

AUDIT COMMITTEE

24 MARCH 2009

ANNUAL AUDIT AND INSPECTION LETTER

Report from: Neil Davies, Chief Executive

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Performance and Partnerships

Summary

The report presents the 2007/8 audit and inspection letter for the Council. The letter, prepared by the Audit Commission, is attached for the Committee's acceptance following Cabinet's consideration on 10 March 2009.

1. Budget and Policy Framework

1.1 The receipt of the Annual Audit and Inspection Letter is a matter for the Audit Committee.

2. Background

2.1 The Audit Commission are responsible for preparing an annual audit and inspection letter for all councils. This letter covers predominantly the financial year 2007/8, but some references are made to progress in 2008 to give a more up to date picture given the time lag between end of the financial year and the publication of this letter.

2.2 The audit and inspection letter draws from the 2008 use of resources judgements, service inspections and assessments carried out in the last year and the Comprehensive Performance Assessment scorecard and direction of travel report published by the Audit Commission on 5 March 2009. It also summarises the findings of the 2008 review of the council's accounts.

3. Summary of content

3.1 The letter analyses the Council's activities over the following areas:

- The council's direction of travel report
- Evidence of the council improving outcomes
- The council's plans to sustain future improvement
- Service inspections particularly assessments by Ofsted, CSCI and Benefit Fraud Inspectorate
- Financial management and value for money.

3.2 Key issues arising include:

- The Audit Commission judge the council to have retained its 3 star status and to be improving adequately
- Performance across one out of the six CPA service areas has improved, with the other five sustaining their performance from the 2006/7 assessment – specifically:
 - The council continues to make good use of its resources, sustaining the rating of 3 out of 4, and continuing to provide good value for money
 - Adult social care continues to perform well, now receiving the maximum star rating from CSCI
 - A maximum score has been achieved for the assessment of housing benefit
 - Environmental services continue to perform well
 - Housing performance has improved now showing strong performance, but in contrast the strategic housing inspection carried out in spring 2008 judged the strategic housing service to be 'poor' with 'poor' prospects for improvement
 - Services for children and young people and cultural services continue to perform adequately, however health outcomes for children and young people were judged to be inadequate
- The appointed auditor has issued an unqualified opinion on the council's accounts
- The council has a track record of balancing the overall financial position though this is increasingly achieved through management action taken in the year with significant non recurring savings required to balance the 2009/10 budget
- Whilst there have been improvements in performance management and risk management consistency in their application has not yet been achieved.

3.3 The letter identifies specific action for the council:

- The Council should ensure that the new Council Plan is underpinned by consistent, good quality outcome focussed service plans to enable success to be measured
- The culture of value for money must be embedded across the organisation
- Underperforming areas, such as strategic housing and children's health, must be addressed to ensure they meet at least minimum requirements

- The level of general fund balance and other general reserves should be kept under review with financial plans beyond 2010 reviewed to ensure they are sustainable
- Progress towards improving the framework of internal controls for risk management, contract management in the housing department, whistleblowing and production of the annual governance statement should be reviewed.

4. Advice and analysis

4.1 The council welcomes external comment as a driver for improvement. The following paragraphs comment on our progress to date and future plans in the areas for improvement identified in the audit and inspection letter.

4.2 Performance management and outcome based service plans

The Council Plan was agreed by Full Council at its meeting on 26 February 2009. It includes indicative measures of success for each action to be taken in support of achieving the council's priorities. These draw from the national indicator set and show where additional local indicators are needed to give an accurate picture of progress the council is making. Targets will be set as part of the service planning process, which is currently ongoing for 2009/10. These will be reported to Members as part of year end reporting for 2008/9, which will happen in June. The current format of quarterly critical success factor monitoring is being changed to produce instead quarterly council plan monitoring reports.

Staff are being supported to develop outcome based service plans demonstrating clearly how the council plan outcomes will be achieved. For clarity and to maintain the 'golden thread' from the high level council plan to service plans, the lead assistant director for each action has been identified in the council plan. As the council's new performance management software Covalent is rolled out (target for full implementation December 2009) service plan updates which are reported through Assistant director quarterly reports will easily be brought together to give progress reports on each council priority.

4.3 Value for Money

The council has recognised that whilst it provides good value for money, it needs to do more to embed a systematic assessment of value for money as part of service planning and monitoring. The council plan commits the council to developing this strategic and systematic approach during 2009.

An area of weakness in terms of value for money identified in 2008 was our strategic housing service. VFM assessment in this area is relatively underdeveloped across the country. The council is working

with the Housing Quality Network and neighbouring housing authorities to develop a framework.

4.4 Strategic housing

As has been reported regularly to Members, a detailed improvement plan was put in place following the inspection. Management of the housing service has been restructured and a new performance culture introduced. Policies, strategies and procedures have been introduced and updated as necessary. Issues around decency and safety in private stock are being tackled through improved enforcement and our extensive programme of Houses in Multiple Occupation (HMO) licensing and inspections of temporary accommodation are nearly complete. The number of people in temporary accommodation has been significantly reduced with 165 households now in temporary accommodation compared to 339 households in February 2008. By way of further comparison, 629 households were in temporary accommodation in December 2004.

The Audit Commission are due to start a piece of quality assurance work in April 2009 which we have commissioned them to do to assess achievement to date and direction of travel prior to the formal re-inspection of the service in November.

4.5 Children's health

We have comprehensive improvement plans in place, which are regularly monitored by DCSF and the GOSE children's services adviser. These cover our key improvement priorities of reducing teen conceptions, improving the child and adolescent mental health service (both LAA targets) and improving the timeliness of health assessments for looked after children.

Additional teenage pregnancy workers have been recruited. The focus now is on improving the sex and relationship education offer within schools. A pilot of more intensive support is also being piloted with the schools with the highest rate of teen conception. The results of these pilots will inform the re-let of the contract for services to reduce teen conceptions.

In relation to CAMHS, the strategic aim is to provide a single fast track point of entry to services for children with highest needs. To support this, universal preventative services will be enhanced. A CAMHS strategy is being finalised. NHS Medway have identified further development funding as part of their 2009/10 budget build which will support delivery of the strategy. Improvement is being overseen by the Emotional Well Being Partnership Board of the Children's Trust.

The timeliness of health assessments for looked after children has improved in 2008/9, now up to 83.1% from 65%. This is still not good enough. We are tackling the problem in a number of ways. NHS

Medway has provided additional resources to commission extra LAC nurses from the Foundation Hospital Trust. Recruitment has yet to be effective, but the senior LAC nurse has re-advertised and is using innovative outreach techniques to encourage young people's attendance at health assessments. NHS Medway, as commissioner, is actively monitoring the situation. Unsurprisingly, looked after children do not welcome being singled out for a health assessment which is not compulsory for their friends who are not looked after. We are working with the children in care council to find other ways of conducting the assessments, including potentially alternative venues, to increase take-up. Social care, health and independent reviewing officer colleagues (who carry out reviews of looked after children's care plans) are also carrying out a detailed investigation into the processes which take us from commissioning a health assessment to monitoring the active delivery of a health plan and the difference it is making to ensure positive health outcomes for looked after children are being maximised.

4.6 Financial sustainability

The auditor highlights concerns at the level of the general fund balance given the financial pressures and risks facing the Council against a background of a balanced budget for 2008/09 and a depletion of reserves in year. The very latest monitoring now suggests that this will not be the case and reserves will be supplemented rather than depleted which will ease immediate concerns. However the longer-term financial position remains a matter of concern with resources projected to be tighter still. This reinforces the need to ensure the robustness of our service and financial planning to enable effective decision making in support of our priorities

4.7 Internal controls

Contract management processes have been put in place for the housing maintenance contract, and reported to Members as part of the monitoring officer's investigation into the contract. The whistleblowing policy is currently under review, with responsibility moving to the monitoring officer. Training of staff will be undertaken once the revised policy has been approved. Further work on obtaining assurances for the Annual Governance statement will be undertaken this year, with the statement being produced in June 2009. Risk management training and reporting will also be fully completed this year.

5. Financial and legal implications

5.1 There are no legal and financial implications arising from this report.

6. Cabinet 10 March 2009

6.1 The Cabinet considered this report on 10 March 2009 and recommended to the Audit Committee the annual audit and inspection letter for acceptance (decision number 46/2009 refers).

7. Recommendation

- 7.1 That the Audit Committee accepts the annual audit and inspection letter.

Lead officer contact

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Background papers

Annual Audit and Inspection Letter 2007/8 attached at appendix 1.

Annual Audit and Inspection Letter

Medway 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 non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Key messages

- 1 The Council continues to perform well overall, maintaining its three-star rating, as measured by the Comprehensive Performance Assessment (CPA). Thirty eight per cent of all single tier and county councils (STCC) performed at this level this year.
- 2 Performance across five of the six CPA service areas has been sustained this year. Environment services and adult social care continue to perform well, maintaining their level 3 (out of a possible 4) ratings, with benefits sustaining its strong performance, (level 4). Services for children and young people, and cultural services continue to perform adequately overall, (level 2 rating).
- 3 Overall performance in housing services improved this year and now performs strongly, the highest rating (level 4 out of a possible 4). However in contrast, an Audit Commission inspection of the Council's strategic housing service returned a judgement of a 'poor', zero-star service, with 'poor' prospects for improvement.
- 4 The Council continues to make good use of its resources, sustaining its level 3 (out of a possible 4) rating and continuing to provide good value for money. 68 per cent of all STCC performed at this overall level this year, with 65 per cent providing good value for money. The opportunity to fully embed the culture of value for money across the organisation was highlighted as part of the development of the new Council plan. In addition, further strengthening is needed to the Council's framework of internal control.
- 5 The Council has a track record of balancing the overall financial position though this is increasingly being achieved through management action taken in the year. The sustainability of the Council's financial plans in the medium term will need to be kept under review. While reserves are fully risk assessed by the Chief Finance Officer, the level of general fund balance is reducing towards the minimum benchmark level and significant non-recurring savings are required to balance the 2009/10 budget.
- 6 The Council has again achieved an unqualified audit opinion on both the Statement of Accounts and Value for Money conclusion.
- 7 Our direction of travel report assessed the Council as improving adequately overall. Improvement in the majority of the Council's priority areas is evident, particularly in 'a clean and green environment' and 'safer communities' - key priority areas for the public. Continuous improvement in best value performance indicators was positive, but there remains a wide variation in the overall quality of services from the higher performing adult social care and benefits services through to the poor strategic housing service, and inadequate contributions to health outcomes for children and young people. The Council's focus on improving key areas such as service planning, performance and risk management continues but consistency in their implementation has not yet been achieved.

Action needed by the Council

- 8 The Council should ensure that the new Council plan is underpinned by consistent, good quality outcome focussed service plans to enable success to be measured, and that the culture of value for money is embedded across the organisation.
- 9 A wide variation in service quality remains. The Council needs to ensure that improvements in underperforming areas such as strategic housing and securing health outcomes for children and young people achieve at least minimum standards.
- 10 The Council should keep the level of the general fund balance and other general reserves under review. The Council's financial plans for the period beyond 2010 should be reviewed to ensure these are sustainable.
- 11 The Council should review progress towards improving the framework of internal controls for risk management, contract management in the housing department, producing the annual governance statement and whistleblowing. In particular:
 - committees and Member Groups with responsibility for risk management should receive reports as necessary and at least annually in accordance with the Council's policies;
 - contract management procedures in the housing department need to be consistently understood and applied;
 - arrangements for preparing and publishing the annual governance statement should be further developed; and
 - 'whistleblowing' policies and procedures should be reviewed to follow best practice, should be consistently understood across the organisation and training provided to those officers involved in considering whistleblowing referrals.

Purpose, responsibilities and scope

- 12 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.
- 13 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.
- 14 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).
- 15 Your appointed auditor 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, your appointed 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.
- 16 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.
- 17 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 Medway Council performing?

18 The Audit Commission’s overall judgement is that Medway Council is improving adequately and we have classified Medway Council as three-star in its current level of performance under the Comprehensive Performance Assessment. These assessments have been completed in all single tier and county councils with the following results.

Figure 1 Overall performance of councils in CPA



Source: Audit Commission

How is Medway Council performing?

Our overall assessment - the CPA scorecard

Table 1 CPA scorecard

| Element | Assessment |
|--|----------------------|
| Direction of Travel judgement | Improving adequately |
| Overall | 3 star |
| Corporate assessment/capacity to improve | 3 out of 4 |
| Current performance | |
| Children and young people* | 2 out of 4 |
| Social care (adults)* | 3 out of 4 |
| Use of resources* | 3 out of 4 |
| Housing | 4 out of 4 |
| Environment | 3 out of 4 |
| Culture | 2 out of 4 |
| Benefits | 4 out of 4 |

(Note: * these aspects have a greater influence on the overall CPA score)
(1 = lowest, 4 = highest)

The improvement since last year - our Direction of Travel statement

- 19** Medway Council is improving adequately. The Council continues to make progress against local priorities. It has helped more older and some vulnerable people live independently and reduced delayed discharges from hospital. Educational attainment is improving as has the Council's approach to keeping children safe. Recycling remains above average although the amount of waste collected remains high and is increasing. It has created new jobs and provided good opportunities for improved skills. Crime is reducing and more people feel safe following targeted work on anti social behaviour and substance misuse. More affordable housing is being delivered. However, teenage conceptions have increased and health outcomes for children and young people are inadequate. The Council is taking steps to tackle serious weaknesses in its housing services. It delivers good value for money.
- 20** Performance management is improving and appropriate steps are being taken to improve consistency of service planning and risk management. Just over 60 per cent of performance indicators improved, which is within the average range of similar authorities. It is building its capacity to deliver its priorities by continuing to deliver efficiencies and strengthening partnership working.

Direction of travel report

What evidence is there of the Council improving outcomes?

- 21 The Council is making improvements in its priority areas. Progress against these key priorities is set out in the paragraphs below.
- 22 **A clean and green environment:** The Council has continued to improve the streetscene in line with its priority. Streets are cleaner and satisfaction levels have increased. Fly-tipping has reduced and enforcement actions increased. A dedicated fly-posting/graffiti removal team delivered improved results in the first quarter of 2008/09. Recycling and composting rates have started to increase, as a result of enhanced recycling services, including new Kerbside glass and tetrapack schemes. However the amount of waste collected increased from an already high level, which compares poorly with other Councils. In response, action is being taken to encourage local residents to reduce the amount of waste generated, including the sale of home composting units, as well as a range of education initiatives such as promoting the use of real nappies (as an alternative to disposal nappies). It is too early to be able to demonstrate any outcomes from these initiatives as yet. Sustainability improvements have also been achieved. Emissions have reduced during 2007/08 by over 28,000 tonnes following residents accessing grant programmes to install insulation. As a result, the Council is on track to achieve its public service agreement (PSA) target.
- 23 **Safer communities:** Crime continues to fall as the Council and its partners are delivering improvements in community safety. Action with partners on enviro-crime, graffiti, prostitution and anti-social behaviour (ASB) are showing results. There has been a reduction in the number of residents who consider ASB a big problem from 21 per cent in 2007/08 to 15 per cent for the first six months of 2008/09. More people are feeling safe. At night this has improved from 34 per cent to 42 per cent and during the day from 81 per cent to 84 per cent. However, in response to those people who said they felt less safe in town centres, the Council and its partners introduced alcohol control zones in four town centres and worked with licensed premises. This work has led to a reduction in key crimes and improvements in feelings of safety in these areas from 65 per cent to 71 per cent in 2007/08.
- 24 **Children and young people having the best start in life:** The Council's progress in improving outcomes for children and young people is mixed. Achievement at GCSE and GCE level is above average, including those for children looked after, but standards overall in primary schools are lower than nationally. The Council compares well against similar Council's and nationally for the number of children and young people, including care leavers that are in education, employment and training, but the percentage of young people achieving Level 2 or Level 3 qualifications by age 19 is lower than similar Councils and nationally. In 2008, 5 secondary schools did not achieve national challenge floor targets, an improvement from seven schools in the previous year. However, health outcomes overall were found to be inadequate in the last reported year (2007). Teenage pregnancies are above average and rising and the percentage of health assessments for looked after children deteriorated.

How is Medway Council performing?

- 25** Older and vulnerable people maintaining their independence: The Commission for Social Care Inspection's (CSCI) annual performance assessment reported above average performance in enabling older people to live independently. The Council performs well in enabling people with physical disabilities and mental health problems to live independently and in providing intensive home care for older people. The percentage of people receiving a statement of their needs and how they will be met has improved and is now good. In addition, the number of delayed transfers from hospital has improved and is now also good. Waiting times for assessment and for care packages have improved and are in line with other councils. However take up of direct payments has been slow and remains below the average achieved by other Councils. Performance is below average on delivering equipment and is well below average in supporting people with a learning disability to live at home.
- 26** People travelling easily and safely in Medway: The Council is progressing well against this priority. The introduction of various initiatives, such as car sharing, walking buses, the Yellow Bus school transport scheme and community transport initiatives have all contributed to increasing the use of buses and reducing congestion. In addition, community transport projects such as the 'Villager' initiative provide services to residents in Medway villages who do not have other travel options, improving accessibility for those at risk of isolation. By June 2008 over 400 individual members and over 50 community groups had signed up and usage continues to increase. Cycling is increasing. There has been a 45 per cent reduction in those killed or seriously injured from the 1994 to 2008 average and a reduction by more than half, of the number of children killed or seriously injured.
- 27** Everyone benefiting from the area's regeneration: The Council has continued to make progress towards its priorities for regeneration over the last 12 months. Significant work has been carried out at the Rochester Riverside site in the last 18 months to clear and decontaminate the land, and work is progressing to redevelop training premises for military engineering in Chatham. Work is progressing on a new Higher Education (HE) college linked to the 'Universities@Medway' complex. The Council is delivering relatively high levels of affordable housing that offer a mix of tenure. However, a strategic housing inspection in 2008 found a weak approach to tackling poor housing conditions in the private sector, with a number of statutory duties unmet and long waits for disabled adaptations. A system of houses in multiple occupation (HMO) licensing has now commenced with a large number of properties now licensed.
- 28** Progress continues to be made in support of the Council's core values of 'putting our customers at the centre of everything we do' and 'giving value for money'. The Council has improved access to services through its contact centre, resulting in increased usage and positive customer satisfaction. However, there is more to do to reduce waiting times as 50 per cent of revenues and benefits customers had a long wait. There are now five contact points for local people, one in each town centre, which are also well used. The move to a new civic centre has created an opportunity to achieve a further reduction in the Council's own carbon footprint and investment has been made in boiler efficiency.

- 29** Overall 63 per cent of best value performance indicators (BVPIs) improved between 2006/07 and 2007/08, which is within the average range for similar Councils (61.9 to 64.1 per cent). But only 25 per cent of PIs are in the top 25 per cent performance, which is below the average for similar Councils at 30 per cent. The Council provides some good quality services which compare well with the best performance nationally. It provides a low cost waste service with high levels of satisfaction, and the percentage change in the number of homes regarded as non decent is high. However, some key services performed less well in 2007/08, as measured by BVPIs when compared with other Councils nationally, such as on processing of housing benefit claims, the speed of determining planning applications and dealing with fly-posting. The Council is aware there is more to do to improve in these areas and is taking action.
- 30** Achieving improved performance in some service areas linked to the Council's priorities has been slower. Housing support for vulnerable people is inadequate, although there have been recent improvements. Based on audited PIs for 2007/08 the length of stay in bed and breakfast (B&B) accommodation is too long. However, housing support and other specialist housing services help to meet the needs of some vulnerable people and an increased focus on preventative work is helping to reduce the number of homeless acceptances. In addition, the Council has reduced the number of people living in temporary accommodation. It is moving people out of existing placements to free up this capacity and so move people from B&B into vacant temporary accommodation. The Council has also been slow to determine homelessness applications and the time taken to re-let Council homes is too long. In its mid year review of progress during 2008/09 it is taking 45 days against a target of 33 days, but action is being taken to tackle this. As a result the Council is beginning to improve outcomes for people who are made vulnerable by their circumstances but there remains more to do.
- 31** Overall the Council achieves good value for money (VfM). It uses its resources effectively and targets them appropriately towards achieving its corporate priorities. The Council's achievement of VfM is considered as part of the Use of Resources assessment and is reported later in this letter.

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

- 32** The Council is taking a positive approach to improvement planning and to developing its plans. In June 2007, the Council set out six key priorities in its Performance Plan 2007/08 defining what the Council and its partners intend to achieve based on local circumstances and views. These priorities have been restated for 2008/09. The Council is improving its own corporate planning by better aligning the development of a new Council plan for 2009/12 and a new resources strategy. Detailed analysis of budgets and priorities through the Star Chamber process has been used to align resources with priority actions. This has enabled the Council to evidence how it shifts resources towards priorities.

How is Medway Council performing?

- 33** During 2008, the Council and its partners negotiated a Local Area Agreement for 2008/11 which identifies high level priorities shared by all partners working in the area. The role of the Local Strategic Partnership (LSP) in monitoring the achievement of the LAA is developing. The LSP Board membership has been reviewed, strengthening its focus on delivery and measuring impact. Work is ongoing to ensure shared accountability.
- 34** The Council lacks some improvement strategies and plans linked to its corporate priorities and those that are in place are of variable quality. Current divisional and service plans are designed to support high level priorities but the quality varies and not all are outcome focussed or SMART¹. At the time of the strategic housing inspection, there was a lack of clear strategies and plans in place to guide further development. However, a new housing strategy has recently been agreed. In addition a social regeneration strategy has also been adopted to support the corporate priority on regeneration.
- 35** Key milestones are mostly being achieved for 2008/09. Based on the Council's own monitoring of half year progress, 76 per cent of targets are performing on or above target, with only 24 per cent of indicators requiring remedial action. Sixty-one per cent of indicators, where a direction of travel can be identified, are showing a positive direction of travel.
- 36** The Council continues to focus on improving performance and risk management across the organisation. It is developing its corporate performance management framework to align resources better to priorities. Overall, the Council has a greater focus on managing performance with the Chief Executive leading the development of a performance culture. Quarterly performance reports to councillors are good quality and clear. Progress against local and national indicators and LAA targets is reported. This enables councillors to understand complex information quickly and supports good decision making. Work is underway to better monitor outcomes and impacts. Portfolio holders and managers review the risk management strategy annually and the risk register monthly. Most service areas have now identified mitigating factors but there remains more to do to ensure this is complete.
- 37** The Council is focusing its efforts on delivering improvement in poorer performing services, especially linked to the achievement of its priorities and improving outcomes for people made vulnerable by their circumstances. It invested additional capacity in children's services to tackle weaknesses and this has now delivered improved outcomes in terms of keeping children safe, although the overall grade as assessed by Ofsted has not yet improved. Teenage pregnancy workers have been recruited to strengthen capacity, and will be working with schools where conception rates are highest. In addition, a risk based improvement plan has been developed in response to the strategic housing inspection which is regularly monitored by portfolio councillors and officers.

¹ Specific, Measurable, Achievable; Realistic; Time bound.

- 38** The Council has increased its capacity to deliver its improvement plans. It has implemented a corporate restructuring to improve its focus on priorities. Steps have been taken to improve corporate leadership capacity. The Council has achieved the Member Development Charter and reviewed its leadership competency framework. A dedicated corporate performance team has been created to provide greater support for corporate improvement. Performance is above average in ensuring the Council's workforce is representative of the community, but sickness absences increased over the last year, although levels are currently still better than the median for all Council's.
- 39** The Council continues to strengthen its links with partners. It has a low resource base and effective partnerships are important to help deliver shared objectives. The Council works well with NHS Medway with shared staff on communications and public health. In 2008, a pooled budget was established to enable investment in joint outcomes specified in the LAA. In addition, the Council is leading discussions on a Multi Area Agreement for North Kent focusing on collaborative working on skills, transport and housing.

Service inspections

- 40** The Audit Commission's Housing Inspectorate assessed the Council's strategic housing service as providing a 'poor' zero-star service that had 'poor' prospects for improvement.
- 41** The service was found to have a number of significant weaknesses including a weak focus on customer care and in its strategic approach to diversity. The range of housing related strategies in place did not set a clear direction for the service and planning policies did not maximise scope to provide affordable housing. The overall approach to tackling poor housing conditions in the private rented sector was very weak. Despite recent improvements, the length of stay in temporary accommodation still remained too long and access to independent housing advice was limited. There was no systematic approach to addressing the value for money of strategic housing services.
- 42** Despite the overall poor rating, there were some positive aspects of the service reported. Reasonably good quality information about housing needs and stock condition was available to shape future housing plans. Housing support and other specialist housing services were helping to meet the needs of some vulnerable people and an increased focus on preventative work was helping to reduce the level of homeless acceptances. Comparatively high levels of affordable homes were being delivered that offered a range of housing options and were well-designed and integrated into new developments. The majority of social housing in the area was of good quality, with well-managed access arrangements.
- 43** Key recommendations agreed included improving the customer focus of the service; the approach to private sector housing; and value for money of strategic housing services, while strengthening the approach to diversity; housing strategy development and performance monitoring. A copy of the full report can be accessed via the Audit Commission's website at www.audit-commission.gov.uk.

How is Medway Council performing?

- 44 An important aspect of the role of the Comprehensive Area Assessment Lead (CAAL) is to work with other inspectorates and regulators who also review and report on the Council's performance. CAALs share information and seek to provide 'joined up' regulation to the Council. During the last year the Council has received the following assessments from other inspectorates.
- An annual performance assessment of children's services.
 - An annual performance assessment of adult social care services.
- 45 The annual performance assessment of Medway Council's services for children and young people judged their overall effectiveness at a grade 2 (out of a possible 4). The Council's contribution to improving outcomes for children and young people was at least 'adequate' in almost all service functions across the five outcome areas. The Council's contribution to improving outcomes for children and young people in the areas of enjoying and achieving; making a positive contribution; and achieving economic well-being were all assessed as 'good'. In the areas of staying safe and health, the Council's contributions to improving outcomes were assessed as 'adequate' and 'inadequate' respectively. The council's capacity to improve, including its management of services, was 'adequate'. The full assessment can be accessed via the inspectorate's website at www.ofsted.gov.uk.
- 46 The Commission for Social Care Inspection's annual performance assessment of adult social care services judged there to be 'good' delivery of outcomes with 'excellent' capacity to improve services, sustaining the three stars (out of a possible three stars) rating overall. The full assessment can be accessed via the inspectorate's website, www.csci.gov.uk

The audit of the accounts and value for money

- 47 As your appointed auditor, PKF has reported separately to the Audit Committee on the issues arising from our 2007/08 audit and have issued:
- an audit report on 30 September 2008, providing an unqualified opinion on your accounts and a conclusion on your value for money arrangements to say that these arrangements are adequate; and
 - a report on the Best Value Performance Plan confirming that the Plan has been audited.
- 48 PKF's certificate confirming the audit of the 2007/08 accounts is complete cannot be finalised until questions raised about the accounts by local electors have been resolved. PKF is continuing to liaise with the Chief Executive on this matter.

Use of Resources

- 49 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).

The audit of the accounts and value for money

50 PKF has assessed the Council's arrangements as shown at Table 2 below.

Table 2 Use of Resources assessment 2008

| Element | Assessment |
|---|-------------------|
| Financial reporting | 2 out of 4 |
| Financial management | 3 out of 4 |
| Financial standing | 3 out of 4 |
| Internal control | 2 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

- 51 PKF's overall assessment is the Council performs well in its use of resources. This is the same assessment secured in 2007. The Council improved its performance in stabilising its financial position in the year (the financial standing judgement) though the internal control framework was only adequate in 2008 which is a deterioration on the position reported in 2007. The Council continues to perform well in establishing effective financial management arrangements and securing value for money.
- 52 The key issues arising from PKF's work are shown below.

Financial Reporting

- 53 The Council's arrangements for producing the annual accounts are adequate and this is the same performance as reported in 2007. The Council produced accounts in accordance with its internal timetables and met the statutory deadlines published by the Government.
- 54 PKF's detailed work highlighted a significant error contained in the accounts which amounted to £3 million because the Council had not fully accrued for expenditure on its roads. Officers amended the accounts and also prepared additional disclosure notes to more fully comply with the 2007 SORP (CIPFA's Statement of Recommended Practice).
- 55 The 2007 SORP introduced some new requirements, such as a revaluation reserve, a Capital Adjustment Account and the application of Financial Reporting Standards 25, 26 and 29 relating to the accounting treatment for financial instruments, and these were dealt with appropriately by the Council.

- 56** The Council aims to publish summary information about its performance, including its finances, in an annual report. A short summary of the annual report is sent to all Medway Households in the quarterly magazine published by the Council known as 'Medway Matters'. However, in 2008, the publication included only a limited reference to the Council's finances though it did direct readers to the availability of the full annual report which is published on the Council's website and contains summary financial information.
- 57** While there has been some feedback about the content of the annual report, the Council cannot evidence how this has been used to develop it. The Council should look to use planned consultations to obtain the views of stakeholders about the scope and extent of financial information they would like to see published by the Council. The annual report contains information about the Council's carbon footprint and the progress made towards its carbon reduction targets, confirming the Council's awareness about the issue of climate change.

Financial Management

- 58** The Council continues to perform well in establishing financial management arrangements to help maintain a balanced financial position and to support the delivery of strategic objectives. There is an integrated approach to medium term financial planning that links financial planning with the Council Plan and other key Council plans and strategies. The budget setting process is comprehensive and sets out the Council's awareness of the financial pressures facing the area in the year and in the medium term. The Council therefore understands the impact of its financial decisions on the annual budget and on future expenditure plans.
- 59** The budget monitoring process within services is effective and enables the Council to identify and respond to variances promptly. Variances are escalated to the senior management team to review and to determine the corporate action required to bring service budgets back on track and to balance the Council's financial position. Members receive comprehensive financial monitoring information which focuses on the overall financial position and includes analysis of financial risks, the impact of the risk financially and operationally and the action proposed to mitigate risk.
- 60** The Council also monitors progress towards its key objectives in the context of its financial position, identifying and reporting performance against the critical success factors it has identified. A good balance of financial and non-financial information is provided in monitoring reports presented to Members, including a range of operational indicators and other national and local performance information.
- 61** The Council has an embedded approach to undertaking equality impact assessments with all policies and strategies being reviewed and updated as necessary.

The audit of the accounts and value for money

62 The Council has effective arrangements in place to manage its assets. It has developed a number of performance measures for assessing operational and non-operational assets and outcomes are published in the Asset Management Plan (AMP). The AMP includes strategic goals for property assets and evidences how assets support corporate priorities and service delivery. Significant investment and disposal decisions are supported by detailed analysis and linked to both operational need and management of the backlog maintenance programme, with disposals being made on the basis of Members' recommendations.

Financial standing

63 The financial standing of the Council was soundly based in 2007/08 though the financial outlook is extremely challenging. Through effective management of the annual budget, and strong management action taken in the year, the Council reported an underspend amounting to £620,000 when compared to the revised net revenue budget as at 31 March 2008. This allowed the Council to increase the level of the general fund balance.

64 The Chief Financial Officer recommends the general fund balance should be held at about five per cent of the Council's net expenditure on services, excluding budgets delegated to schools. As at the end of March 2008, the benchmark level was about £8 million and the general fund balance amounted to £8.3 million. Other general reserves of £1.7 million available at the end of March 2008 have been depleted in meeting expenditure incurred in 2008/09. The level of the general fund balance coupled with the low level of other balances available in 2008/09 leaves little room for manoeuvre.

65 The position is summarised at Table 3 below.

Table 3 General and earmarked revenue reserves 31 March 2008

| Reserve | 2006/07 £000 | 2007/08 £000 |
|---|-------------------------|-------------------------|
| General Reserve | 3,747 | 1,713 |
| General Fund Balance | 7,724 | 8,344 |
| Earmarked Revenue Reserves | 5,210 | 5,881 |
| Total Available Revenue Reserves | 16,681 | 15,938 |

- 66 As at the end of December 2008, the Council is reporting most departmental budgets are in balance, though the Regeneration, Community and Culture department budget is reporting an overspend of £678,000 due to the reduction in planning delivery grant received, the delay in securing expected savings from restructuring the department and increased energy costs. However, additional income arising from a successful appeal to Her Majesty's Revenue and Customs (HMRC) in respect of VAT previously paid, and the settlement of claims previously made in the aftermath of the closure of the BCCI bank in 1990 amount to £1.2 million and mean an underspend of £887,000 is now being reported. While confident the overall financial position will be balanced by 31 March 2009, officers have highlighted specific risks over the reduction in income and increasing arrears among taxpayers as a consequence of the wider economic downturn.
- 67 The 2009/10 budget setting process recognises the difficult situation facing the Council's finances. Members should consider whether the level of the general fund balance is adequate given the financial pressures and risks facing the Council and in the light of the Chief Financial Officer's assessment and recommendations. The Council will also need to ensure savings can be sustained in the medium term while reducing reliance on non-recurring savings planned in the year.

Internal control

- 68 The Council has established adequate systems of internal control which meet the minimum requirements specified by the Audit Commission. Overall performance has deteriorated in specific areas which the Council has acknowledged and has taken action to address.
- 69 The Council has invested significant resources in implementing an enhanced risk management system in the year. Unsurprisingly, the new arrangements to evaluate and mitigate risk had not fully embedded in 2007/08. In addition, arrangements to report the outcome of the Council's corporate risk management work to Members were inconsistent in 2007/08 and not all Member Groups with responsibility for risk management received reports in the year.
- 70 The Council is generally aware of the specific risks arising from its partnership working and in the joint delivery of services, although there are isolated examples where risks could have been escalated to senior management and considered in a more timely way. Training on risk management has been made available to all appropriate Officers and Members though some individuals did not attend planned training in the year.
- 71 There is an assurance framework in place for producing the Annual Governance Statement (AGS), though it was not fully operational in 2007/08. While the AGS was considered alongside the approval of the annual accounts, it was not widely circulated across the Council and neither the senior management team nor Executive Members had an opportunity to comment on the AGS for the 2007/08 year.

The audit of the accounts and value for money

72 The Council's framework of internal controls is adequate though there is scope to more actively review effectiveness to ensure governance arrangements for contract management, and those with partners, are consistently understood and applied across the organisation. A framework of anti-fraud and corruption policies is in place and is working well. The Council is aware the operation of its whistleblowing policies is inconsistent and that action needs to be taken to update its policy and procedures. Additional training and support for officers involved in considering whistleblowing reports may also be necessary. The Standards Committee is working well and its responsibilities have been updated in the light of the Government's guidance.

Value for money

73 The Council achieves good value for money overall and this meets one of its stated core values. With a relatively low resource base, the Council targets resources towards its priority outcomes. In overall terms, costs are lower than similar authorities.

74 Medway is responsible for delivering a range of outcomes through the Medway Renaissance delivery vehicle as part of the Thames Gateway regeneration programme. This enables the Council to work towards its priority outcome for securing the benefits of regeneration for its local population. In other priority areas, external inspectors judged the use of resources to be mixed. In adult services for instance, the use of resources was judged to be excellent in the year and in children's services, inspectors concluded there was a clear and sustained focus on value for money which should provide a platform for securing better outcomes.

75 While published performance indicators for the Housing Service were in line with the Council's targets in 2007/08, external inspectors concluded the overall quality of the Strategic Housing Service was poor. The Council has accepted the inspectors' conclusions and is now working towards improving the management of the service. The Council should look to apply its approach to securing value for money evident in its priority outcome areas, to the Housing department.

76 The Council challenges the cost of services and its corporate costs through its planned efficiency reviews. The Council estimates its target for securing efficiency savings of £12.4 million in the three year period to 31 March 2008 was exceeded by £700,000. The rationalisation of five administrative centres across Medway into a single site located at Chatham in 2008 is expected to secure savings of about £1 million per annum and provides evidence of how the Council is able to take and follow through difficult decisions about its resources and to deliver better value for money.

77 The Council understands the challenge of delivering outcomes in partnership and is enhancing performance management arrangements to drive improvement in the services delivered jointly. Cost and performance data is used effectively to compare outcomes with peers and to scrutinise services.

- 78** The Council should now develop its approach to evidence how value for money is secured over time, particularly where projects and partnerships deliver social and economic benefit in the longer term. It should also systematically evidence how value for money is secured through the business planning process, demonstrating the effectiveness of services as well as efficiency. The Council should also seek to use equality information and outcomes from its consultations more systematically, and to complement information available about costs and benchmarking.
- 79** The new Council plan, which was approved by the Council in February 2009, should assist in embedding the culture of value for money across the organisation.

Data Quality

- 80** PKF reviewed the Council's management arrangements for securing data quality. These arrangements are in place and PKF judged the Council to be performing adequately, meeting the minimum requirements specified by the Audit Commission. In 2008, PKF reviewed in detail the calculation of six indicators, including the two benefit indicators specified by the Audit Commission.
- BVPI 78a (average time to process new benefit claims).
 - BVPI 78b (average time to process changes to benefits circumstance).
 - BVPI 165 (pedestrian crossings with facilities for disabled people).
 - BVPI 183b (average length of stay in hostel accommodation).
 - BVPI 199 (local street and environmental cleanliness).
 - C13 (Cost per Library visit).
- 81** PKF confirmed all indicators reviewed were fairly stated.

Looking ahead

- 82** 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.
- 83** 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.
- 84** 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 aspect of each area's Local Area Agreement.

Closing remarks

- 85 This letter has been discussed and agreed with the chief executive. A copy of the letter will be presented at the Cabinet on the 10 March 2009. Copies need to be provided to all Council members.
- 86 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 4 Reports issued

| Report | Date of issue |
|-------------------------------------|----------------|
| Audit and inspection plan | March 2007 |
| Strategic housing inspection report | June 2008 |
| Annual governance report | September 2008 |
| Opinion on financial statements | September 2008 |
| Value for money conclusion | September 2008 |
| Use of resources report | December 2008 |
| Annual audit and inspection letter | March 2009 |

- 87 The Council has taken a positive and constructive approach to audit and inspection work, and we wish to thank the Council's staff for their support and cooperation during the audit.

Availability of this letter

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

Claire Bryce-Smith
Comprehensive Area Assessment Lead

Robert Grant
Appointed Auditor

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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