- ⑩ Priority outcomes are in place and are documented within the LAA. These are supported by outcomes, indicators and targets for each LAA block.

3.2.2 Effective leadership

- ⑩ The Vision Steering Group (VSG) is the core group of the LSP and has overall responsibility for the partnership issues and the LAA (with the Council as the Accountable Body). The VSG has established the LAA Agencies Group to deal with the operation and detail of the LAA. There is also an LAA Block Leads Group which comprises of the lead officers for each of the seven LAA blocks.
- ⑩ A clear decision-making process is in place via the LAA Agencies Group. This focuses on approval, operation and strategy, and the development of the LAA

3Governance (continued)

3.2.3 Informed decision-making

- ⑩ Arrangements are in place to ensure that decision-making is well informed.
- ⑩ Decision-making is informed by both financial and performance information.
- ⑩ Each partner organisation inputs performance information directly into the LAA's performance management system. This is integrated with PIMS, the Council's performance management system.
- ⑩ Two finance groups are in place, one strategic and one operational to monitor the financial performance of the LAA.

3.2.4 Strong controls and risk management

- ⑩ Risks that the Council has associated with the LAA from a Council perspective are aligned with the Council's risk management arrangements.
- ⑩ While not formally adopted by the LAA, the Council has identified the key risks to the LAA as:
 - ⑩ failure to deliver outcomes,
 - ⑩ robustness of performance information, and
 - ⑩ failure to spend pooled resources.
- ⑩ Systems are in place to address these identified risks, including:
 - ⑩ Internal Audit reviews of key Performance Indicators (PIs) to provide assurance over their robustness. These reviews have focused on PIs that have not been reviewed as part of the BVPIs and those that the Council does not already have assurance over (e.g. those led by Partner organisations and new/amended PIs). It is noted that Internal Audit work has not identified any significant concerns to date in respect of the robustness of the LAA PIs.
 - ⑩ Ongoing monitoring of PIs and financial position via the various LAA groups and the Council's internal monitoring procedures.

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3Governance (continued)

- ⑩ Reliance is placed on each partner's individual risk management arrangements to ensure that risks are identified, monitored and controlled. As such, emerging risks should be aligned to the relevant partner's risk management processes and controlled. Any arising risks that are specific to the LAA should also be covered at the LAA Agencies Group.

3.2.5Involvement of service users, stakeholders and the wider community

- ⑩ Before the start of the LAA, sessions were held with Community and Voluntary Services (CVS) and the Voluntary and Community Sector Forum, and individual voluntary/community groups were involved in the workshops for individual blocks. The Council has a good history of working with CVS, but tight turnaround in terms of the production of the LAA meant that not as much input as the Council would have liked from the sector was possible.
- ⑩ CVS are on the Agencies and Block Leads groups, and are further involved in Neighbourhood action plans. Local involvement is achieved through the CVS and Neighbourhood Action Planning, and also via individual projects within blocks. Going forwards, it is hoped that Neighbourhood action plans will help to build on this, and these will go through the area forums.
- ⑩ CVS are key to the 'Stronger' element, and have previously been the block lead.
- ⑩ Bolton Scene, the Council's newspaper which is distributed to residents, has been used to raise the profile of the LAA in the community.

3.2.6 A clear accountability framework

- ⑩ Reports on PIs and the financial position go to the Executive Member for Corporate Strategy and also to the Executive. Both will challenge and ask for further information if required. Each Service Area's Scrutiny Committee will also identify individual aspects of the LAA relevant to itself.
- ⑩ The management and administration of the LAA as a whole has been incorporated within the Councils corporate arrangements.

3Governance (continued)

3.3 Issues arising

3.3.1 Strong controls and risk management

- ⑩ The LAA has not undertaken a formal risk identification and assessment, and a Risk Management Strategy is not in place. The Agencies Group needs to address these issues, thus taking ownership of risks that relate to the LAA.
- ⑩ There is no formal buy-in to risk management arrangements by partner organisations. Each partner in the LAA has its own risk management processes, but there are no arrangements specific to the LAA to ensure that all risks are identified and appropriately managed. The LAA does not receive any assurance that all such risks have been identified and are being controlled and monitored, and as such there is an assumption at LAA level that individual partner's risk management arrangements are adequate. We understand that this has been identified as an issue and that a wider LAA risk management approach is being developed.
- ⑩ An LAA complaints policy is not in place. As with risk management, complaints are handled by the relevant partner, and the LAA is reliant on the processes that are in place at each partner. At present, there is no system in place to report complaints from partners to the LAA. As a result, no assurance is received by the LAA that complaints have been appropriately considered and that remedial action has been taken where appropriate.

3.3.2 Involvement of service users, stakeholders and the wider community

- ⑩ The Council has a good history of working with CVS, but tight turnaround in terms of the production of the LAA meant that not as much input as the Council would have liked from the sector was possible. Going forwards, it is important that Neighbourhood action plans help to build on community involvement, for example via the area forums. Area forums can also be used to further raise the profile of the LAA in the community and ensure that local residents are involved in the decision-making process.

3.3.3 Accountability framework

- ⑩ The Council undertakes performance benchmarking for specific services as part of AGMA, but no specific benchmarking is undertaken in respect of the LAA. Benchmarking between LAAs would enable the Bolton LAA to identify and share best practice, and to identify areas of strength and also areas that can be further developed.

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4Financial Management

4.1Introduction

Financial management and the use of resources play a critical part in improving the performance of public services, and financial management is a key element of an organisation's or partnership's overall management arrangements.

While the values of funding streams invested in LAAs vary greatly, they are material to the Council as the accountable body. The channelling of material funds within such an innovative structure and service delivery mechanism makes financial management an inherent risk for participating audited bodies.

In assessing the adequacy of financial management arrangements, consideration is given to the following:

- ⑩ Do bodies involved in the LAA, particularly the accountable body, have the capacity and arrangements in place to participate effectively and develop an Agreement with a sound financial base?
- ⑩ Are there effective arrangements for setting and monitoring budgets and for financial reporting, both internally to partners, externally and in respect of pooled budgets?
- ⑩ Are adequate arrangements in place to demonstrate compliance with LAA terms and conditions and with statutory and other requirements?
- ⑩ Are there clear arrangements in place for monitoring and controlling management costs and for ensuring that efficiency savings are used to further LAA objectives?

4.2Key findings

4.2.1 Capacity and arrangements

- ⑩ Our initial review has not indicated that there are any concerns in respect of financial capacity at the Council or the partner organisations.

4Financial Management (continued)

⑩ Processes are in place controlling the release of LAA funds, whereby:

- partners must provide evidence of spend against contract / approval, at which point monies are released. This is sometimes different for smaller community partners where there are cashflow restrictions. In some cases (e.g. voluntary sector bodies), the Council may pay some monies up front, in accordance with DCLG guidance. This is done in a controlled manner to provide assurance over expenditure.
- internal (Council) departments comply with the Council's standing orders. The LAA can track back through the financial system to confirm levels of spend etc.

4.2.2 Arrangements for setting and monitoring budgets and for financial reporting

- ⑩ Plans for the financial aspect of the 2006/07 LAA were derived from the financial plans already in place for the various funding streams making up the LAA.
- ⑩ Spending plans are agreed at programme management (i.e. individual stream) level. Financial performance is monitored individually and then amalgamated for reporting to Agencies Group and Block Leads.
- ⑩ Line by line financial monitoring is in place, undertaken by each stream lead officer (the programme manager) liaising with the accountant responsible for external funding.
- ⑩ Committed spend is not included within expenditure to date figures, but comments are included to identify financial commitments and actions.
- ⑩ A traffic light system is used to flag areas of risk of underspends. There were concerns earlier in the 2006/07 that the required level of expenditure, particularly around the Neighbourhood Renewal Fund (NRF), would not be achieved, resulting in reduced funding in 2007/08. This was identified via financial monitoring and action has been taken such that NRF spend has now hit the required levels for 2006/07.

4.2.3 Compliance with LAA, statutory and other terms and conditions

- ⑩ Changes in required arrangements are notified by Government Office and filtered to the LAA Agencies Group and other appropriate teams.
- ⑩ The system of only paying monies to partners upon production of evidence of eligible expenditure ensures that grant monies are used in line with the relevant terms and conditions (see section 4.2.1)

4.2.4 Management costs

- ⑩ See section 4.3

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4Financial Management (continued)

4.3 Issues arising

4.3.1 Capacity and arrangement

- ⑩ Different partners have year-ends that differ to the LAA (eg FE and HE partners), but Government Office North West (GONW) has indicated that leniency will be afforded in the first year. However, the LAA needs to consider how different year-ends will be managed in 2007/08.
- ⑩ The LAA can vire budgets within but not between individual blocks. This has been adhered to in 2006/07, but indications are that funding for 2007/08 is not wholly consistent with committed expenditure. The Council needs to consider how it will address this to ensure that the delivery of outcomes is adequately supported by financial planning.
- ⑩ In 2006/07, both capital and revenue NRF monies received by the Council were voluntarily introduced into the LAA and were aligned across each of the blocks. It was assumed that this freedom would continue into 2007/08 and this has been reflected in the LAA's financial planning. However, a wholly revenue grant has been allocated for 2007/08 directly into the 'Safer and Stronger Communities' block. The LAA has requested that the grant is reprofiled across the blocks and that the grant is split into revenue and capital elements, but it is currently unclear whether any concessions will be granted. The LAA will face difficulties if restrictions are placed on NRF monies as contracts are in place for both capital and revenue spend across all the blocks.
- ⑩ The LAA can use NRF monies to contribute to the purchase of assets by third parties. However, NRF terms mean that the LAA can only provide funding where banks are not involved in the transaction (due to charges on assets by banks). Furthermore, the future sale of NRF purchased assets by third parties may result in a claw back of funds. As a result, clauses are required in contracts with third parties to ensure that this is agreed, but third parties are often not prepared to commit to this. There is a risk that this will result in difficulties in ensuring that resources are utilised in line with financial plans.

4.3.2 Management costs

- ⑩ Most continuing schemes already include an element of management costs. Although there is monitoring of management costs within individual grant streams, there has not been any aggregate monitoring to date of management costs across the LAA.

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5Performance Management

5.1Introduction

The Government's eventual aim is to streamline, simplify and integrate existing performance management arrangements for councils and their local partners into one area-based framework. LAAs are seen as the prime vehicle for achieving this aim. A parallel aim is to derive a single clear set of outcomes and indicators based on the relevant set of national Public Service Agreements to form the core of the agreements, alongside local priorities that fall outside this set.

In assessing the adequacy of financial management arrangements, consideration is given to the following:

- ⑩ Are partners committed at the highest level to effective joint performance management?
- ⑩ Do partners use past and current performance to plan future action?
- ⑩ Is the local performance management framework effective?
- ⑩ Do partners regularly review the performance management framework and its effectiveness?

5.2Key findings

5.2.1 Joint performance management

- ⑩ The LAA is in effect a delivery plan for the community strategy. Responsibility is delegated to named block leads and PI leads in respect of the collation and reporting of information. A strong LSP is in place, and the Council does not have any concerns over the current arrangements.
- ⑩ The management of performance across the LAA is the clear responsibility of the LAA Agencies Group which keeps track of performance and challenges where appropriate.
- ⑩ Block leads take responsibility for inputting the data and monitoring their performance of their blocks.

5Performance Management (continued)

- ⑩ National PIs – some are set nationally, and others are negotiated at local level with GONW. GONW does not drive the determination of local targets, but it may challenge them if it feels that they are not appropriate. All final PIs are formally approved and signed off by the Agencies Group.
- ⑩ The LAA has a Performance Management Framework (PMF) in place which continues to be monitored on an annual basis. It is anticipated that the PMF will eventually be superseded by the LAA framework.
- ⑩ The monitoring of PIs has not identified any significant concerns to date in respect of their achievement. The LAA has completed Government Office self-assessments at six and twelve months. We have reviewed the month six self-assessment and have not identified any significant concerns in respect of the achievement of PIs.

5.2.2 Planning future action

- ⑩ Action plans have been put in place where PIs are not being achieved and as a result they are more closely monitored. The initial setting of plans and targets includes an assessment of historical performance.
- ⑩ Delivery plans focus on improved outcomes for residents. Going forwards, the LAA aims to increase localisation, and 11 deprived neighbourhoods have been assessed to identify needs. Action plans are in place to focus and drive targets and plans.
- ⑩ SMART targets are being developed to ensure the LAA can demonstrate how outcomes provide benefits.
- ⑩ Concerns in respect of PIs are raised at Block, Agency and the Council's Performance Management Group. A trigger of 10% underperformance against target has been set to flag PIs for further investigation. All PIs that are below target are reviewed and action plans are developed where required.

5 Performance Management (continued)

5.2.3 Effectiveness of performance management framework

- ⑩ Each partner organisation inputs performance information directly into the LAA's performance management system. This is integrated with PIMS, the Council's performance management system.
- ⑩ Block leads lead on the assessment of performance. The framework is an ongoing review via quarterly monitoring.

5.2.4 Review of the performance management framework

- ⑩ The recent White Paper has introduced 200 targets from 2008, of which the Council must choose 35, in addition to another 18 educational targets. Current targets are a mix of local and national PIs, all of which are monitored by GONW.
- ⑩ No concerns have been identified in respect of failing to meet other monitoring arrangements (e.g. production of BVPIs) while responding to LAA requirements.

5.3 Issues arising

5.3.1 Joint performance management

- ⑩ The Council has identified *Road Safety* and *Less Serious Woundings* as two areas where PIs are underperforming. Road Safety is difficult to control and has been a problem historically, and the LAA's approach is preventative and therefore more long term gains are being sought. Less Serious Woundings have increased but it is felt that this is possibly a knock-on effect of a decrease in more serious woundings. The ultimate implications of missing PIs is that the Government may take back the LAA to its original setup, resulting in an increase in the level of bureaucracy. It is important that the LAA considers factors such as these when setting PIs for future years, and continues to understand reasons for underperformance of individual PIs.

5.3.2 Planning future action

- ⑩ The only difficulty that is faced in respect of availability of data and reporting is the fact that only a third of PIs (26 of 76) can be monitored quarterly. However, the Council is satisfied that a feel can be obtained in most cases where quarterly monitoring is not possible.

6Going forward

6.1 Next steps

We plan to undertake stage two of our review of LAA arrangements as part of our 2007/08 Audit and Inspection Plan. The detailed specification of this work has yet to be agreed with the Council, but we anticipate that it will involve the following:

- ⑩ Interview a selection of partners - need to confirm understanding amongst partners of governance, financial management and performance management arrangements.
- ⑩ Interviews with local community representatives and other stakeholders.
- ⑩ Interview lead performance and finance leads for the blocks.
- ⑩ Interview with Members.
- ⑩ Identification of good practice.