

Annual Audit and Inspection Letter

March 2008



# Annual Audit and Inspection Letter

**Cheltenham Borough 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

- 1 The key messages for the Council included in this report are that:
  - the Council has sustained, and in some cases significantly enhanced, the breadth and extent of its improvement and within its corporate priorities which closely reflect those issues local people consider to be important;
  - some challenges remain in more effectively publicising the Council's and its partners' successes in reducing local crime; enhancing the effectiveness of the scrutiny process; and strengthening the Council's approach to diversity and equality;
  - the Council continues to perform well in its use of resources. The criteria are changing however and there is scope to improve some aspects of financial management and internal control;
  - the Council manages value for money well and has put in place new arrangements to perform even better;
  - overall arrangements for ensuring data quality are adequate but there is no formal strategy and related operational policies; and
  - data security awareness by staff is above the national average but most staff are not aware of the Council's information security policy.

## Action needed by the Council

- 2 The Council needs to:
  - drive a reduction in local people's fear of crime by better publicising the success the Cheltenham Community Safety Partnership is having in reducing most categories of crime;
  - develop the support and resources available to allow the scrutiny process to be more challenging and so, more effective and efficient;
  - take a more robust and ambitious approach to progressing towards the upper levels of the Equality Standard for Local Government;

- revise the improvement plan to address the improvement areas identified in our recent use of resources work including linking the Council's strategic objectives to risks, controls and assurances, better communication to stakeholders of messages from the medium term financial strategy, embedding risk management, being able to demonstrate the effectiveness of the new Audit Committee and better evidence to demonstrate an ethical culture;
- agree a formal strategy and related operational policies to ensure data quality; and
- improve staff awareness of data security risks and the Council's response to those risks.

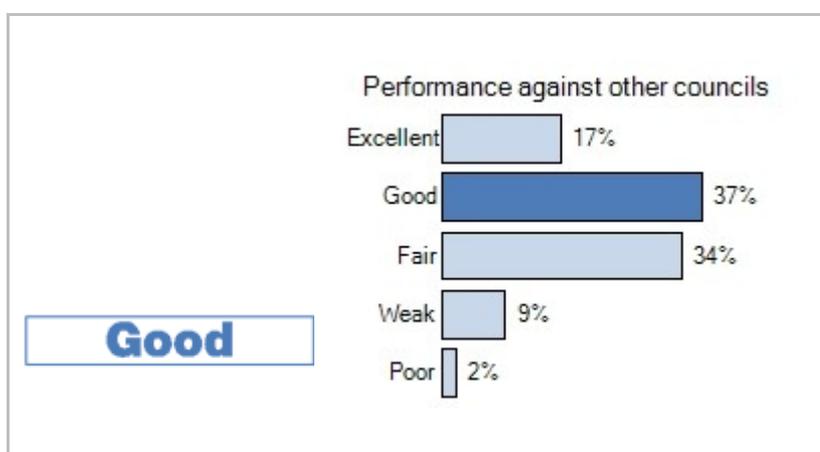
## Purpose, responsibilities and scope

- 3 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.
- 4 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.
- 5 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](http://www.audit-commission.gov.uk). In addition the Council is planning to publish it on its website.
- 6 As your appointed auditor for the 2006/07 audit I was 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.
- 7 This letter includes the latest Use of Resources assessment of the Council's performance and our Direction of Travel report, both of which form part of the Audit Commission's Comprehensive Performance Assessment (CPA) Framework. No inspections were carried out by the Audit Commission during the year under section 10 of the Local Government Act 1999.
- 8 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 Cheltenham Borough Council performing?

- 9 Cheltenham Borough Council was assessed as Good in the Comprehensive Performance Assessment (CPA) 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. There has been no further assessment of the Council. 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

- 10 Last year we recommended that the Council should: 'develop an action plan to address the issues raised in our Use of Resources (UoR) assessment, in particular the need to:
- link the Council's strategic objectives to risks, controls and assurances and use this to support the Statement on Internal Control; and
  - provide better evidence of the Council's commitment to a culture of high ethical standards and strong anti-fraud measures.'
- 11 The Council developed an action plan to tackle these Use of Resources issues but this was abandoned when the Audit Commission brought the timing of the 2007 assessment forward so far that there was no time to implement the plan before this new assessment started. In response to the 2007 assessment, a team of senior officers met in February 2008 to start the process of developing an improvement plan that takes account of the current improvement priorities as well as the new standards set in the 2009 UoR consultation document.

- 12 In 2006 the Council engaged in a wide ranging community consultation and business planning process which saw a new set of corporate priorities being formally adopted by the Council from 26 March 2007 as part of the Council's Business Plan 2007-2010. These priorities are as follows:
- promoting sustainable living;
  - economic development and regeneration;
  - environmental quality;
  - promoting housing choice;
  - partnership working to promote community safety;
  - partnership working to promote healthy communities; and
  - being an excellent, efficient and sustainable council.
- 13 The following paragraphs describe the Council's progress against each of these priority areas.

### **Promoting sustainable living**

- 14 In this priority area, the Council has delivered a significant level of improvement in the past year. Against an average district range of 56-61 per cent, over 92 per cent of the Council's PIs have improved with 58 per cent (double the English average) of all PIs now being in the best quartile. Eleven of the twelve PIs in this area improved during the past year with highlights including planning where over 90 per cent of all decisions are made ahead of the government's 8 and 13 week targets.
- 15 The Council has helped lead the development of the Cheltenham Strategic Partnership's (CSP) Sustainable Community Strategy 2008-2011 and this illustrates the Council's and the CSP's commitments in this area. These ambitions of sustainability were chosen as a result of a comprehensive consultation process and now provide the Council with a clear strategic direction for its services. Targets have been set for reductions in energy consumption, for minimising waste created and for mainstreaming the concept of sustainability within all procurement decisions.
- 16 The Council has improved its approach to securing affordable housing for local people. Having only achieved worst quartile performance of 29 units in 2005/06, some 84 units were secured in 2006/07 placing the Council in the second quartile. Over 70 per cent of these came through Section 106 agreements at the St James and Parkside sites.

## **Economic development and regeneration**

- 17** The Council and its partners invest heavily in cultural facilities and events to support the development of the local economy and 71 per cent of the Council's cultural PIs show best quartile performance against a district average of 36 per cent. High attendances, consistently high customer satisfaction figures and an internationally healthy reputation as an arts and festival venue are amongst recent outcomes from the Council's investments in its cultural infrastructure. No PIs are in the worst quartile.
- 18** The Council has set out clear plans for how it will continue to develop the local economy through enhancing the cultural offer in the borough. These plans, highlighted in the Sustainable Community Strategy, are linked by a golden thread into the Council's own business plan 2007-2010 and the role of the Local Development Framework in supporting the Council's priorities is clarified within these high level plans.

## **Environmental quality**

- 19** The Council's performance in terms of environmental quality over the past year has seen 71 per cent of PIs improving versus the national district average range of 59-64 per cent and overall, 30 per cent of environment PIs are in the best quartile compared with 34 per cent on average. 97 per cent of the population now have access to kerbside recycling collection. A 12 per cent reduction in waste collection costs has been achieved and 97 per cent of people expressed satisfaction with waste collection. This illustrates that the Council's determination to deliver on its priorities whilst maintaining a close focus on customer satisfaction and value for money.
- 20** The Council has robust plans for improving the quality of its environment still further. Clear targets and milestones are in place in the Council's Business Plan and the Council successfully leads work on its environmental objectives with a wide range of partners such as the Low Carbon Partnership, the LDF Project Board and the Health & Wellbeing Partnership. This partnership working and the Council's leadership thereof, stand the borough in good stead to continue its improvement journey.

## Promoting housing choice

- 21 Previous under-performance in housing provision has been turned round in the past year. Affordable housing PIs are now in the best quartile as are 43 per cent of all housing PIs compared with a district average of 32 per cent. Overall, 83 per cent of the Councils housing PIs have improved, ranking the authority 22nd out of 354 councils and the Council is more proactively preventing homelessness. The Council will be implementing a county-wide choice based lettings system for the allocation of all council, RSL and private rented sector stock by end 2008.
- 22 Last year we recommended that the Council should: 'address performance against housing indicators for hostel accommodation, affordable homes, rough sleeping and homelessness.' We have found that, during 2006/07 and since, performance in this area has improved significantly and nine of the ten PIs in this area have improved in the past year. Crucially, Cheltenham Borough Homes, the Council's housing management ALMO, reports an increase in its performance from 81 per cent of repairs completed on time (for 2006/07) to 98.6 per cent by the end of December 2007.
- 23 These improvements were realised as a result of additional focus given to this previously under-performing area after last year's letter and the involvement of the Board, Scrutiny and Cabinet has been pivotal in driving improvement.

## Partnership working to promote community safety

- 24 The Council leads local partners to help create safer and stronger communities and the Chief Executive made community safety a personal priority and takes a lead role in the activities of the Cheltenham Community Safety Partnership (CCSP) It has lent an extra impetus to the work of the CCSP to support the police and other partners in reducing crime.
- 25 The most recent crime statistics show a mixed picture with the rate of domestic burglaries, robberies, thefts from vehicles and sexual offences increasing whilst the rate of thefts of vehicles and violence against the person have reduced. The single Best Value Performance Indicator (BVPI) in this area, the proportion of racial incidents reported to the Council which resulted in further action, showed a 100 per cent performance level. The overall trend over the past three years shows that the Council and CCSP have achieved reductions in most crime categories since 2003/04 including:
  - theft of unauthorised taking of a vehicle – down 47 per cent;
  - vehicle interference – down 32 per cent; and
  - wounding (serious and other) – down 22 per cent.
- 26 The above results demonstrate that the CCSP is likely to exceed the government's 17.5 per cent overall reduction in crime levels compared to 2003/04. By raising local awareness of this and the kinds of crimes which the Council and its partners are focussed upon reducing, local people's fear of crime might be better managed.

## **Partnership working to promote healthy communities**

- 27** The Council works with the CCSP to build healthier communities and support older and young people. The Council is performing in the best quartile against Sport England's targets to increase physical recreation particularly amongst older people and 1,200 youngsters attended sports in the park sessions in summer 2007. With its partners, the Council helped to deliver a broad programme of community sports events through its Leisure@ initiative despite being hampered by the floods and it has begun to use the Local Development Framework to increase partners' capacity to plan independent living and access to health and care facilities into new and refurbished developments. These commitments made with partners are designed to ensure that local people remain healthier for longer.

## **Being an excellent, efficient and sustainable council**

- 28** The Council has performed well against the range of overall PIs with 69 per cent of its PIs improving over the past year compared to an all district average range of 56-59 per cent. Forty seven per cent of PIs are in the best quartile versus the district average of 33 per cent, including the speed of response to planning applications and overall satisfaction with the Council. This illustrates the Council's commitment to holistic improvement.
- 29** 50 per cent of corporate health PIs improved since last year compared to the district average range of 52-55 per cent. 45 per cent of these PIs are in the best quartile against the district average of 33 per cent. Sickness absence has been managed down and the Council has set robust targets for future reductions. However the impact upon staff morale of the recently finalised job evaluation exercise will need to be carefully managed. Further Human Resources challenges may present themselves as the Council adopts its new competency framework and begins to invest further in the capacity of its management and staff through its newly developed management development programme. The Council's Change Group was established to support the Council's response to some of these key challenges.
- 30** Last year we recommended that the Council should: 'continue to strengthen the recently produced procurement strategy, with particular reference to countering fraud and performance measurement and monitoring'. The Council responded well to our recommendation, reviewing and revising a new five year Corporate Procurement Strategy which was adopted in January 2008. A director has been nominated as 'officer champion', a Cabinet member has a similar role at political level and a procurement officer is responsible for delivering the Strategy. An under-developed aspect of the new strategy is the management of the Authority's procurement performance, but Cabinet agreed recently that reports on performance will be made annually to the Economy and Business Improvement Overview & Scrutiny Committee. The Council has though succeeded in driving efficiencies from within its core activities and it has exceeded its cumulative Gershon efficiency target by over £193,000.

## 12 Annual Audit and Inspection Letter | How is Cheltenham Borough Council performing?

- 31** The Council has not met its own objectives and targets in ensuring equal access to its services for all people. It has achieved Level one of the Equality Standard for Local Government (ESLG) however over 70 per cent of councils have reached at least Level two. Further, women in management, those from BME groups and those with disabilities are under-represented amongst Council staff relative to their composition in the workforce. The Council made a 2006/07 business plan commitment to achieve Level two of the ESLG by March 2007 but this was not met. However, during the past year the Council has developed and adopted a new Corporate Equality and Diversity Policy, a Disability Equalities Scheme and a Customer Access Strategy. A new action plan has been drafted to achieve the Level two target by March 2009. Progress has been slower than the Council intended and this must be addressed.
- 32** After significant political and managerial upheaval over the past two years, the Council is now re-focussed on delivering high quality, improving services for local people. Achieving its ambitions and corporate priorities will place demands upon all stakeholders within the Council and the authority is taking steps to ensure cross-party support for its change and improvement agendas. The Council has recognised these demands and has set ambitions in its 2008/09 business plan to enhance both attendance at councillor training and the effectiveness of scrutiny.
- 33** The Council has established a group of senior managers and members, the Change Group, to oversee the Council's organisational change management programme which is designed to drive improvement across three separate but over-lapping strands.
- Bridging the Gap – financially focused programme to address the Council's year on year budget deficit which could be as much as £5m over the next four years.
  - cultural change – to address issues of leadership, motivation and performance by creating a conducive psychological working environment for council staff.
  - environmental change – to tackle issues of civic pride, council accommodation and asset management.
- 34** It is too early to see significant impacts driven by this Group but the Council has equipped itself with what it considers to be the most appropriate skills to drive continuous organisational improvement in line with its corporate priority to be an excellent, efficient and sustainable council and it anticipates positive outcomes for local people to follow.

## The audit of the accounts and value for money

- 35** As your appointed auditor for the 2006/07 audit I have reported separately to the Audit Committee on the issues arising from our 2006/07 audit and have issued:
- my audit report, providing an unqualified opinion on your accounts and a conclusion on your value for money arrangements to say that these arrangements are adequate on 31 March 2007; and
  - my report on the Best Value Performance Plan confirming that the Plan has been audited.

### Use of Resources

- 36** The findings of the auditor are an important component of the CPA framework. In particular the Use of Resources score is derived from the assessments made by the auditor as follows:
- 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).
- 37** For the purposes of the CPA we have assessed the Council's arrangements for use of resources in these five areas as shown in Table 1.

**Table 1**

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

*(Note: 1 = lowest, 4 = highest)*

## Messages from the assessment of use of resources

- 38 Our overall score three indicates that the Council performs 'consistently above minimum requirements - performing well.'
- 39 Messages from the audit as reflected in the above individual assessments, may be summarised as follows.
- Financial reporting: the Council has performed well in this area but could strengthen its arrangements to identify and meet the needs of stakeholders.
  - Financial management: the Council's performance has remained sound but the raised criteria for level three were not met. Messages from the medium term financial strategy were not fully communicated to stakeholders. Performance measures for the use of assets were not in place for 2006/07 but have since been introduced.
  - Financial standing: the Council has more than adequate arrangements in place to ensure sound financial standing.
  - Internal control: all the basic requirements are in place but there are opportunities to improve the overall score. The new Audit Committee should help to move performance forward significantly in the next year. Risk management training is in progress for Members and this is expected to become embedded in the current year.
  - Value for money: good performance and user satisfaction are achieved across a range of key services while costs demonstrate good value compared to others. The Council manages value for money well, and has put in place processes to perform even better.

## Data quality audit

- 40 The Council's overall management arrangements for ensuring data quality are adequate and a series of further enhancements is in process. In addition, our analytical review work identified that performance indicators were correctly reported.
- 41 A corporate framework of management and accountability for data quality is in place with continued commitment to performance management throughout the organisation. However, work remains to make a reality of this framework at an operational level including agreeing a formal strategy. This in part is due to the absence of explicitly defined policies and procedures, which means that data quality is perceived as a corporate rather than a service responsibility.

## Your Business at Risk

- 42 Data security has become an increasingly topical issue over the last year. Our 'Your business @ risk' survey at Cheltenham Borough Council in 2007 indicated that data security awareness is better than the national average in a number of key areas, including business disruption, financial loss and reputation damage.

- 43** There remains however a need for the Council to improve awareness of IT risks and its own response to these risks. Staff awareness levels are not consistent across the Council. In the areas where awareness is better than the national average, around one in three users shows a low awareness of IT security issues and this rises to three in five for risks that could lead to loss of user or public confidence. Most staff are not aware that the Council has an information security policy, and less than a third are aware of their obligations under the policy. Council systems most at risk from fraud have not been identified or given additional protection.
- 44** Our report issued in January 2008 outlines a number of detailed recommendations which should assist the Council significantly in enhancing its data security across a wide range of activity.

### **National fraud initiative**

- 45** The national fraud initiative is a computerised data matching exercise designed to identify overpayments to suppliers and benefit claimants and to detect fraud against public bodies. The referrals from the current exercise were released to participating bodies in January 2007. The Council is currently reviewing the output from this exercise and will report any matters arising to the Audit Committee.

## Looking ahead

- 46 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.
- 47 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.
- 48 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

- 49 The 2006/07 audit is my last as the appointed auditor for Cheltenham Borough Council. For 2007/08 I have continued with the Council as the Audit Commission's relationship manager but KPMG is now the appointed auditor.
- 50 The letter has been discussed and agreed with officers and will be presented at the Audit Committee on 19 March 2008. Copies of the final letter need to be provided to all Council Members.
- 51 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 as shown in Table 2.

**Table 2      Reports issued**

<b>Report</b>	<b>Date of issue</b>
Audit and inspection plan	March 2006
Annual Governance Report	September 2007
Opinion on financial statements	September 2007
Value for money conclusion	September 2007
Best Value Performance Plan	December 2007
Data quality	December 2007
Use of Resources Feedback report	December 2007
Your business @ risk	January 2008
Direction of travel	March 2008
Annual audit and inspection letter	March 2008

- 52 The Council has taken a positive and constructive approach to audit and inspection work during my time as the appointed auditor and Relationship Manager. I wish to thank the Council's staff for their support and cooperation.

## Availability of this letter

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

**Richard Lott**  
**Relationship Manager**

March 2008