

Annual Audit and Inspection Letter

Cheltenham Borough Council

Audit 2007/08

March 2009



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Status of our reports

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 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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Key messages

- 1 The Council continues to make progress in priority areas which include areas that have been identified as important by the community. Recent performance indicators (PIs) show that the Council performs well overall with above average number of PIs in the top 25 per cent of councils.
- 2 Overall the Council is improving value for money ensuring that a range of quality services is delivered while maintaining relatively low overall costs.
- 3 The Council has robust and clear plans for improvement and an effective performance management system ensures that performance and progress is reviewed on a regular basis. The council has a positive track record of delivering against its priorities and capacity to deliver plans is well managed.
- 4 Your appointed auditor, KPMG, issued an unqualified opinion on the Council's financial statements in September 2008, although they were unable to certify the completion of the audit due to the need to consider an objection to the accounts by a local elector. They also reported their conclusion that the Council had proper arrangements to secure value for money.
- 5 In the annual use of resources assessment KPMG assessed the Council as performing well (level 3 out of 4) overall. This maintained the performance achieved last year, although the Council achieved a number of improvements for specific areas.
- 6 KPMG received an objection to the Council's 2007/08 accounts requesting that they take formal audit action over allegedly unlawful expenditure on restoring a property the Council owns in a public park. Whilst the objection was dismissed and no formal audit action was taken, KPMG did identify scope for the Council to improve the way in which it manages its use and oversight of the building.

Action needed by the Council

- 7 We recommend that the Council:
 - monitors the progress made by officers in assessing and improving the Council's performance against the standards in the new use of resources regime; and
 - monitors the situation regarding the Council's investments in Icelandic banks to ensure that the necessary plans are in place to manage the financial implications that will arise should some or all of these investments prove to be irrecoverable.

Purpose, responsibilities and scope

- 8** 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 2007/08 and from any inspections undertaken since the last Annual Audit and Inspection Letter.
- 9** 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.
- 10** 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).
- 11** Your appointed auditor, KPMG LLP, is 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, the auditor reviews and reports 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.
- 12** 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.
- 13** We have listed the reports issued to the Council relating to 2007/08 audit and inspection work at the end of this letter.

How is Cheltenham Borough Council performing?

14 Cheltenham Borough Council was assessed as Good 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

- 15** The Council continues to make progress in priority areas which include areas that have been identified as priorities by the community. Recent performance indicators (PIs) show that the Council performs well overall with above average number of PIs in the top 25 per cent of councils. Overall satisfaction with the Council is amongst the best in the country. The Council is working effectively to contribute to wider community outcomes including priority areas such as reducing crime, carbon reduction and supporting the local economy. Overall the Council is improving value for money ensuring that a range of quality services is delivered while maintaining relatively low overall costs.
- 16** The Council has robust and clear plans for improvement and an effective performance management system ensures that performance and progress is reviewed on a regular basis. The council has a positive track record of delivering against its priorities and its capacity to deliver plans is well managed.

What evidence is there of the Council improving outcomes?

- 17 The Council can demonstrate sustained improvements in areas that matter to local people. Detailed consultation to capture community need and aspirations was undertaken through the development of the Sustainable Community Strategy. This has informed the development of the council's own business plan. Nine community aims have been agreed and the action plan for 2008/09 is delivering improvements in areas that matter most to local communities. Examples of where these are having an impact includes the following.
- Work within the Cheltenham community safety partnership is helping to reduce crime and the fear of crime. Crime prevention work has targeted students and 'hot spots' within the area and trends for crimes such as criminal damage and theft of vehicles have reduced significantly over the past three years.
 - Progress towards delivering a sustainable environment includes agreement of a carbon reduction programme for the council and improvements in the levels of waste collection and recycling.
 - Cheltenham Business Pride, a multi agency partnership, is helping to promote a strong and sustainable economy. Recent outputs include specialised training and grants for small businesses.
 - The Council is working with others to build healthy communities. The community sport and physical activity network has led to external funding of sports projects such as a wheelchair football club and a project encouraging young girls to participate in physical activity. The active people survey shows that participation rates in Cheltenham are increasing.
 - Work to engage more effectively with local people is helping to build stronger communities. A neighbourhood management pilot has led to improvements in the incidence of anti-social behaviour in the area. Improvements to housing are evident with the Council on track to deliver the target of 40 affordable homes by March 2010 and Cheltenham Borough Homes have completed the £63 million decent homes programme for 3,000 homes 24 months ahead of the 2010 deadline.
 - The focus on young people has led to investment in facilities such as sports pavilions and 'Multi Use Games Areas'. Other investments have been prioritised; to improve environmental quality through Civic Pride; to build the capacity to influence travel and transport within the district; and the redevelopment of the leisure centre following floods.
 - The Council has an internally focussed aim which is to be an excellent, efficient and sustainable council and the impact of this work can be seen through the reduction in sickness levels, re-accreditation to Investors in People (IIP) and improved appraisal completion rates. The Council has also gained 'Disability Symbol User' status which means that access for people with a disability has improved.

How is Cheltenham Borough Council performing?

- 18** The Council performs well overall with 49 per cent of performance indicators amongst the best performers, compared to an average of 33 per cent for other district councils. The Council has a good track record of improvement. In the last three years 71 per cent of PIs improved which is well above the average range for all district authorities (54-56 per cent). The Council's performance in the last year continues to improve at above the average rate for all district councils (61 per cent compared to an average of 56.9-59.1 per cent). Overall satisfaction with the Council is amongst the best in the country.
- 19** The Council is working effectively to contribute to wider community outcomes. The Council plays a leadership role in Cheltenham Strategic Partnership and the six thematic partnerships. A restructure internally has created a partnership team which is supporting and improving partnership structures and more of a focus on outcomes. Improvements to the Carbon Partnership for example have led to a wider more representative membership and clear achievable targets for carbon reduction being agreed.
- 20** The Council has improved its understanding of its diverse communities and has developed a number of initiatives that increase access to services. Two new community resource centres are providing a community focus in areas of multiple deprivation and a BME outreach worker has successfully introduced Asian women to swimming. A first stop shop provides access to a wide range of services through multi agency approach.
- 21** Achievement of value for money is good and improving. Areas of higher spending are in line with priorities and investment results in improvements. The Council ensures that a range of quality services are delivered while maintaining relatively low overall costs including overheads.

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

- 22** The Council has robust and clear plans which are based upon consultation with local communities and partners. The Corporate Strategy sets out a clear vision for the future and priorities focus on both local and national issues. Plans to deliver the key objectives are SMART¹ and have challenging outcomes that demonstrate the impact that success will have on the local community.
- 23** The Council has a positive track record of delivering against its priorities and making a difference to the lives of local people. The Council is making good progress in delivering the outcomes and targets set in the current corporate plan. At 31st Oct 2008 63 per cent of milestones were either completed or on track. The performance management system ensures that performance and progress is reviewed on a regular basis by managers and councillors. Performance information and customer feedback is used effectively to improve service performance.

¹ Specific, measurable, achievable, realistic, timed

How is Cheltenham Borough Council performing?

- 24** Capacity to deliver plans is developing at a strategic level. A restructure and leadership development programme is enabling focus on priorities with clear roles and responsibilities. The Council's plans include some major capital developments that will require sufficient resource in place to manage those effectively. Overall financial capacity of the Council is good, and forward planning is used effectively to identify issues that will impact on the Council.

The audit of the accounts and value for money

- 25** Your appointed auditor, KPMG, reported separately to the Audit Committee in September 2008 on the issues arising from their 2007/08 audit, issued an unqualified opinion on your accounts and concluded that your VFM arrangements were adequate.
- 26** In December 2007, the Council's previous appointed auditor issued a report on the Best Value Performance Plan confirming that the Plan has been audited.

Use of Resources

- 27** 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).
- 28** For the purposes of the CPA your auditor has assessed the Council's arrangements for use of resources in these five areas as follows.

Table 1

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

Note: 1 – lowest, 4 = highest

The key issues arising from the audit

- 29** The Council's was assessed overall as level three which means that you are performing well. This maintains the score reached in the previous year, although there are some individual areas that have changed. You have performed well in respect of your arrangements over four of the five themes, namely Financial Reporting, Financial Management, Internal Control and Value for Money. Improvements are achievable in Financial Standing where the Council has performed adequately and achieved level two.
- 30** Specific improvements have been made in relation to managing performance against budget. The Council demonstrated that a timely reporting 'traffic light' system, and similar systems, were in place to focus the management and Councillors on key variances which were used to drive real actions. In particular, this approach included a briefing to Cabinet to identify and understand the impact that the Gloucestershire flooding and water crisis had on the Council's Business Plan, performance and achievement of budget. This has resulted in an increased score for the Financial Management theme and also a notable practice case study being submitted to the Audit Commission.
- 31** The assessment of performing adequately (level two) for Financial Standing represents a reduction from last year, when this theme was assessed as performing well (level three). This reflects the introduction by the Audit Commission of a new level three criterion, requiring local authorities to demonstrate that there are targets for income collection and recovery of arrears which seek to stretch performance. The Council did not provide evidence to confirm that this was occurring sufficiently, for example, the target recovery rates were below the recovery level achieved in the previous year. We note that the Council is considering this for 2008/09 targets.
- 32** Improvements were seen in aspects of the Council's arrangements for managing significant business risks and for maintaining a sound system of internal control, although the overall theme score for Internal Control remained at level three (performing well).
- 33** The assessed scores for other areas remained unchanged from last year.
- 34** In reaching the assessment for Financial Standing, KPMG also assessed the impact of the Council's investments with Icelandic banks, given the threat that these may be irrecoverable (in whole or in part). As the risks surrounding these investments arose during the 2008/09 financial year it was concluded that this does not impact on the financial standing assessment for 2007/08. This situation will need to be considered during the next use of resources assessment. It will be important that Members monitor the situation closely to ensure that the necessary plans are in place to manage the financial implications that will arise should some or all of these investments prove to be irrecoverable.
- 35** Further information on the findings from the use of resources and accounts audit work, including details on the recommendations for improvement, is set out in separate audit reports from KPMG. These are available through the Audit Committee papers on the Council's website.

Response to elector questions

- 36** Under the Audit Commission Act 1998 (the 1998 Act), local electors have the right to ask questions to local authority external auditors and to raise objections about councils' accounts. During their audit, KPMG received a formal objection to the Council's 2007/08 accounts requesting that they exercise their formal audit powers, as follows.
- To apply to the court under Section 17(1) of the 1998 Act for a declaration that the items of accounts objected to are contrary to law.
 - If they were to conclude that these items of account were not unlawful, to issue a report in the public interest under Section 8 of the 1998 Act and a recommendation under Section 11(3) of the 1998 Act due to the Council's failure to provide value for money.
- 37** This caused a delay to the final reporting and completion of the accounts audit while the issues raised in the objection were investigated. As a result, KPMG issued an interim audit opinion on the Council's 2007/08 financial statements when the main accounts audit work was completed in September 2008 (thereby meeting the deadline specified in the Accounts and Audit Regulations 2003). The final audit opinion and certificate was issued in March 2009 following the conclusion of the objection process, after which the Council was able to publish its audited accounts for 2007/08.
- 38** The objection related to the Council's expenditure on restoring the Proscenium Building, a property situated in one of the Council's public parks. The objector contended that this expenditure was unlawful because the Council's actions in restoring the Proscenium Building fell outside the scope of the powers conferred on it by Section 76(1) of the Public Health Acts Amendment Act 1907 (the 1907 Act). The objector also raised concerns about the Council's leasing of the Proscenium Building to, and grant aiding of, a local community interest company.
- 39** KPMG undertook an investigation into these issues and concluded that they were not persuaded that the Council had acted unlawfully in restoring the Proscenium Building. KPMG also concluded that they were not persuaded that the Council had acted unlawfully or unreasonably by leasing the building to the community interest company and providing it with financial support through a grant. The lawfulness could only be confirmed definitively through the courts, and it would not be in the public interest to incur the related significant expense.
- 40** The objector also asserted that the Council had failed to achieve the value for money through its actions regarding the Proscenium Building. KPMG considered this during the audit investigation and concluded that the Council was not failing to deliver reasonable value for money overall.
- 41** As a result, KPMG dismissed the objection and declined to take the formal audit action requested by the objector.
- 42** However, the investigation did identify scope for the Council to improve the way in which it manages its use and oversight of the Proscenium Building. KPMG has made recommendations to the Council in this area.

- 43** It was apparent that there was a clear difference of opinion between the Council and the objector regarding the legality of the Council's actions in relation to the Proscenium Building. KPMG therefore recommended that the Council reconsiders its legal position at the point when it next makes a decision regarding any future financial support to the community interest company (or any other organisation) and the use of the Proscenium Building, to ensure that it is satisfied such decisions are consistent with its powers under the 1907 Act.

Looking ahead

- 44** The public service inspectorates have developed 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.
- 45** CAA will result in reduced levels of inspection and better coordination of inspection activity. The key components of CAA will be a joint inspectorate area assessment and reporting performance on the new national indicator set, together with an organisational assessment which will combine the external auditor's assessment of value for money in the use of resources with a joint inspectorate assessment of service performance.
- 46** 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 National Indicator Set and key aspects of each area's Local Area Agreement.

Closing remarks

- 47** This letter has been discussed and agreed with the Council's Chief Executive. A copy of the letter will be presented at the Audit Committee on 19 March 2009. Copies need to be provided to all Council members.
- 48** 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	June 2007
Interim audit report	June 2008
Report to those charged with governance (interim)	September 2008
Report to those charged with governance (final)	January 2009
Use of resources	January 2009
Data quality	January 2009
Opinion on financial statements	March 2009
Value for money conclusion	March 2009
Annual audit and inspection letter	March 2009

- 49** 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 cooperation during the audit.

Availability of this letter

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

Melanie Watson
Comprehensive Area Assessment Lead

March 2009

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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