

DC Annual Audit and Inspection Letter

March 2007



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Hambleton 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 to the Council

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.

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Contents

Our overall summary	4
Action needed by the Council	4
How is Hambleton District Council performing?	5
The improvement since last year - our Direction of Travel report	5
Financial management and value for money	9
Conclusion	13
Availability of this letter	13

Our overall summary

- 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 any inspections that have been 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).
- 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.
- 3 The main messages for the Council included in this report are:
 - overall you have sustained your track record of good performance, with 42 per cent of key indicators improving from last year (although this is below the District Council average of 58 per cent);
 - performance has improved in five of your six service priorities; only planning performance has dipped, due to staff turnover;
 - there is considerable scope to improve your risk management arrangements, notably developing and monitoring a strategic risk register;
 - an unqualified opinion has been given on your accounts;
 - a conclusion has been given on your vfm arrangements to say that these arrangements are adequate; and
 - your arrangements for financial reporting, financial management, financial standing, internal control and value for money are generally fit for purpose and your overall UoR score remains at a 3 (better than adequate) in 2006, with some improvement since last year.

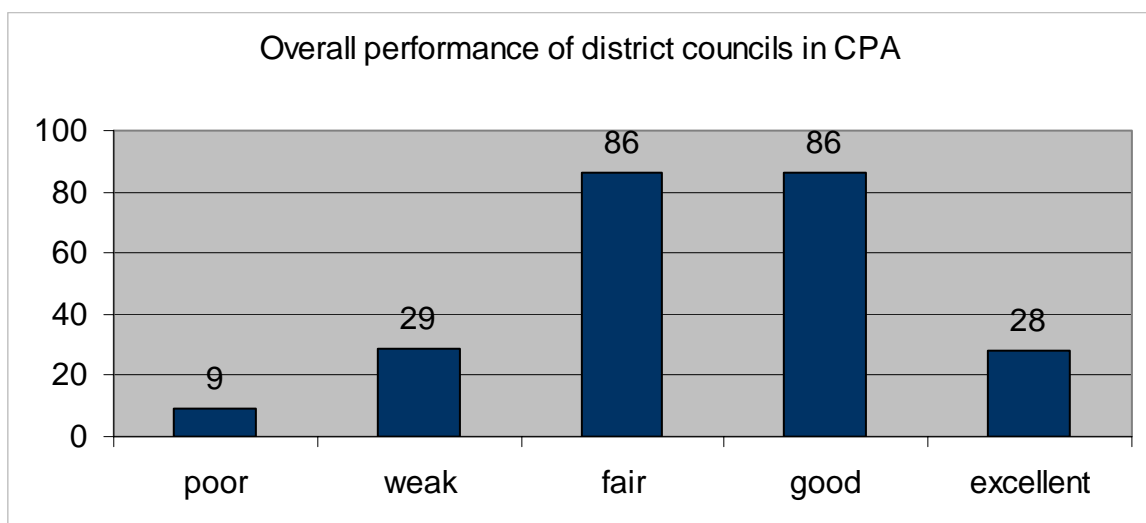
Action needed by the Council

- 4 Take action to significantly develop your risk management arrangements, including a review and revision of the current strategy, and producing and monitoring a corporate/strategic risk register.
- 5 The effect of the absence of one member of staff in your small Internal Audit department should be monitored closely and arrangements made to address the resource shortfall if necessary.
- 6 Ensure the proposed senior management restructure does not impact on the Council's capacity to deliver your key improvement priorities.

How is Hambleton District Council performing?

- 7 Hambleton District Council was assessed as Excellent in the Comprehensive Performance Assessment carried out in 2004. These assessments have been completed in all district councils and we are now starting to update these assessments. The following chart shows the latest position.

Figure 1 Overall performance of district councils in CPA



Source: Audit Commission

The improvement since last year - our Direction of Travel report

- 8 2005/06 was a difficult year for the council following the government's decision to cap your budget. This has necessitated a fundamental review of your financial strategy and immediate budget reductions during 2006/07. Your service performance has dipped in some areas such as planning. Overall, you have sustained your track record of good performance; 42 per cent of your key indicators have improved since 2004/05. This rate of improvement is below the national average rate (58 per cent) for district councils. However, around 30 per cent of your performance indicators are in the best quartile, and you have reduced the number of indicators in the worst quartile to 14 per cent reflecting your focus on improving poorer performing services. You have made improvements in most of your priority services.

6 Annual Audit and Inspection Letter | How is Hambleton District Council performing?

- 9 In 2004 you identified 6 services as priorities for improvement: waste and recycling; access to services, dealing with enquiries at first point of contact; housing benefits processing times; increasing the supply of affordable housing; speed of planning decisions; and street cleaning, a residents' priority. In planning, performance has dipped as a result of staff turnover but improvements have been made in all of your other priority services.
- 10 All households in the district now have alternate weekly green and residual waste collection, and 99 per cent have some additional form of kerbside recycling, usually a fortnightly paper collection. You have recognised the value for money constraints of servicing the remote properties and farms in your district, so you do not intend to aim for 100 per cent. Your performance on composting and recycling is now in the best quartile. Although the amount of waste you collect has increased, your performance is still above average and you are currently considering your options for introducing an extended dry recyclable collection service to promote further improvement. A county wide long term waste strategy has been agreed, although a number of key decisions and funding issues have yet to be resolved.
- 11 Your ability to deal with customers at their first point of contact has improved - increasing from 33 per cent in 2004/05 to 48 per cent in 2005/06 and you are on course to meet your target of 80 per cent in 2006/07. You continue to re-engineer your business processes and use technology to improve customer access - such as successfully providing public access to all of your services through your website. We note you have agreed a plan to improve the way you consult and communicate with residents, including those who are hard to reach.
- 12 You have significantly improved your benefits service following a best value review in 2005. You have made good use of agency staff to clear a backlog of claims, introduced robust and regular performance management into the service, introduced homeworking, and improved attendance and reduced turnover through training. As a result the time taken to process new claims has improved from 62 days in 03/04, to 42 days in 04/05, and 29 days in 05/06. This has taken you from worst quartile to above average performance, and you are continuing to make progress towards best quartile performance. You have also doubled the number of claimants visited in the last 2 years and this indicator is now in the best quartile. However, the time to process change of circumstances has deteriorated from 8 to 16 days and you will need to act promptly to reverse this situation.
- 13 Your performance in the delivery of affordable housing improved considerably during 2005/06, completing 84 new affordable homes, compared to 9 in the previous year. You have carried out a housing needs survey, and are now working with parish councils within areas of identified need. You have invested £1.5 m to address this issue and have set a target of 287 affordable housing completions by 2008. You are using a dual approach of supporting registered social landlords and using planning policies to increase the proportion of affordable housing built by developers. You have changed the policy on affordable housing in your draft Local Development Framework to increase the proportion of new houses which are affordable, and in 2005/06 24 per cent of new houses in the district were deemed affordable.

- 14 Processing times for planning applications have again dipped this year, following an improvement in 2004/05. In 2005/06 the turnaround time on all types of planning applications fell to the worst quartile, as did your success rate on planning appeals and your quality of service. You also failed to meet the government targets for major and minor applications. This was caused by planning staff turnover - a challenge faced by many councils over recent years - and we note that you have now introduced measures to strengthen your capacity. These include using agency staff to cover gaps when someone leaves, introducing your own graduate training scheme, and through a county-wide programme to train planning administrative staff. You have made good progress with your new Local Development Framework which was one of the first in the country to be examined in public.
- 15 Street cleanliness is a priority for Hambleton residents and whilst your performance has always been good you have taken measures to improve it further this year. You have invested in new equipment, appointed a new manager and introduced more flexible working methods. This has resulted in better outcomes and your performance in dealing with litter, graffiti and fly-posting are all within the best quartile.
- 16 You have continued to deliver outcomes linked to the ambitions in your corporate plan - such as job creation from schemes in Northallerton and Stokesley. A range of preventative measures aimed at reducing homelessness have reduced the need for temporary accommodation, allowing you to close your homelessness hostel - which is now being converted to self contained flats for young single homeless people. You have delivered 26 of the 39 projects within your Community Investment Prospectus action plans including manufacturing crafts businesses at Bedale Station, a drop off point and coach park for tourist coaches in Easingwold, improved pedestrian routes between car parks and Northallerton town centre, improved business advice in Stokesley, and a survey on brown tourism signs in Thirsk.
- 17 Your value for money arrangements continue to improve, such as conducting internal reviews of high cost services - an approach which has led to efficiency savings. You are delivering ambitious efficiency plans, targeting your investment at improving value for money in the future, and using best procurement practice. You work with partners to save money through joint procurement, for example on recruitment advertising and green waste recycling. You have responded to capping by reviewing your 10-year financial strategy and are still considering ways of making further savings in future years.
- 18 You continue to develop member capacity through a county-wide forum; your members now have job descriptions and greater clarity about their roles. You have also continued to develop your management capacity through an organisational development programme; this year you have introduced 360-degree feedback, competency-based appraisal, and a coaching and mentoring programme. You are considering restructuring to a leaner management structure as you currently have a number of management vacancies. Your staff turnover is low, as are levels of sickness absence.

8 Annual Audit and Inspection Letter | How is Hambleton District Council performing?

- 19 You have robust improvement plans for the future. A new community plan for Hambleton was agreed this year; this will be implemented through a 5 year action plan, and monitored by the local strategic partnership through a new performance framework using quality of life indicators. You have also carried out a mid-term review of your corporate plan which included a progress report on the services identified as priorities for improvement in 2004. Following publication of the new CPA methodology, you devised new improvement plans during 2006, which together form the new corporate improvement plan. There are 16 detailed improvement plans, with targets and timescales set for all actions, and your heads of service report progress regularly to chief officers. In 2005/06 you met 59 per cent of your BVPI targets and 56 per cent of your local performance targets.

Financial management and value for money

- 20** As your appointed auditor I have reported separately to the full council, in the Annual Governance Report, on the issues arising from our 2005/06 audit and have provided:
- an unqualified opinion on your accounts;
 - a conclusion on your vfm arrangements to say that these arrangements are adequate; and
 - a report on the Best Value Performance Plan confirming that the Plan has been audited.

Use of resources

- 21** My audit findings are an important component of the CPA framework described above. In particular the Use of Resources score is derived from assessments made in the following areas.
- Financial Reporting (including the preparation of your accounts and the way these are presented to the public).
 - Financial management (including how the financial management is integrated with strategy to support your priorities).
 - Financial Standing (including the strength of the your financial position).
 - Internal Control (including how effectively you maintain proper stewardship and control of your finances).
 - Value for money (including an assessment of how well you balance the costs and quality of services).
- 22** For the purposes of the CPA we have assessed your arrangements for use of resources in these five areas as follows (last year's assessment is in brackets).

Table 1

Element	Assessment 2006 (2005)
Financial reporting	3 (3) out of 4
Financial management	3 (3) out of 4
Financial standing	3 (2) out of 4
Internal control	2 (2) out of 4
Value for money	3 (3) out of 4
Overall assessment of the Audit Commission	3 (3) out of 4

(Note: 1=lowest, 4=highest)

- 23 The key issues arising from the audit, as reflected in the above judgements where appropriate, are as follows:
- **Financial reporting** - remains at a level 3. You continue to produce good quality accounts and are looking to improve your working papers to become 'exemplary' and attain a level 4. There was good engagement of members in the accounts approval process. There is scope to improve consultation with the public regarding the production of an annual report.
 - **Financial management** - remains at a level 3. Your medium term financial strategy (MTFS) is soundly based. It is driven by the corporate plan, is linked to other strategies and takes account of risk assessments of material issues. The MTFS is supported by robust budgetary control arrangements. Relevant performance information and financial information is presented to members and is used to support decision making. Progress in achieving planned savings and efficiency gains is regularly reported. To progress to a level 4 you need to demonstrate how your financial plans and strategies have contributed to achievement of overall corporate objectives; review your effectiveness and leadership in respect of financial management and develop performance measures and benchmarking to assist in asset management.
 - **Financial standing** - has improved to a Level 3. You now set debt recovery targets at the beginning of the year and the cost of debt recovery is being monitored. To progress to a level 4, you need to be able to demonstrate that members have set challenging targets for key financial health indicators, and the opportunity cost of maintaining levels of reserves above the minimum should be assessed, and compared to the benefits of holding them. Latest budget monitoring reports (November 2006) forecasts a minor (£5K) overspend in 2006/07.
 - **Internal control** - this remains at a level 2. You have a risk management policy in place and have recorded and assessed departmental risks. However, corporate/strategic risks have not been identified and assessed. A sound system of internal control is in place, has been reviewed throughout the year, and reported on in the Statement of Internal Control. An Audit and Governance Committee was in place throughout the year. Anti-fraud and corruption and whistleblowing policies are in place and have been communicated throughout the organisation. There are arrangements in place for following up any identified breaches of the codes, and instances of fraud or corruption identified in line with statutory requirements. There is still a lot you can do to improve the overall internal control and progress to a Level 3, notably through improving your approach to risk management; fully embedding the control assurance framework and undertaking proactive fraud and corruption work. The effect of the absence of one member of staff in your small Internal Audit department should be monitored closely and arrangements made to address if necessary.
 - **Value for money** -this remains at a Level 3. You continue to improve the way you manage your resources and have improved further the way you provide value for money:

- Overall costs for key services demonstrate best value compared to other councils providing similar levels and standards of services.
- There is good track record in achieving cost savings and efficiencies.
- There is a good understanding of costs and performance through financial planning and benchmarking.
- Your approach to managing VFM has become more embedded and systematic. Managers are managing costs alongside quality within their services.
- Reports to senior managers and members on potential expenditure must include a value for money conclusion and expected outcome.
- You monitor the impact on users of any changes in service provision. You have put in place a robust process to gather information on equity across the whole community and can demonstrate the impact of consultation on service delivery.
- You have developed a more co-ordinated approach to purchasing products and services and started to explore more joint procurement with partners.
- To progress to a level 4, you could: strengthen your ability to demonstrate the relationship between relative performance and cost; demonstrate that outcomes from the capital programme are evaluated and make an identifiable impact, implement a programme of internal reviews; develop clear targets and outcomes for improved VFM and make more use of joint procurement with partners to improve VFM.

Data Quality

- 24** In order to help me to deliver my conclusion on your arrangements to secure value for money (specifically the arrangements for 'monitoring and reviewing performance, including arrangements to ensure data quality') we carried out a review of data quality arrangements using an approach developed by the Audit Commission nationally. The approach focused on your corporate arrangements for ensuring data quality, as well as testing the accuracy of the data.
- 25** We concluded that your overall corporate arrangements for managing data quality are adequate and detailed testing of individual Performance Indicators confirmed their accuracy. However, there is opportunity to improve further through developing:
- a corporate approach to data quality to ensure that management arrangements are applied appropriately and consistently across all services; and
 - protocols and procedures to ensure that externally generated data used in managing your performance is subject to the same level of validation as is applied to internally generated data.

Management restructure

- 26 Following the recent departure of three 'Heads of Service' and as part of your efficiency targets, you are taking the opportunity to review your current management structure. You should ensure that the potential restructure does not reduce your capacity to deliver your key improvement priorities.

Conclusion

- 27 This letter has been discussed and agreed with Chief officers. A copy of the letter will be presented at the Audit and Governance Committee on 28 March 2007.
- 28 The Council has taken a positive and constructive approach to our audit and inspection I would like to take this opportunity to express my appreciation for the council's assistance and co-operation.

Availability of this letter

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

Mark Kirkham
District Auditor & Relationship Manager

19 March 2007