

Annual Audit and Inspection Letter

April 2008



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Uttlesford District Council

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

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.

Reports prepared by appointed auditors are:

- prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission; and
- addressed to members or officers and prepared for the sole use of the audited body; no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

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Key messages

- The Council received a qualified opinion on the financial statements due to the incorrect treatment of a lease for waste collection vehicles and a qualified opinion on the value for money conclusion.
- The Council has been assessed as inadequate in its annual Use of Resources assessment.
- Whilst the Council has maintained its performance in priority service areas, it has encountered severe challenges at a corporate level, particularly around its finances. These have overshadowed the progress made and are likely to impair the Council's ability to sustain existing performance or make further improvements, at least in the short term.
- Thirty seven per cent of Uttlesford's performance indicators are in the best quartile, above the national average. Recycling in 2006/07 was 43 per cent, which is within the top quartile. However, the Council's financial management arrangements have deteriorated. It is now one of just nine district councils in England not achieving minimum requirements for the use of resources. Significant shortfalls were identified in the Council's budget for 2007/08 during the year, which necessitated immediate corrective action. This, together with the savings needed to set a balanced budget for 2008/09, has meant significant cuts in reserves and in revenue spend.
- The capacity of the Council has been reduced through a programme of both voluntary and compulsory redundancies at all levels across the organisation. This is likely to have an adverse impact on future performance.
- I have made a series of recommendations under section 11 of the Audit Commission Act 1998.

Recommendations made to the Council under Section 11 of the Audit Commission Act 1998

- 1 Section 11(3) of the Audit Commission Act 1998 provides the power for an auditor appointed by the Audit Commission to make recommendations to audited bodies for consideration by the body in the opinion of the auditor under section 11(3).
- 2 The following recommendations are made for consideration by the Members of Uttlesford District Council (the Council) under section 11(3) of the Audit Commission Act 1998:

Recommendations	
<i>R1</i>	<i>The Council should take the necessary steps to ensure that the Council's financial position is stabilised.</i>
<i>R2</i>	<i>The Council should review and put in place a Medium Term Financial Strategy that provides for the Council to achieve an acceptable financial position and level of reserves over the next three years.</i>
<i>R3</i>	<i>The Council should put in place appropriate financial management arrangements, including budget setting and budget monitoring processes, to ensure that its financial position can be closely monitored and the appropriate action taken as necessary.</i>
<i>R4</i>	<i>The Council should consider carefully and implement as appropriate the recommendations made in the independent financial review carried out in January and February 2008. The Council should consider commissioning a further review during 2008/09 to consider whether the Council's financial management and budget monitoring arrangements are effective.</i>
<i>R5</i>	<i>The Council should take steps to secure the appropriate level of senior management capacity to ensure that the Council has effective leadership at officer level.</i>
<i>R6</i>	<i>The Council should work positively with potential partners to identify joint working opportunities to enhance its management and service delivery capacity.</i>
<i>R7</i>	<i>The Council should work with regulators and stakeholders through the voluntary Improvement Board to support the Council's recovery.</i>

Action needed by the Council

- 3 The Council should:
- consider and respond to the recommendations made under section 11 of the Audit Commission Act 1998;
 - develop its understanding of its community. It is still developing a comprehensive understanding of community and customer needs to inform its service design and target improvements. Improving but limited consultation with some hard to reach sections of the community is restricting its understanding of their access needs and preferences; and
 - ensure it has put in place plans with review processes to take forward recommendations from previous inspection and review work such as the Waste inspection and Access to Services inspection.

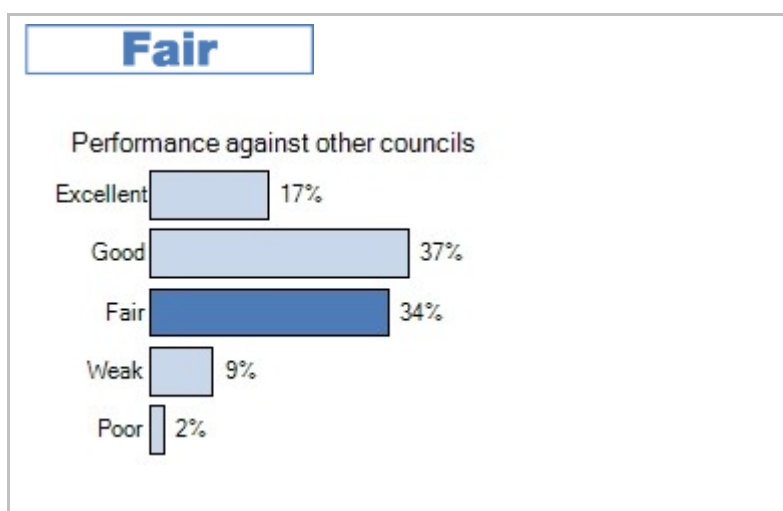
Purpose, responsibilities and scope

- 4 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the most recent Comprehensive Performance Assessment (CPA), the findings and conclusions from the audit of the Council for 2006/07 and from any inspections undertaken since the last Annual Audit and Inspection Letter.
- 5 We have addressed this letter to members as it is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. We have made recommendations to assist the Council in meeting its responsibilities.
- 6 This letter also communicates the significant issues to key external stakeholders, including members of the public. We will publish this letter on the Audit Commission website at www.audit-commission.gov.uk. In addition the Council is planning to publish it on its website.
- 7 As your appointed auditor I am responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, I review and report on:
 - the Council's accounts;
 - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion); and
 - whether the Council's best value performance plan has been prepared and published in line with legislation and statutory guidance.
- 8 This letter includes the latest assessment on the Council's performance under the CPA framework, including our Direction of Travel report, and the results of any inspections carried out by the Audit Commission under section 10 of the Local Government Act 1999. It summarises the key issues arising from the CPA and any such inspections. Inspection reports are issued in accordance with the Audit Commission's duty under section 13 of the 1999 Act.
- 9 We have listed the reports issued to the Council relating to 2006/07 audit and inspection work at the end of this letter.

How is Uttlesford District Council performing?

- 10 Uttlesford District Council was assessed as Fair in the Comprehensive Performance Assessment carried out in 2004. These assessments have been completed in all district councils and we are now updating these assessments, through an updated corporate assessment, in councils where there is evidence of change. The following chart is the latest position across all district councils.

Figure 1 Overall performance of district councils in CPA



Source: Audit Commission

The improvement since last year - our Direction of Travel report

- 11 Whilst the Council has maintained its performance in priority service areas, it has encountered severe challenges at a corporate level, particularly around its finances. These have overshadowed the progress made and are likely to impair the Council's ability to move forward, at least in the short term.
- 12 Thirty-seven per cent of Uttlesford's performance indicators are in the best quartile, above the national average. Recycling in 2006/07 was 43 per cent, which is within the top quartile. But, the Council's financial management arrangements have deteriorated. It is now one of just nine district councils in England not achieving minimum requirements for the use of resources. Significant shortfalls were identified in the Council's budget for 2007/08 during the year, which necessitated immediate corrective action. This, together with the savings needed to set a balanced budget for 2008/09, has meant significant cuts in reserves and in revenue spend.

- 13 The capacity of the Council has been reduced through a programme of both voluntary and compulsory redundancies at all levels across the organisation. This is likely to have an adverse impact on future performance.

What evidence is there of the Council improving outcomes?

- 14 The 2006/07 performance indicators show continuing solid performance in many service areas. But, corporately, the Council has encountered severe problems that have overshadowed its progress and which are likely to have an adverse impact on the Council's improvement plans, at least in the short term. Following the elections in May 2007, the Council's new administration identified four key priorities, including proposals to pursue options for increased partnership working. More detailed actions have been developed through a corporate plan approved in December 2007. However, more imperative short term issues arose from a review in the summer of 2007 of the Council's financial position. Significant shortfalls were identified in the Council's budget for 2007/08 and these required immediate and drastic measures. Subsequent actions to address the problems – and a significant budget shortfall for 2008/09 - have left the Council facing further major challenges.
- 15 Performance Indicators for 2006/07 – before any impact of the Council's deteriorating financial position was apparent – show that the Council has continued to perform favourably, when compared to other district councils in England. Based on the Audit Commission basket of indicators, 37 per cent are in the best performing quartile. This put Uttlesford as the third best performing council in Essex and well above the national average. Similarly, just 16 per cent were in the bottom quartile – the best in the county. Performance in key areas such as development control, housing benefits and recycling all improved, with recycling at 43 per cent and within the best performing quartile. Improving performance in the amount of waste collected per household means that the Council has moved from the bottom quartile in 2005/06 to the second quartile in 2006/07. However, investment in the waste collection and recycling service has resulted in increased costs of waste collection per head of population. These costs are now within the highest costs for all councils. In early 2007, the Council took steps to enhance its management capacity and to assist in delivering its then priorities. The subsequent discovery of the budget shortfall has led to this structure being revisited and the number of management staff reduced. The extent of the likely adverse impact on performance is unclear at this stage.
- 16 The Council continues to play an active role within the local strategic partnership (LSP) – Uttlesford Futures – in addressing the needs of the community through partnership working. The Performance Select Committee receives updates from the Council's Strategic Partnerships Manager. District wide initiatives have included provision of an increased range of after school weekend and holiday activities, and provision of leisure and skills development activities for disabled children and young people.

- 17 The Council has had some success in its efforts to improve access to services and to facilitate arrangements for hard to reach groups, such as migrant workers. But, there is still work to be done. The new customer service centre (CSC) has provided a more inviting environment for visitors to the Council's main offices, but there is concern that it is not delivering the benefits envisaged, in dealing with responses at the first point of call. Some staff have questioned the extent to which the CSC has been adequately project managed and the adequacy of scripts for those working in the centre. The Council's acknowledgement of the need to improve access for migrant communities led to a successful joint bid for funding with two neighbouring councils, and £144k of funding has been secured for one year to train and educate at least two members of the migrant community in each district area. This is intended to enable them to mentor and coach others to be self supporting in the community and engage with public services on their needs. Further action is needed to improve access to services for local people.
- 18 In terms of its use of resources and value for money, the Council finds itself in an extremely difficult financial position. There are 12 criteria on which external auditors are required to reach a conclusion on the adequacy of a council's arrangements to secure value for money. For the conclusion for the year to 31 March 2007, the auditor has concluded that the arrangements for six of the 12 criteria were inadequate. Auditors are also required to make a Use of Resources assessment of the Council, against five themes of financial reporting, financial management, financial standing, internal control and value for money. For the 2007 assessment, again covering the year to 31 March 2007, the Council was assessed at level 1 (inadequate performance) for the first three of these themes, and thereby scored an overall level of '1'. Moreover, a projected overspend against budget in excess of £900k for 2007/08 – even after in-year savings of over £500k have been identified – is expected to exhaust the Council's general reserves by 31 March 2008.
- 19 The Council have also identified a budget shortfall of some £1.8m for 2008/09, with general reserves having been exhausted. This has led to the need for the Council to make significant savings, including staff costs. Consequently the Council is reviewing its staffing and anticipates the need for a number of redundancies by 31 March 2008.

How much progress is being made to implement improvement plans to sustain future improvement?

- 20 The Council adopted its new corporate plan in December 2007, covering the period to April 2009. The plan identifies the following priorities.
- Finance: Effectively managing our finances and operating within the budget.
 - Partnerships: Working to deliver effective and co-ordinated services with partners.
 - People: Consulting and engaging with staff and customers.
 - Environment: Protecting and enhancing the environment.

- 21 Each priority is covered by key objectives for the period of the plan, with completion dates and officer responsibility for action. The plan also includes a number of corporate indicators. The specific measurement of these, including targets for 2008/09 will be determined by the responsible committees and approved by Performance Select Committee. The plan will be monitored under the Council's performance management framework using its COVALENT system, with regular reporting to committees.
- 22 Whether the Council has the capacity to deliver the new corporate priorities within the stated timescales is unclear. Notwithstanding the previous good record of achievement through performance indicators, the Council's capacity has been significantly reduced as part of the actions taken to address the serious financial shortfall. The reduction in the number of senior management staff, together with a programme of compulsory redundancies across the organisation, is almost certain to have an adverse impact on performance – at least in the short term. A process of realistic, yet challenging target setting will be a key factor. The Council has been successful in securing support from the Building Capacity East (BCE) programme, including an externally undertaken financial diagnostic, which should provide an increased level of certainty and confidence surrounding the Council's financial position. The fact that many public facing services have continued to be maintained is a testament to the goodwill of staff. But, morale is low, and both senior managers and members will need to convince staff that the Council's expectations are not only challenging but also realistic and achievable.
- 23 A key factor in making progress will be the development of good member/officer relationships. Personnel changes provide an opportunity to build new relationships and the BCE support includes support to the political leadership of the Council through mentoring and member development. The package also provides support to middle and senior managers to include training in new roles covering areas such as budget, performance and risk management.

Service inspections

- 24 As Uttlesford District Council was rated as a fair council under CPA, a service inspection of Access to Services has been undertaken in the past year.
- 25 The overall conclusion was that Uttlesford District Council provides a 'fair' and 'improving' access to its services.
- 26 Physical and other access arrangements are good in places, satisfactory overall and much improved. The Council is easy to contact, responsive and seeks to deal with customers' multiple and wide-ranging enquiries at the first point of contact. But user experience and meeting customer needs at the first point of contact is not yet consistently good across all access points.

- 27 There is a range of quality information in appropriate locations and formats informing local people of the services available to them. The Council has instigated a wide, and sometimes innovative, range of engagement mechanisms. Handling of complaints is good compared with most other councils. Reality checks show user experience is satisfactory overall and good in part. Satisfaction with services is above average, services are responsive and overall service delivery as measured by best value performance indicators (BVPI) is good.
- 28 However, the Council is still developing a comprehensive understanding of community and customer needs to inform its service design and target improvements. Improving but limited consultation with some hard to reach sections of the community is restricting its understanding of their access needs and preferences. Rural isolation hinders people's access to services. While the Council has tried to lessen this with some good initiatives and outreach work there is no cross service or cross partner integrated strategy in place to address this problem. Customer care standards lack public and partner involvement questioning their fitness for purpose. Performance against the standards is not comprehensively tracked and used to improve the customers' experience. Value for money is satisfactory but benchmarking in access to services is underdeveloped.
- 29 The Council's prospects for improvement are promising. It has delivered noticeable improvements to the range, quality and accessibility of its services. Overall service performance continues to improve, while keeping spending below average, council tax low, and making good progress on major initiatives such as its new recycling scheme, the planning application for Stansted airport and its management restructuring. The Council is committed to seeing its access improvements through.
- 30 The Council shows good awareness of what it needs to do to improve access and how best to do it. The capacity is in place to continue delivering improvements. It has robust, well reasoned and researched access and transformation strategies. Delivery of key access objectives are on track and a customer focus culture is being embedded. Resources to deliver plans are built into the 2007/08 budget and medium term financial strategy. Performance management is much improved. Good leadership from Councillors and officers provides the necessary focus to deliver the Council's plans to improve access to services. It is making good use of external expertise to learn, build capacity and support improvement. Shared services and integrated partnership working feature in its improvement plans.
- 31 However, best use is not being made of internal access to services expertise. Staff skills to use equality assessments, access audits and customer contact data to improve service delivery require development. Data capture, reporting and analysis of customer contact, complaints, consultation and comments is underdeveloped. Capacity is stretched in places.

Review of Corporate Arrangements

- 32 This review examined the Council's capacity to implement its transformational programme, with a key consideration being the culture and capacity of the organisation, including:
- the clarity of the roles of councillors and officers;
 - the development of managers in order to enhance capacity;
 - financial management links to corporate capacity, including the relationship between performance management and financial management; and
 - progress in developing initiatives led by the Human Resources function within the Council.
- 33 The key findings were as follows.
- 34 There is a view within the Council - at both officer and member level - that the Council is trying to do too much too quickly.
- 35 Officers have expressed concern about the recently revealed financial deficit and its impact on services, jobs and the council's plans. They stress that, in determining how best to deal with difficult financial issues facing the Council, account needs to be taken of the impact that savings will have on the Council's performance in areas where cuts are made.
- 36 The Council has been operating without a Head of Human Resources for several months, which is impacting adversely on the policy direction and the level of service provided to internal users of the service.
- 37 There are significant weaknesses in financial management skills and a shortage of experienced and qualified staff. Performance and financial management systems are not integrated, although the necessary information is available for services to use, if sufficiently experienced and trained.
- 38 The two services that have been the subject of inspections by the Commission (Waste Management and Access to Services) have both assessed as 'fair' services with 'promising' prospects for improvement. However, it is not clear whether recommendations emanating from these reports have been taken forward by the Council. For example, the key recommendation from the inspection of the waste management service concerning:
- 'the need to ensure the financial sustainability of the service by developing a medium-term financial model for the service to identify future operational/capital costs and to fit corporately with the medium-term financial strategy'.*
- 39 The Council faces a number of crucial decisions in both the short and longer term. Elements of the Council's corporate arrangements need to be reviewed and action taken as a matter of urgency.

Local Area Agreement

- 40 As part of the 2006/07 plan we agreed to undertake a piece of work to look at the effectiveness and governance arrangements of the Local Area Agreement (LAA) across Essex.
- 41 LAAs are three-year agreements which set out the priorities for a local area agreed between central government and a local area. The local area is represented by the local authorities, PCTs, Fire and Police services, the Learning and Skills Council, Local Strategic Partnerships and other local partners including the community and voluntary sector. LAAs are based on delivering national outcomes in a way that reflects local priorities.
- 42 The first Essex LAA was published in March 2006, and set fourteen priorities. The aim was to focus on the needs of identified groups of service users and residents in a way that would lead to a step-change in the collective effectiveness of the whole public sector in Essex, particularly through more joint working between agencies at the frontline.
- 43 As the LAA is being revised in line with recent Government guidance, including the new national indicator set, we have agreed to delay this work pending the new arrangements being put in place. Partners are seeking to use the opportunity to develop a more inclusive and effective approach that better reflects local priorities and the diverse needs of Essex. The revised targets will be based on the Joint Strategic Needs Assessment. It is due to be published as LAA2 in June 2008.

Health Inequalities in Essex

- 44 The purpose of this audit was to assess current arrangements across Essex to reduce health inequalities; and examine future plans to improve life chances and reduce health inequalities. The audit involved all local authorities and PCTs in Essex, as well as the Fire and Rescue Service. As well as a document review, interviews and a survey, the audit included action planning workshops, involving representatives of all the audited bodies. The main conclusions were then shared with Essex public services Chief Executives.
- 45 The audit identified four main areas to be addressed:
 - strategic approach;
 - information and joint planning;
 - delivery and monitoring performance; and
 - political involvement.

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- 46** Partners recognised that a range of approaches to health inequalities is likely to be the most effective. Many health inequalities are local issues, needing local solutions. However, without a common overall strategic approach, with agreed local and Essex-wide priorities and a shared view of the importance of the agenda, joint planning will remain problematic, accountability unclear and difficult to performance manage.
- 47** Elected members need to have information and an understanding of the issues involved in health inequalities in order to provide the necessary political leadership. Elected members will need to make difficult political decisions on the focus and allocation of resources.

The audit of the accounts and value for money

- 48** As your appointed auditor I have reported separately to the Performance Select Committee on the issues arising from our 2006/07 audit and have issued:
- my audit report, providing a qualified 'except for' opinion on your accounts and a conclusion on your vfm arrangements to say that these arrangements are inadequate on 19 February 2008: and
 - my report on the Best Value Performance Plan confirming that the Plan has been audited.
- 49** Section 11(3) of the Audit Commission Act 1998 provides the power for an auditor appointed by the Audit Commission to make recommendations to audited bodies for consideration by the body in the opinion of the auditor under section 11(3).
- 50** The Council's financial position and capacity issues have led me to make recommendations for consideration by the Council under section 11(3) of the Audit Commission Act 1998.

The Council's financial position and capacity

- 51** The Direction of Travel Statement at paragraphs 11 to 31 sets out the Council's financial problems and the challenges it faces in terms of its capacity as an organisation.

The Council's financial position

- 52** The reasons for the Council's difficult financial position and lack of capacity have been reported to meetings of the Council and committees of the Council at length over the last year. In summary, the key issues to emerge are as follows.
- The Council suspended the production of its 2006/07 financial statements towards the end of June 2007 because of difficulties reconciling the projected outturn to the Council's revised budget for that year. Following detailed review, including assistance brought in from Bedford Borough Council, the Council's net expenditure for 2006/07 was reported to the Full Council meeting on 31 July 2007. This indicated that actual net spending was £770,000 above the original budget, compared with a reported overspend on the revised budget of £700,000.
 - A report to the Council's Operations Committee on 28 June 2007 included a progress report in relation to the Council's budget for 2007/08 (which had been approved by the Council in February 2007). This indicated a potential overspend of just over £100,000 against the Budget for 2007/08.

- A further report to the Council's Finance and Administration Committee (formerly the Operations Committee) on 20 September 2007 identified a number of 'structural problems' in the original budget that became apparent following the suspension of the 2006/07 accounts preparation in late June 2007. The report forecast that the Council was likely to overspend its General Fund budget by some £1.1 million. This forecast comprised a number of elements including: errors in accounting for Planning Delivery Grant (£246k); shortfall in income from the local Authority Business Growth Incentive (LABGI) grant (£103k); shortfall in savings from the re-organisation of the Council (£208k); shortfall in costs of re-structuring (£190k); and error in the forecast level of staff turnover (£191k).
- Further review of the Council's budget by officers identified savings to the General Fund Budget of some £550,000 for the financial year 2007/08. But this review also identified a series of additional pressures on the 2007/08 totalling some £400,000. These additional pressures included a shortfall in payments in respect of the pension deficit and other pension items of some £162,000 and a shortfall in projected investment income of £101,600. A report setting out these issues was presented (Agenda Item 10) to the full Council meeting on 11 December 2007. The net effect of these pressures was a forecast General Fund deficit of some £938,000 for 2007/08.
- The full Council meeting on 11 December 2007 also considered the Council's likely financial position for 2008/09, taking account of the forecast position for 2007/08 and the level of Council balances at 31 March 2008. The report noted that the Council's updated Medium Term Financial Strategy (MTFS) had forecast (in September 2007) a deficit of some £1,426,000 for 2008/09. The report re-forecast the 2008/09 deficit at some £1,823,000 and recommended that action be taken to reduce staff costs by at least £1 million by 31 March 2008, and this was agreed by the Council.
- The Council commissioned an independent external financial review in January 2008 and this was reported to the Finance and Administration Committee at its meeting on 7 February 2008. The report stated, amongst other things:
 - that there had been a (complete) absence of financial control by both Council members and Council officers both in terms of budget setting and then subsequent monitoring;
 - inappropriately optimistic budget assumptions; and
 - mistakes in budget preparation which should not have occurred.
- The review went on to note that whilst it was not possible to provide an absolute assurance about the Council's finances, the Council's current finance team had examined thoroughly the issues expected and that further 'unpleasant surprises' were unlikely.
- The Council's budget for 2008/09 was presented to the Full Council meeting on 19 February 2008. This followed a detailed exercise designed to reduce the spending pressures facing the Council and review existing budgets to identify possible efficiencies.

- The 2008/09 Budget approved by the Council included an estimate of the impact on the Council's level of General Fund reserves. The estimated level of General Fund reserves at 31 March 2008 was forecast to be just over £507k, compared to a balance of £1,000,000 brought forward on 1 April 2007. In addition, the figure of £507k was only forecast to be achieved by the transfer of £400k from the Council's separate PFI Reserve. The actual financial position for 2007/08 will be reported to the Council as part of the 2007/08 financial statements, which I will audit in due course, although there are some indications that the actual position at 31 March 2008 may be better than forecast at the time of the Full Council meeting in February 2008, due to (amongst other things) the Council receiving approval to capitalise redundancy costs.
- 53** Whilst the Council has taken steps to stabilise the financial position and set a balanced budget for 2008/09, it recognises the need to put in place more robust financial management and budget setting and monitoring arrangements. This includes both the medium term (as set out in the MTFS) and the ongoing arrangements for monitoring the Council's financial position over the course of the year. The Council are putting in place arrangements that include:
- monthly reporting (revenue and capital) to budget holders with explanations to be provided by budget holders where variations occur;
 - monthly reporting to the Council's Senior Management Board and to Council Members;
 - reporting on the financial position to the relevant Council Committee at each meeting of the committee, including variance analysis and recovery plans where necessary; and
 - reporting against key financial indicators for Council income (as income forecasts have previously been an area of weakness for the Council).
- 54** Whilst the Council is responsible for managing its financial and other resources, including arrangements to safeguard the financial standing of the Council both Internal and External Audit have a role to play in helping ensure that these arrangements are effective. I have considered the role that I can play as the Council's appointed external auditor, and discussed this with Council officers and Internal Audit. Our proposals were presented to members of the Council's Performance Select Committee in February 2008 and include a programme of targeted reviews by both internal and external audit on the Council's revised financial management arrangements and budget monitoring arrangements during 2008/09. I have included the work that we will carry out as part of my revised Audit and Inspection Plan for 2007/08 and report the results to Members during 2008/09.

The Council's capacity

- 55** Paragraphs 22 and 23 of the Direction of Travel Statement note the challenges that the Council faces in terms of its corporate and management capacity against the background of having to reduce costs and make redundancies.

- 56 From 1 March 2008 the Council has put in place an Interim Chief Executive and also an Interim Director of Central Services. Permanent recruitment to both these posts is under way, and it is important that the Council makes appointments that will provide positive leadership to the Council to enable it to meet the challenges that it faces.
- 57 Paragraph 23 notes the support that the Council is receiving from BCE, including support to the political leadership of the Council through mentoring and member development as well as support to middle and senior managers, including the Interim Chief Executive. The Council has also agreed to work with external stakeholders including Government Office, the local government Improvement and Development Agency (IdEA), the Audit Commission and myself to establish a Voluntary Improvement Board. The objective of the Board is to monitor the Council's progress during 2008/09 across a range of areas. Its purpose is not to duplicate or substitute for the Council's own arrangements and responsibilities, rather it is to provide a focus for the support that stakeholders can provide.
- 58 The Council are also exploring the options and opportunities for increasing its capacity through partnerships with other councils. For example, the Council has reached an agreement with Essex County Council for the provision of HR services. The Council has also had some informal discussions with other councils about partnership arrangements in other areas, and these will be pursued further in 2008/09.

Recommendations made to the Council under Section 11 of the Audit Commission Act 1998

- 59 The following recommendations are made for consideration by the Council under section 11(3) of the Audit Commission Act 1998.

<i>Recommendations</i>
<i>R1 The Council should take the necessary steps to ensure that the Council's financial position is stabilised.</i>
<i>R2 The Council should review and put in place a Medium Term Financial Strategy that provides for the Council to achieve an acceptable financial position and level of reserves over the next three years.</i>
<i>R3 The Council should put in place appropriate financial management arrangements, including budget setting and budget monitoring processes, to ensure that its financial position can be closely monitored and the appropriate action taken as necessary.</i>
<i>R4 The Council should consider carefully and implement as appropriate the recommendations made in the independent financial review carried out in January and February 2008. The Council should consider commissioning a further review during 2008/09 to consider whether the Council's financial management and budget monitoring arrangements are effective.</i>

Recommendations

R5 The Council should take steps to secure the appropriate level of senior management capacity at the Council to ensure that the Council has effective leadership at officer level.

R6 The Council should work positively with potential partners to identify joint working opportunities to enhance its management and service delivery capacity.

R7 The Council should work with regulators and stakeholders through the voluntary Improvement Board to support the Council's recovery.

- 60** Under section 11 (1) of the Audit Commission Act 1998, the Council must consider the recommendations made under section 11(3) set out above. Section 11(4) requires that this consideration shall be held at a meeting of the Council within four months of the recommendations being sent to the Council. Section 12 of the Act also requires at least seven clear days notice of the meeting to be given through advertisement in a newspaper circulating in the area of the Council concerned.

Use of Resources

- 61** The findings of the auditor are an important component of the CPA framework described above. 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).

- 62 For the purposes of the CPA we have assessed the Council's arrangements for use of resources 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	2 out of 4
Overall assessment of the Audit Commission	1 out of 4

(Note: 1 = lowest, 4 = highest)

The key issues arising from the audit

Audit of the accounts

- 63 During the course of the accounts audit, we identified a leasing arrangement for waste collection vehicles. Our review of the lease identified it as a finance lease. The accounts treated the lease as an operating lease, which meant that in our opinion the accounts were materially misstated.
- 64 On the 11 December 2007, the Performance Select Committee agreed the recommendation of officers that the accounts not be re-worked to account for the lease as a finance lease, given other more pressing priorities. Consequently, we issued a qualified audit opinion on the grounds of disagreement with the accounting treatment of the lease.

VFM conclusion

- 65 The vfm arrangements were found to be inadequate as the Council's arrangements for six of the 12 criteria were found to be inadequate. The six criteria were as follows.
- The body has put in place arrangements to maintain a sound system of internal control.
 - The body has put in place arrangements to manage and improve value for money.
 - The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.
 - The body has put in place arrangements to ensure that its spending matches its available resources.

- The body has put in place arrangements for managing performance against budgets.
- The body has put in place arrangements for the management of its asset base.

Use of Resources

Financial reporting

- 66** The key weaknesses that led to a score of '1' being given for this theme are that the annual accounts were not prepared by the statutory deadline of 30 June 2007 and the draft accounts contained material misstatements. The Council needs to improve its accounts closedown processes to ensure the statutory deadline is met in future and the accounts presented for audit are fairly stated. However, the Council does publish accounts and the annual audit letter and also publicises how local electors can exercise their rights, in accordance with the requirements of the Accounts and Audit Regulations 2003. The agenda, reports and minutes for full council and committee meetings are made available to the public.

Financial management

- 67** A score of '1' was given for this theme because material errors were identified in the budget setting for both 2006/07 and 2007/08 and the Medium Term Financial Strategy. In addition, budget monitoring and asset management arrangements were found to be weak, with members not routinely receiving regular budget monitoring reports and the responsibility for asset management being split between several departments, with no single corporate approach being applied. The Council needs to strengthen its budget setting and monitoring arrangements to ensure that financial plans are soundly based and adequate information is available to allow them to be monitored regularly.

Financial standing

- 68** The score of '1' for financial standing was given because the Council did not set a balanced budget for 2006/07, which led to an overspend of £770k and unplanned use of reserves. The Council's general fund reserves have been depleted and are now below the level specified in the Council's reserves policy. Budgetary control arrangements need to be strengthened to avoid unplanned use of reserves and the Council needs to put in place a plan to return reserves to a prudent level.

Internal Control

- 69** A score of '2' was given for this theme as the Council's Performance Select Committee carries out the functions of an audit committee and the Legal Department considers legal issues and the implications of new legislation for the Council and Committee reports. There are basic risk management and counter fraud and corruption arrangements in place, but the approach is not proactive and arrangements still need to be embedded. The Council needs to clarify the assurance framework that supports the statement on internal control (SIC) and the SIC contained within the draft accounts had not been updated to reflect the accounts preparation and budgeting issues that had been identified in the preceding months and was therefore factually inaccurate.

Value for money

- 70 A score of 2 was given for value for money as council tax is comparatively low, while the Council's rate of improvement in performance indicators over the three years to 2006/07 compares well with the district council average (76 per cent versus 66 to 68 per cent respectively) and the proportion of performance indicators in the top quartile also compares well (42 per cent versus 33 per cent). For some areas of high cost, the local reasons are understood, but for others it is less clear. The Council is aware that it needs to develop an approach to ensuring value for money, but plans to address this need to be fully embedded. In addition, the impact on users is not systematically taken into account when making changes in levels of spending. The Council needs to further develop corporate and strategic procurement arrangements.

Data quality

- 71 The council's overall management and governance arrangements for ensuring data quality are demonstrating adequate performance. However, there is no visible leadership from strategic management or members and prime responsibility for data quality resides with the Performance section and within services. There is a well established performance management reporting system but monitoring focuses primarily on performance outcomes rather than data quality. The implementation of the Data Quality Strategy and associated procedures has raised the profile of data quality and should help to address weaknesses in the arrangements and put Data Quality on a more formal and consistent basis.
- 72 Three best value performance indicators were selected for detailed review. It was identified that one of the three indicators had not been prepared in accordance with the definition and required re-calculation. The remaining two indicators were found to be fairly stated, however for one of the indicators the quality of the information to support it required improvement as forms had not be fully completed and the form data was not always accurately transferred to the database. In addition, some supporting records for the early part of the financial year had not been retained.

National Fraud Initiative

- 73 The Council has been reviewing the data matches highlighted by the National Fraud Initiative (NFI), but progress was initially slow as responsibility for NFI had not been clearly assigned. The Council should ensure that responsibility for NFI is clear and that adequate resources are available to allow matches to be investigated and reported.

Looking ahead

- 74** The public service inspectorates are currently developing a new performance assessment framework, the Comprehensive Area Assessment (CAA). CAA will provide the first holistic independent assessment of the prospects for local areas and the quality of life for people living there. It will put the experience of citizens, people who use services and local tax payers at the centre of the new local assessment framework, with a particular focus on the needs of those whose circumstances make them vulnerable. It will recognise the importance of effective local partnership working, the enhanced role of Sustainable Communities Strategies and Local Area Agreements and the importance of councils in leading and shaping the communities they serve.
- 75** CAA will result in reduced levels of inspection and better coordination of inspection activity. The key components of CAA will be a joint inspectorate annual area risk assessment and reporting performance on the new national indicator set, together with a joint inspectorate annual direction of travel assessment and an annual use of resources assessment. The auditors' use of resources judgements will therefore continue, but their scope will be widened to cover issues such as commissioning and the sustainable use of resources.
- 76** The first results of our work on CAA will be published in the autumn of 2009. This will include the performance data from 2008/09, the first year of the new Local Area Agreements.

Closing remarks

- 77 This letter has been discussed and agreed with the Chief Executive. A copy of the letter will be presented at the Performance Select Committee meeting on 29 April 2008. Copies will be provided to all Council members.
- 78 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Council during the year.

Table 2 Reports issued

Report	Date of issue
Audit and inspection plan	March 2006
Annual Governance Reports (Interim, Final and Addendum)	November and December 2007, January 2008
Opinion on financial statements	February 2008
Value for money conclusion	February 2008
Access to Services Inspection Report	July 2007
Review of Corporate Arrangements	November 2007
Annual audit and inspection letter	March 2008

- 79 The Council has taken a positive and constructive approach to audit and inspection work, and I wish to thank the Council's staff for their support and co-operation during the audit.

Availability of this letter

- 80 This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk, and also on the Council's website.

Paul King
Relationship Manager

1 April 2008