

# Annual Audit and Inspection Letter

**Hart District Council**

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As an independent watchdog, we provide important information on the quality of public services. As a driving force for improvement in those services, we provide practical recommendations and spread best practice. As an independent auditor, we ensure that public services are good value for money and that public money is properly spent.

### **Status of our reports**

This report provides an overall summary of the Audit Commission's assessment of the Council, drawing on audit, inspection and performance assessment work and is prepared by your Relationship Manager.

In this report, the Commission summarises findings and conclusions from the statutory audit, which have previously been reported to you by your appointed auditor. Appointed auditors act separately from the Commission and, in meeting their statutory responsibilities, are required to exercise their professional judgement independently of the Commission (and the audited body). The findings and conclusions therefore remain those of the appointed auditor and should be considered within the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission.

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- prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission; and
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## Our overall summary

### The improvement since last year - our Direction of Travel report

#### Summary

##### Introduction

- 1 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the findings and conclusions from the audit of the Council and from inspections undertaken in the last year. The letter includes our review of how well the Council has progressed (our Direction of Travel report) and the auditor's assessment of how well the Council has managed its finances (the Use of Resources scores). These latter components will be important for any future decision regarding the re-categorisation of the Council's current Comprehensive Performance Assessment (CPA).
- 2 The report is addressed to the Council, in particular it has been written for councillors, but is available as a public document for stakeholders, including members of the community served by the Council.

##### Our overall summary

- 3 The Council aspires to 'be an excellent organisation'. However, three years since Hart was assessed by the Audit Commission as a 'Fair Council' it still has many significant weaknesses. As yet it is unable to demonstrate significant and sustained improvement in the services that it provides or in the way that it is managed. Reluctance to take hard decisions over recent years has resulted in an underlying budget gap of £1.5 million; outcomes and success measures for previous priorities have not been established; the development of systems to help the council better understand and manage the performance of its services has been slow; initiatives to put customers at the heart of what the Council does have not improved customer satisfaction levels; staff morale is poor in most services; and there has been little focus on community leadership.
- 4 There are, however, encouraging signs that more rapid improvement will be made in the future.
- 5 Stronger political and managerial leadership has resulted in significant progress over the last six months in strengthening short-term and medium-term corporate improvement planning. There are clear plans for further and more rapid corporate improvement. The new leadership has a good self awareness and recognises that the Council faces some significant challenges ahead to achieve sustained improvement over the medium term. These challenges include:
  - managing the political balance, particularly taking difficult decisions within a coalition, to strengthen the Council's medium term financial position;

- focusing on priorities and clarifying outcomes and success measures;
  - strengthening customer focus;
  - ensuring the new performance management framework delivers improvement;
  - delivering efficiencies;
  - building staff morale and confidence and particularly building capacity by 'empowering' heads of service and middle managers;
  - playing an active part in partnerships, locally and regionally, to facilitate and enable strong community leadership; and
  - achieving the cultural change necessary to implement the Council's plans.
- 6 There has also been some progress on improving services and particularly delivering better outcomes for service users in the following areas:
- housing benefit claims are decided more quickly;
  - there are no homeless families in bed and breakfast;
  - generally more planning applications are decided within shorter times;
  - recycling and waste collection are improving with good provision of kerbside recycling; and
  - street cleaning continues to be an area of strong performance.
- 7 Despite this progress there is still much to do.
- Customer satisfaction is worsening. While some of this will be due to the continuing problems with waste collection and some disruption from the introduction of alternate bin collection, satisfaction has worsened across most services. Even where there have been improvements in service delivery, in most cases, this has not resulted in increased customer satisfaction.
  - Performance remains below the average for district councils for many customer facing and income generating services.
  - The Council is still unable to demonstrate it is achieving value for money for its services although action is under way to address this.
  - Systems and processes for managing financial resources remain weak compared to most other district councils. The annual accounts were, however, approved within statutory deadlines for the first time within three years which is a significant improvement.

### **Action needed by the Council**

- 8 Over the last few months the 'new leadership' has brought a fresh vision and has re-energised the Council's improvement agenda. Initial focus has been on:
- strengthening the Council's financial position and management;
  - establishing short and medium-term corporate improvement plans;

- progressing the development of a new approach to performance management;
  - developing more robust service plans and mechanisms for service reviews;
  - implementing councillor and management development programmes; and
  - strengthening its community leadership role and a key challenge will be improved engagement with the LSP and the LAA.
- 9 This energy, enthusiasm and determination must now result in process and cultural change otherwise the Council will continue to 'coast' thereby failing to reach its own ambition as well as failing to meet the needs of the local community. It is also crucial to recognise the interdependencies between much of the work currently in progress. So for example, the success of service reviews is dependent upon current efforts to set priorities. As such the improvement process needs to be viewed as a wholly integrated change programme.
- 10 Both the Leader and Chief Executive recognise that transforming the Council from its present state to an excellent organisation will not be an easy or immediate task. They have therefore developed options for the Council to decide how it intends to face the future. Whatever options are adopted over the next few months the Council needs to:
- establish priorities with clear outcomes and success measures;
  - develop and implement a programme for improving and sustaining service performance and in so doing strengthen customer focus and satisfaction;
  - develop a programme to strengthen the Council's community leadership role;
  - assess the resources required to deliver 'Facing the Future' transformation; and
  - apply the corporate consultation policy more consistently

### **How is the Council currently performing?**

#### **Overall performance and customer satisfaction**

- 11 A basket of performance indicators (PIs) shows a mixed picture for Hart. Some 58 per cent of PIs improved which was average for all district councils in 2005/06. However, just two PIs improved significantly. A quarter of PIs in 2005/06 show the Council's performance to be amongst the best 25 per cent in the country but this remains below the district council average. Furthermore a quarter of PIs show performance to be in the worst 25 per cent of all councils and half of these PIs had not improved.
- 12 Satisfaction with the Council overall has worsened from 54 per cent in 2003/04, which was below average compared to other councils, to 42 per cent in the 2006/07 survey. Customer satisfaction is not improving across most services, even those where there has been a demonstrable improvement in service.

### **Corporate plan themes**

- 13 The Council recognises that it needs to clarify its priorities and better target its resources to deliver improved services. Its medium term corporate improvement plan 'Facing the Future' proposes prioritising two of the Council's six corporate plan themes: affordable housing and the environment. Below we focus on progress in delivering improved outcomes across all six corporate plan themes over the last year.

### **Affordable housing**

- 14 The Council aims to increase the supply of new affordable housing to meet local needs, provide effective advice and support to homeless persons and achieve the government's decent homes standard.
- 15 In March 2006 affordable housing services were inspected and assessed as 'fair' with uncertain prospects for improvement. The inspection identified four main areas for improvement:
- access to services and standards of customer care;
  - the approach to private sector housing renewal;
  - housing improvement plans; and
  - the capacity to deliver affordable housing services.
- 16 The Council has made progress on its affordable housing improvement plan, with 10 of the sixteen agreed actions already completed. Only one of the remaining six is behind timescale. Achievements include:
- service standards now in place and available on the Council's website;
  - a programme of customer consultation has started with feedback used to inform changes to housing allocation policy;
  - improved monitoring of BME access to housing services and currently reviewing BME access to services;
  - a revision of private sector housing renewal policy is underway to target grant support to the most vulnerable and improve empty homes performance; and
  - performance management of the service is starting to improve with some additional resources allocated to private sector housing.

- 17 Housing performance is improving in most areas, although empty homes performance remains a challenge. Performance on providing new affordable homes remained in the top 25 per cent of councils in 2005/06. Although less new affordable homes were completed this year the Council anticipates achieving its 2006/07 target of 80 new homes by April 2007, with an increased proportion available for rent. The Council is on target to meet the decent homes standard for private sector housing with 63 per cent assessed as decent in 2006. However, the Council's performance on bringing private sector homes back into use remains in the worst 25 per cent of councils with no empty homes brought back into use over the last three years. The homelessness service has been brought back in-house to improve performance and provide better value for money. Performance on using bed-and-breakfast is improving in 2006/07 with no families using the facility and the time spent in temporary accommodation at Heathlands Court is reducing. Decisions on homelessness applications are taking longer in 2006/07 (18.5 days on average) than in 2005/06 although decisions are made within the national standard of 33 days.

### **Community and the individual**

- 18 The Council aims to encourage community involvement, recognise diverse community needs and improve access to services and work with partners to reduce crime and the fear of crime.
- 19 Customer satisfaction with the Council's handling of complaints has worsened with only 24 per cent satisfaction in 2006/07, compared to 27 per cent in 2003/04.
- 20 The Council's performance on complaints reported to the Ombudsman is improving. There have been no findings of maladministration since 2003/04, and in 2005/06 the Council's speed of responding to the Ombudsman was above average compared to other councils.
- 21 Hart's community safety strategy aims to reduce antisocial behaviour, levels of crime and disorder and the fear crime and work with young people and their families to reduce their likelihood of becoming a victim or offender. In 2005/06 the community safety partnership, 'Safer Hart', delivered a number of initiatives including a summer programme for children affected by domestic violence and safety improvements to the Hearsey Gardens area which resulted in a significant reduction in arson. In 2006/07 the partnership is contributing to LAA targets on crime and antisocial behaviour through arson reduction projects and advice surgeries at Hart Neighbourhood Centre aimed at supporting victims of crime and preventing crime.
- 22 Crime levels remain below the national average but increased from 2004/05 to 2005/06 for most crime types, with the exception of motor vehicle theft. The performance of the community safety partnership is average compared to others in this family group. However, the partnership's improvement plan aims to address this by increased fund raising to support key projects, improving performance management and better communication with stakeholders and the local community.

## Health

- 23 The Council aims to contribute to the health and well-being of the community through promoting cultural and leisure facilities, delivering an effective benefits service, improving environmental health and working in partnership with the PCT on the delivery of a local health strategy.
- 24 Customer satisfaction is improving for users of the district's sports and leisure facilities, with 61 per cent of users satisfied in 2006/07 and the Council has drafted a new leisure strategy (see future plans).
- 25 The benefits service is improving in most areas of performance as a result of investments made following the Benefit Fraud Inspectorate's (BFI) re-inspection in June 2005 which assessed the Council as delivering a 'poor' service. The Council has implemented 95 per cent of the BFI's recommendations including improving staff training and customer access. A self -assessment of benefits performance in November 2006 against the Department of Work and Pensions performance standards indicated that the service has improved from 'poor' to 'good'. This assessment has not been independently verified. Performance is improving in 2006/07 reducing the time taken to decide new benefit claims by 15 days (currently 20 days, compared to 35 days in 2005/06. Performance continues to be above average for dealing with changes of circumstance. Results of phase one of the 2006/07 benefits customer satisfaction survey indicate improved satisfaction (84 per cent satisfied). However, the Council's performance on accurately calculating benefit claims and recovering benefits overpayments is in the worst 25 per cent of all councils.
- 26 The Council's performance on environmental health is not yet delivering consistent improvement. Performance on safety inspections of high risk properties and food premises has worsened since April 2006, reduced from 100 per cent to 95 per cent inspected. Performance against the environmental health checklist of enforcement best practice worsened in 2005/06 and was below average compared to other councils but is starting to improve in 2006/07 with a recent assessment of 92 per cent compliance.

## Planning and the environment

- 27 The Council aims to deliver a robust Local Development Framework, operate an efficient and effective waste collection service based on reducing, reusing and recycling, and improve the quality of development throughout the district.

- 28** The performance of the planning service improved consistently in 2005/06 and this improvement is continuing in 2006/07 for major planning applications. However, performance is deteriorating for minor applications and customer satisfaction has worsened. In 2005/06 performance against the planning quality checklist was in the best 25 per cent of district councils and the time taken to reach a decision on all types of planning applications reduced. To date in 2006/07, 81 per cent of major applications and 90 per cent of other applications are decided in their target times compared to only 59 per cent of minor applications. Performance on completing planning searches was in the worst 25 per cent of district councils in 2005/06 and only improved slightly. Customer satisfaction has worsened, 65 per cent in 2006/07 compared to 72 per cent in 2003/04 when it was below the district council average.
- 29** The Council's investment in alternate bin collection (ABC) and extending kerbside recycling is delivering improved performance on waste collection and recycling. However, the Council failed to meet its 2005/06 DEFRA recycling target of 30 per cent (23.5 per cent was recycled). Less waste was collected in 2005/06 and more continues to be recycled, although the Council is unlikely to meet its current year recycling target of 37 per cent. The number of missed bins started to reduce dramatically following the introduction of ABC, with 931 missed per month from October to December 2006, compared to a total of 13,000 during June to September. Over 98 per cent of missed bins are collected within one working day. However the recent customer surveys reported poor and worsening customer satisfaction of 51 per cent for waste collection and declining satisfaction with recycling facilities - 70 per cent satisfied. This may reflect some of the teething problems experienced during the introduction of ABC as well as the previous poor performance on missed bins. The Council will resurvey residents in March 2007 and the Audit Commission will inspect the waste service in June 2007 to assess progress and follow up on the impact of the changes on customers.
- 30** The Council continues to perform well on street cleaning with performance in the best 25 per cent of district councils in 2005/06 for litter levels. However, customer satisfaction with cleanliness has worsened slightly, 60 per cent satisfied in the 2006/07 survey. Satisfaction with parks and open spaces has improved, achieving 75 per cent satisfaction.

### **Transport**

- 31** The Council aims to work with partners, including the LSP, to develop an integrated transport system.
- 32** Performance on parking enforcement is improving with an increase in penalty charge notices issued to date this year.
- 33** Although the Council is continuing to fund the community transport 'call and go' scheme this year and in 2007/08 it recognises the need to review the value for money provided by the scheme and fully assess the extent to which the scheme is meeting the needs of rural residents as intended.

- 34 It is recognised that more action needs to be taken to make better use of planning gains to improve local transport infrastructure.

### **Economy**

- 35 The Council aims to promote the economic vitality of the district, including small businesses and retail facilities, safeguarding rural and village economies and promoting the central role of Fleet Town Centre.
- 36 Working in partnership with Hampshire County Council, the Council completed a programme of improvements to Fleet Town Centre in May 2006 resulting in improved accessibility, a more attractive street scene with better pathways and safer car parks. This benefits both local residents and the wider community who work and shop in Fleet.

### **Access to services**

- 37 In June 2005 the Council's customer access services were inspected and assessed as 'poor' with uncertain prospects for improvement. The inspection identified three main areas for improvement:
- developing ambitious customer access standards;
  - improving customer access through better customer engagement, extending partnerships and the equality standard, and regularly reviewing access from the user point of view; and
  - establishing an effective decision-making and governance framework to enable customer access improvements.
- 38 The Council has established a framework to drive forward these customer access improvements and phase one of the programme is completed. Improvements delivered include:
- customer contact centre established in June 2006 with improved interview facilities and disability access;
  - a new telephone system providing better access for callers;
  - improved Web access to services such as online payments and bookings;
  - a choice based letting system due for implementation in April 2007; and
  - establishing Hart Neighbourhood Centre as a focus of activities to improve community safety.

- 39 The Council faces some key challenges as it commences phase two of its customer access programme. The level of service provided by the customer contact centre requires improvement as the Council is not achieving its target for the speed of answering calls, with only 54 per cent answered in the target time in the last three months. Although consultation was undertaken on specific issues such as waste collection and the local development framework, the Council is not implementing its corporate consultation strategy effectively. In particular, the citizens' panel is not in place and no progress has been made on developing a strategy for consulting hard to reach groups. As a result the Council lacks robust arrangements for obtaining ongoing customer feedback, including from hard to reach groups, and using this to improve services. The achievement of level 1 of the equality standard is similar to that of the majority of district councils, although half of all councils and one third of districts have achieved level 2 or above.
- 40 Although the Council performs well regarding the proportion of women and people with disabilities in its workforce, BME communities are underrepresented in comparison to the proportion of BME residents in the local community.

### **Wider community outcomes**

- 41 Overall the Hampshire Local Area Agreement (LAA) is progressing well. The LAA aims to deliver improvements for the people of Hampshire in a number of specific areas. Steering groups are in place for developing the projects for the eight priority outcomes and four 'flagship' initiatives and prioritised action plans have been produced and shared with partners and the Government Office of the Southeast (GOSE). Although the Council is not a sponsor of any of the LAA projects it is participating in some of the project groups, for example on safer and stronger communities and the group developing the performance and delivery framework. LAA priorities are included in the community safety partnership's action plan so that it can enable activities locally which support the LAA.
- 42 With support from the Council, the LSP held a successful conference for young people in 2006 which highlighted concerns about accessible transport and led to plans to provide a community bus in 2007 providing a range of activities for children and young people aged 5 to 13.

### **Current and future plans**

- 43 With stronger leadership by a new Leader and Chief Executive the Council has made significant progress over the last six months in strengthening its short-term and medium-term corporate improvement planning. In November 2006 the Council established a set of strategic priority outcomes to achieve by April 2007. The plan is SMART and addresses the key short-term challenges facing the Council to clarify priorities and non-priorities and improve the Council's financial position and systems, performance management framework, councillor and managerial capacity and partnership working. The Council is making good progress against this plan.

- 44** In March 2007 Cabinet agreed a medium term strategy for securing and sustaining continuous improvement. This strategy, 'Facing the Future', provides a clear framework for addressing weaknesses covered in our last direction of travel report: a lack of prioritisation, poor focus on delivering and sustaining improvement and an inability to take difficult decisions. Key elements of the strategy include:
- establishing affordable housing and the environment as the Council's top priorities and de-prioritising its other corporate themes;
  - improving efficiency and performance;
  - improving customer focus;
  - developing the Council's role as a community leader; and
  - better communication with staff, stakeholders and the public.
- 45** 'Facing the Future' demonstrates that the Council has a good understanding of the challenges it faces. The Council has not yet assessed the resources required to deliver this strategy effectively and plans to undertake an initial review of all services in 2007/08 which will address this.
- 46** The Council is developing a number of new strategies: a leisure strategy; a revision of the health strategy; and an older peoples' strategy in partnership with the County Council and districts.
- 47** To aid improving prioritisation and service delivery outcomes the Council has streamlined its service plans for 2007/08 and these will have fewer key targets and projects. Further work is underway on the draft plans to ensure that targets are stretching, benchmarking is included wherever possible, clear outcomes are articulated and the plans are adequately resourced. These plans will reflect the Council's recent decision on its new priorities.
- 48** Progress against the Council's improvement plans for affordable housing, benefits and customer access are discussed above. A common weakness with these improvement plans is a lack of clear outcomes to demonstrate how the improvement activities will benefit the customer.
- 49** The Council is developing service level agreements with its key voluntary sector delivery agencies, Hart Voluntary Action and the Citizens Advice Bureau, which are more focused on customer outcomes and provide clear accountabilities for performance.

## Building capacity

- 50 The Council is demonstrating a real commitment to tackling financial issues and securing effective financial management in both the short and medium-term. 'Facing the Future' sets out a clear strategy for better management of resources through prioritisation, achieving efficiencies and adding value through partnership working. Hard decisions are being taken to drive through £1.5 million of savings to achieve a balanced budget in 2007/08. Financial control has improved with the accounts approved by the Council and certified by the Auditor within the statutory deadlines for the first time within three years. The Council is on target to implement a new financial management system in April 2007 which will enable better financial reporting to councillors.
- 51 Councillor capacity has improved over the last year and the current development programme (including peer mentors and scrutiny workshops) will build on this. Leadership of the Council has strengthened as demonstrated by the decisions on the budget and new priorities. Cabinet and scrutiny are fully engaged in the 2007/08 budget and service planning processes and some scrutiny councillors are challenging performance, for example on service plans and inspection improvement plans. However, improved performance reporting is required to focus councillors on areas of relatively poor performance.
- 52 Current managerial capacity is starting to be used more effectively. Services have been restructured to reduce the number of managers and make them more accountable to corporate directors for service performance. Alongside this the Council is implementing a management leadership and development programme. It is reducing the number of project boards which oversee progress against the Council's range of improvement plans.
- 53 An initial review of all services is planned in 2007/08 to assess capacity to deliver service plans and the Council's medium term improvement plan. The reviews will focus on three areas - prioritisation, customer focus and efficiency and will engage councillors, stakeholders and service users. This may lead to more in-depth reviews for some services.
- 54 Options for obtaining efficiencies in back office functions eg payroll, Revenues and Benefits and Information Technology are also being examined. Securing economies in procurement through the Hampshire market place initiative is also being explored along with potential for partnership working with neighbouring councils, recognising that previous attempts to do so have not progressed well.
- 55 There are problems of low staff morale in approximately half of the Councils services. This was identified in a workforce survey carried out in November 2006 and senior officers are currently developing an action plan to address this.
- 56 The Council is making a commitment to improving its engagement in the LSP. Its intention to do this is set out in 'Facing the Future' which recognises that the Council has not been a key driver in the partnership. The leader of the Council was elected as Chair of the LSP in January 2007 and a partnership away day is planned for April 2007 to discuss and agree future direction and priorities.

## Financial management and value for money

- 57 The Annual Governance Report on issues arising from the 2005/06 audit was issued by your appointed auditor in September 2006. The appointed auditor also provided for that year:
- an unqualified opinion on your accounts;
  - a qualified conclusion on your VFM arrangements to say that these arrangements are not adequate; and
  - a report on the Best Value Performance Plan confirming that it has been audited and that there were no issues that I needed to bring to your attention.
- 58 The main issues reported in the Annual Governance Report related to the Opinion and the Value for Money conclusion for 2005/06. It also identified the following weaknesses in systems of accounting and financial control:
- The Council has recognised within its Statement of Internal Control that there is a shortage of resources in Revenues. Internal Audit reports also note a significant number of weaknesses within the Housing Benefits, Council tax and Non domestic rates systems which need to be addressed.
  - The Council was required to repay £915,000 to the Department for the Communities and Local Government during 2006/07, following the qualification of the 2004/05 NNDR3 grant claim. The fact that this demand for repayment was not anticipated represents a lack of awareness and a weakness in financial management, although it is acknowledged that the absence of two of the Authority's senior finance officers was a contributing factor.
  - The previous Interim Head of Finance commented in his report to S&GP on 26 September 2006 on the consequences of the Council not having taken advantage of its opportunity to convert its Provision for Credit Liabilities to useable capital receipts. The Council's failure to make the required determination represents a weakness in financial management.
- 59 These issues are reflected as appropriate in the updated Use of Resources assessment for 2006/07 described in the following section of this letter.

### Use of resources assessment 2007

- 60 The findings of the auditor are an important element of our understanding of the Council. In particular, the Use of Resources score is derived from the assessments made by the auditor in the following areas.
- Financial Reporting (including the preparation of the accounts of the Council and the way these are presented to the public).
  - Financial management (including how the financial management is integrated with strategy to support council priorities).

- Financial Standing (including the strength of the Council's financial position).
- Internal Control (including how effectively the Council maintains proper stewardship and control of its finances).
- Value for money (including an assessment of how well the Council balances the costs and quality of its services).

61 We have assessed the Council's arrangements for use of resources in 2006/07 in these five areas as follows.

**Table 1**

Element	Assessment
Financial reporting	1 out of 4
Financial management	1 out of 4
Financial standing	1 out of 4
Internal control	2 out of 4
Value for money	1 out of 4
Overall assessment of the Audit Commission	1 out of 4

(Note: 1 = lowest, 4 = highest)

- 62 Although these 'headline' scores are similar to those for 2005/06, we have noted some improvement in a number of areas, as will be apparent from the narrative in table 2.
- 63 A summary of findings and conclusions by theme is set out in Table 2.

**Table 2 Use of resources 2006/07: Summary of findings and conclusions by theme**

<p><b>Financial reporting</b></p> <p><b>Theme score 1</b></p>
<p>[Assessment based in large part on 2005/06 information, to be updated in due course]. The 2005/06 financial statements were prepared and approved by the Council, and certified by the auditor, within statutory deadlines. This represents a substantial improvement on the preceding two financial years, despite the Council's lack of key permanent finance staff. However, the accounts submitted for audit did contain two non-trivial (material) misstatements and required a significant number of other amendments which were agreed with officers during the audit.</p>

### **Financial reporting (continued)**

To progress to a higher level, the council will need to ensure that working papers are improved and produced on a timely basis at the start of the audit, by:

- addressing the weaknesses within the audit trail; and
- providing a robust analytical review to support movements in the year and an analysis of the budget to facilitate comparison with the budget.

The Council meets the minimum requirements on external accountability, having established arrangements to publicise how local electors can exercise their rights, publishing the Annual Audit and Inspection Letter (AAIL) and making agendas, minutes and reports available to the public.

### **Financial management**

#### **Theme score 1**

The Council has addressed several of the areas of weakness from the 2005/06 assessment. It has taken effective action over the past six months to improve its Medium-Term Financial Strategy (MTFS), budget setting and capital programme. New arrangements have also been put in place to manage and monitor performance against budgets.

To improve further and to move to the next level, the Council should:

- review its corporate themes as set out in the Corporate Plan, and develop them into clear and measurable objectives that can be integrated within the MTFS;
- develop its new asset strategy and asset management plan, to set out the principles for future capital spending and to link clearly to the Council's revised corporate objectives and key priorities;
- demonstrate that it is applying prudential indicators in assessing the affordability of capital projects; and
- develop an annual programme of planned asset maintenance based on a rolling programme of property surveys, and regularly assess the level of its backlog maintenance.

### **Financial standing**

#### **Theme score 1**

The Council incurred overspends against budget in both 2004/05 and 2005/06, but has taken effective action over the past six months to address significant weaknesses identified within its budget setting and budget monitoring processes. Robust arrangements should be in place for 2007/08.

In order to progress to next level the Council needs to demonstrate that it can manage its spending within the available resources and should formally approve a policy on the level and nature of its reserves and balances.

**Internal control**

**Theme score 2**

The Council has started to take effective action over the last year to strengthen its risk management arrangements by developing clearer links between strategic business objectives and corporate risks, assessing risks relating to partnerships, introducing quarterly reporting of risk management to the S&GP Committee, and planning training for members. Systems of internal control are generally sound.

To progress to the next level, the Council needs to:

- review the business continuity plan to ensure that the perceived gaps are addressed;
- revised and update Standing Orders;
- seek assurance over the governance arrangements in place for key Council partnerships;
- carry out an ethical standards audit, to assess how effectively members are complying with the code of conduct, and also the number and type of complaints received and whether appropriate action is taken; and
- undertake more proactive counter fraud and corruption work, based on a formal risk assessment, and develop a strong counter fraud culture that is supported and promoted by members and senior officers.

**Value for Money**

**Theme score 1**

Although developments since our assessment last year have been started in a number of areas, they have not been fully delivered in time to improve the 2006/07 VFM performance in Use of Resources.

Although the Council's costs are relatively low compared to other councils, there is not a consistently positive relationship between cost and performance. There are elements of relatively poor performance across most of the Council's highest and lowest cost services, for example below average and deteriorating performance on minor planning applications and debt recovery in benefits and council tax.

A review of high spending areas has been started by the Council through its 2007/08 budget setting process and subsequent VFM reviews of services. However, plans to improve VFM are not yet in place for all services, or agreed by councillors. Areas of relatively high spending are not robustly linked to priorities, as the Council is in the process of clarifying its priorities and non-priorities.

The Council does not have a clear understanding of whether its capital programme projects are being completed on time and to budget. The project approvals process for the capital programme has been strengthened, but plans to improve quarterly reporting to councillors on programme variances will not be implemented until 2007/08.

### **Value for Money (continued)**

Cost-benefit analysis is used to assess the benefits and risks of outsourcing services (for example, for the revenues and benefit service), but whole life costing is not used when making major investments.

Limited use is made of cost benchmarking information, and the Council lacks a full understanding of its costs, including the impact of external factors on higher costs areas. Councillors and managers do not make adequate use of benchmarking of performance indicators or exception reporting to enable them to focus on improving poor performance. Performance and financial monitoring are not integrated.

The Council is aiming to improve VFM and has started to challenge this within services through the VFM panels, but to date these have lacked a sufficiently strong focus on the relationship between costs and performance. Some consideration is given to the impact of cost reductions on service users but the 2007/08 budget setting process lacked a systematic approach to this and omitted to consult with voluntary sector partners.

In the first two years the Council has exceeded its annual Efficiency Review targets, but it lacks a plan for ensuring that the three-year 7.5 per cent savings target will be met and progress regularly monitored. Some savings are being achieved through procuring goods but the Council has not yet achieved any significant savings through shared services with other councils. Investments in some underperforming services are delivering improved service quality, for example in waste collection and benefits claims.

To progress, the Council needs to deliver some key improvements in 2007/08, in particular:

- Improve poor and below-average performance, especially in relatively high-cost services.
- Ensure any high spending is linked to the Council's new priorities.
- Achieve better performance management by managers and councillors of the capital programme.
- Make better use of benchmarking information to reduce costs and drive improved performance.
- Ensure high level performance reporting facilitates challenge of poor performance and VFM.
- Demonstrate some improved VFM outcomes for customers from the VFM challenge panels.
- Demonstrate cost and quality outcomes from procurement of services.
- Establish savings plan and monitoring arrangements to ensure three-year Efficiency Review target is achieved.

## Conclusion

- 64 This letter has been discussed and agreed with the Chief Executive and the Leader of the Council. A copy of the letter will be presented to a joint meeting of the Staff and General Purposes Committee and the Cabinet on 27 March 2007.
- 65 The Council has taken a positive and constructive approach to our audit and inspection and we would like to take this opportunity to express our appreciation for the assistance and co-operation received throughout the year.

## Availability of this letter

- 66 This letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk) and also on the Council's website.

Neil Childs  
Relationship Manager

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