

AUDIT COMMITTEE

24 NOVEMBER 2011

ANNUAL AUDIT LETTER 2010/2011

Report from: Mick Hayward, Chief Finance Officer

Author: Mick Hayward, Chief Finance Officer

Summary

This report and attachment presents the work carried out by PKF, our external auditors in respect of the 2010/2011 financial year.

1. Budget and Policy Framework

- 1.1 The receipt of the Annual Audit and Inspection Letter is a matter for the Audit Committee.
- 1.2 This report needs to be considered as a matter of urgency. The Audit Commission's Code of Audit Practice requires auditors to prepare an annual audit letter and issue it to each audited body. The Letter summarises the key issues arising from the work undertaken during the year and it is important that Members are advised of these at the earliest opportunity. It is also important that this report is considered alongside the external auditor's report on the 2010/2011 Statement of Accounts and Annual Governance Report, which is also being considered at this meeting.

2. Background

- 2.1 Independent external auditors are responsible for preparing an annual audit letter for all councils. This letter covers predominantly the financial year 2010/2011, but some references are made to progress beyond year-end 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 letter summarises the key issues arising from the work PKF have carried out during the year and relates to their responsibilities in both Finance and Governance matters.
- 2.3 The annual audit letter for 2010/2011, produced by PKF, is attached as Appendix 1 to this report.

3. Key Findings

- 3.1 PKF are expected to issue an unqualified opinion on the 2010/2011 Statement of Accounts this month. The accounts, which are presented to this Audit Committee, have been subject to significant adjustments, predominantly to properly represent the requirements of IFRS. The amended accounts have no material effect on the overall surplus for 2010/2011 or the General Fund balance.
- 3.2 PKF have also issued an unqualified value for money conclusion and are satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources.
- 3.3 The letter also comments that the Council has responded effectively to the reduction in the budget from Central Government, through sound financial planning.
- 3.4 The key findings from PKF's work are explained in more detail in the attached appendix.

4. Financial and Legal Implications

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

5. Risk Management

- 5.1 As the majority of the letter relates to activities of the Council during 2010/2011 no risks are identified. However, value for money is one of the two core values for the Council and, in an ever more demanding financial environment, is of prime importance in ensuring that service delivery remains as effective as the letter portrays.

6. Recommendation

- 6.1 The Audit Committee note the content of the annual audit letter for 2010/2011.

Background papers

The annual audit letter 2010/2011 (attached as Appendix 1)

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Accountants &
business advisers

Medway Council

Annual Audit Letter 2010/11

Report to Members

November 2011

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Reports issued in relation to the 2010/11 audit

<http://www.pkf.co.uk>

Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body. Reports and letters prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

<http://www.audit-commission.gov.uk/localgov/audit/auditmethodology/Pages/codelocalgov.aspx>

<http://www.audit-commission.gov.uk/localgov/audit/auditmethodology/Pages/statementresponsibilities.aspx>

1 Executive summary

- 1.1 This Annual Audit Letter (Letter) summarises the key issues arising from the work we have completed over the past 12 months. We have already reported the detailed findings from our audit work to those charged with governance in the reports documented in the Appendix to this report.
- 1.2 The Council is implementing the recommendations made following our audit of the 2010/11 financial statements. We have no additional recommendations at this time. The key issues arising from our work are summarised below.

Audit of 2010/11 financial statements

- 1.3 Local Authorities prepared financial statements, and restated prior year accounts, in accordance with International Financial Reporting Standards (IFRSs) for the first time in 2010/11. However, the overall quality of the draft financial statements presented to us, and reviewed by the Audit Committee in July 2011, was lower compared to previous years. The Council did not achieve the deadline specified in the 2011 Accounts and Audit Regulations to publish the statements by 30 September 2011. Our audit opinion is due to be given before 30 November 2011.
- 1.4 Our audit work found the fixed asset register had not been fully maintained in the year. As a consequence, the Council could not produce materially correct disclosures for any of its non-current assets. In particular, the Council's accounting for schools; investment properties; properties held for sale; surplus assets; asset revaluation and depreciation did not fully follow the IFRS Code of Practice. The position also affected the classification and valuation of the Council's finance and operating leases, where the requirements of relevant accounting standards had not been fully met.
- 1.5 The Council completed a significant amount of work to update the fixed asset register to produce balances as at 1 April 2009; 31 March 2010 and 31 March 2011. Our audit work also found other material and non-material errors in the accounts which represented a deterioration in performance compared to previous years.
- 1.6 The Council commenced a review in July 2011 to ensure there is an adequately resourced, experienced and skilled Finance Department to produce financial statements more effectively. The Audit Committee should receive a report on progress by the end of March 2012.

Financial Resilience

- 1.7 The Council managed its overall financial position well in the year. Clear direction continues to be shown on financial matters through the work of the Cabinet and the Senior Management Team. The Council responded effectively to the new coalition Government's Emergency budget, which removed resources of £6.1 million from the Council's budgets. The scenario planning undertaken by the Council in the lead up to the Government's 2010 Comprehensive Spending Review was effective and means the reduction in expenditure required over the period to 2013 is in line with the Council's projections.
- 1.8 The Council has identified risks to achieving the 2011/12 budget and significant work remains in progress to fully balance the medium term financial position. As at the end of September 2011, the Council has identified the risk departmental budgets may overspend by £5 million. Management action has been taken to review all expenditure items to ensure agreed budgets are met.
- 1.9 The medium term financial plan for the next three years identified a budget gap of £11.4 million and assumes efficiency savings of £5.2 million are realised from the 'Better for Less' transformation programme. The Council's reserves are considered to be adequate by the Chief Financial Officer as at 31 March 2011, though he also concludes there is little scope

for reducing reserves over the medium term. The Council is therefore dealing with a difficult financial situation and the outlook remains challenging.

Economy, Efficiency and Effectiveness

- 1.10 The Council has a good track record of securing value for money and managing its finances effectively. Securing value for money across all services is a 'core value' of the Council which is consistently understood throughout the organisation, and evidenced through the performance management framework. We have previously reported strengths in the Council's arrangements, including the effectiveness of the 'Star Chamber' approach to support the annual budget and service planning process.
- 1.11 The Council has continued to develop the value for money approach over the last 12 months. In 2010/11, the Council's performance management system ('Covalent') became fully operational, bringing further detail and transparency to the Council's performance reporting and enabling the timely publication of progress towards priorities and targets.
- 1.12 The Council made progress with its business transformation plans (known as the 'Better for Less Programme') over the last 12 months. The Programme is being developed and implemented with the assistance of external consultants. It aims to re-engineer the Council's business processes to improve customer and service users' experiences and outcomes.

Progress towards priorities

- 1.13 The Council kept its corporate objectives under review throughout the year based on changing priorities and available resources. The Council Plan for the period 2010 to 2013 was refreshed in the year with a revised Plan focussing on a smaller number of objectives published in February 2011. The Council reported its performance towards its six priorities using 56 different performance indicators in 2010/11. The quarterly performance reports are comprehensive and enable the Cabinet and the Council's Scrutiny Committees to review and challenge reported outcomes. As at 31 March 2011, the Council reported that 39 indicators (70 per cent) were on, or very close to, the target level. A total of 17 indicators (30 per cent) were behind target and management action was taken to address the situation. In summary:
- through the work of the Medway Community Partnership, targets for tackling anti-social behaviour; reducing the fear of crime and reducing repeat offences involving violent crime were met or surpassed
 - all targets for ensuring a 'clean and green' environment were met. The amount of household waste reduced; and recycling levels increased ahead of target in the year
 - the performance of Medway's children in achieving GCSE results (based on 2011 provisional results) improved and is the best reported to date
 - the performance of Children's Social Care services towards some of the Council's targets was affected by the significant increase in the number of referrals leading to an assessment of needs in the year
 - the Council's performance towards its targets for 'Older and vulnerable people maintaining their independence' was mixed in the year, with five of the 12 targets not met. The Council has worked hard to implement the Government's plans for self directed support and direct payments, with over 1,800 people (more than double the previous year and including all new assessments) successfully managing their own budgets as at 31 March 2011. However, performance remains behind the national target
 - the Council's target to achieve 9.2 million bus and rail journeys originating in the area was not met, and performance deteriorated by 700,000 journeys compared to 2009/10 because of the continuing difficult economic conditions and adverse winter weather.

- performance in reducing the number of delayed discharges continues to improve and no delayed discharges from hospitals were attributable to the Council in the quarter ending 31 March 2011.

Financial and Economic outlook

- 1.14 The Council published a revised medium term financial plan for the period 2011/12 to 2014/15, highlighting its expenditure plans and resources for the period. The plan identifies further, significant savings are necessary from the 'Better for Less' programme customer contact and administration projects. The Council is working to eliminate identified budget gaps in each of the next three years while maintaining general reserves and balances at the level reported as at 31 March 2011 (£17 million). The total budget gap identified amounts to £11.4 million.
- 1.15 However, significant risks have been highlighted by the Council which may affect achievement of its financial objectives. In particular, all of the savings anticipated from the 'Better for Less' projects will need be achieved as planned in the year. The Council has identified the value of savings expected from such measures, as stated in the medium term financial strategy.
- 1.16 The Council has invested resources to reduce the impact of the economic downturn in the area. It is working with partners such as the local Chamber of Commerce, Medway's Universities and further education establishments; the Medway Local Strategic Partnership and the Kent Forum accordingly. The Council recognises achievement of its targets to raise the level of skills among local people and to create and safeguard employment opportunities will be extremely challenging.

Other Emerging Issues

- 1.17 The Council continues to respond to the extensive consultation published and changes in legislation determined by the coalition Government. Over the last 12 months, the Council has taken action to respond to the Localism Bill; Welfare Reform, and the Health and Social Care Bill.

Acknowledgement

- 1.18 We would like to thank staff for their co-operation and assistance during the audit and throughout the period.

2 Introduction

About the Council

- 2.1 The Council employs about 7,000 people and spends about £800 million annually on services such as education; children's and adult social care; community services; waste management and street cleansing; planning and economic development; environmental health and benefit payments. About £10 million of the total budget is spent on managing and maintaining the Council's stock of dwellings. Some £80 million was spent on capital projects in the year with further programmes amounting to £107 million planned between 2011/12 and 2013/14. Budgets managed directly by schools amounted to £195.7 million in 2010/11.
- 2.2 The Council delivers a wide range of local services to more than 250,000 residents in the North Kent area (Chatham, Gillingham, Rainham, Rochester and Strood). There are many stakeholders in Medway, including local businesses, Charity and Voluntary Organisations and importantly, local communities themselves. The Council's provision of services is overseen by 55 Councillors elected from 22 Wards in the area.
- 2.3 The Council has set an ambitious vision for Medway to be a city 'Rich in Heritage with a Great Future'. The Council's core values put the customer at the centre of everything it does and it aims to give value for money.
- 2.4 Further information on the activities of the Council is detailed in its annual report, which is publicly available on the Council's website at www.medway.gov.uk

The purpose of this Letter

- 2.5 The purpose of this Letter is to summarise the key issues arising from the work that we have carried out during the year. Although this Letter is addressed to Members, it is also intended to communicate the significant issues we have identified, in an accessible format, to key external stakeholders, including members of the public. The Letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website.

Responsibilities of the auditors and the Council

- 2.6 We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England.
- 2.7 As the Council's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas which involve significant amounts of public money and on the basis of our assessment of the key risks to the Council achieving its objectives. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

The scope of our work

- 2.8 Our main responsibility as the appointed auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to review and report on:
- the Council's financial statements
 - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

3 Key findings

Financial statements

- 3.1 We are due to issue our opinion on the Council's accounts before 30 November 2011. The Council did not achieve the Government's deadline for publishing audited accounts by 30 September 2011. The Council commenced a review in September 2011 to ensure there is an adequately resourced, experienced and skilled Finance Department to produce financial statements more effectively.
- 3.2 Our opinion is due to confirm the accounts gave a true and fair view of Council's financial affairs as at 31 March 2011 and of its income and expenditure for the year. We were satisfied the Annual Governance Statement was not inconsistent or misleading with other information we were aware of from our audit of the accounts.

Preparation of Financial Statements and Implementation of International Financial Reporting Standards

- 3.3 Local Authorities prepared financial statements, and restated prior year accounts, in accordance with International Financial Reporting Standards (IFRSs) for the first time in 2010/11. We have previously concluded the Council's preparations for the implementation of IFRS met the expectations of the Audit Commission's national guidance. In the event, the overall quality of the draft financial statements presented to us, and reviewed by the Audit Committee in July 2011, was lower compared to previous years. The situation arose because the Council's arrangements for preparing the financial statements were inadequate. In particular, insufficient capacity was available to the Finance team to produce accounts which fully complied with accounting standards and other professional guidance.

Internal Controls

- 3.4 Working with Internal Audit, we noted some deficiencies in internal controls and where the control environment could be strengthened. As required by auditing standards, we wrote to the Audit Committee highlighting such weaknesses and the additional audit procedures necessary to gain assurance over certain balances. We recommended that:
- a fully operational fixed asset register is maintained to underpin the preparation of the annual financial statements. Further training should be provided to officers accordingly
 - controls over the 'Care Director' social care system should be strengthened
 - controls over the preparation and authorisation of journals should be consistently applied
 - controls over requests for, and subsequent authorisation of, sundry debtor accounts should be implemented in accordance with financial operating procedures.
- 3.5 The additional work we completed confirmed the balances produced by the above systems were materially correct.

Use of resources

- 3.6 The Code requires us to be satisfied proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources. This is known as the 'value for money conclusion' and draws on the results of specific risk based audit work.
- 3.7 The focus of our work in 2010/11 involved reviewing the financial resilience of the organisation and its arrangements for securing economy, efficiency and effectiveness in the use of resources. Our financial resilience work considered the Council's arrangements for financial governance, financial planning and financial control. Our review of economy, efficiency and effectiveness considered the Council's arrangements for prioritising resources and improving efficiency and productivity. We also reviewed the extent of the Council's resilience to fraud.

Financial Resilience

- 3.8 The Council has a successful track record of managing its finances in accordance with its published plans. It has increasingly planned its finances over the longer term, working towards a sustainable medium term financial plan. Clear leadership continues to be shown on financial planning matters through the work of the Cabinet and the Senior Management Team. Firstly to respond to the Government's Emergency Budget (in June 2010) and then to prepare for the anticipated reductions in resources arising from the (Government's) 2010 Comprehensive Spending Review (CSR).
- 3.9 The 2010/11 budget was balanced after identifying savings of £18.3 million and planning to use reserves totalling £4.9 million (£4 million from general reserves and £983,000 being the expected surplus on the Collection Fund). The total net revenue budget amounted to £396 million and the Council performed well to reduce its expenditure to £3.2 million less than the budgeted amount. The surplus on the collection fund was however less than anticipated (at £386,000). The Council therefore reduced the general reserve by £1.8 million as at 31 March 2011.
- 3.10 In the lead up to the 2010 CSR, officers modelled various scenarios for Members to consider involving reductions in available general fund and direct schools grant of 15 per cent; 20 per cent and 25 per cent. The Government's formula grant settlement for the 2011/12 and 2012/13 financial years reduced Medway's entitlement by a total of £19.5 million (from £86 million to £78.1 million – over 20 per cent). The majority of the reduction (£11.7 million) affected the 2011/12 settlement. A further reduction in other resources (such as Area Based Grant) and adjustments to the 2010/11 settlement made in the Emergency budget brought the total reduction in Government funding to £23.5 million for the 2011/12 year.
- 3.11 The Council consulted widely on its future financial plans to ensure the overall financial position, and impact on future expenditure plans, was understood within the organisation and among partners. The effective scenario planning means the reduction in expenditure and efficiency savings required over the period to 2013 are in line with its projections.
- 3.12 The Council has identified risks to achieving the 2011/12 budget and significant work remains in progress to balance the medium term financial position. As at the end of September 2011, the Council has identified the risk departmental budgets may overspend by £5 million. Management action has been taken to review all expenditure items to ensure agreed budgets are met.
- 3.13 The medium term financial plan for the next three years identified a budget gap of £11.4 million and assumes efficiency savings of £5.2 million are achieved. The Council's reserves are considered to be adequate by the Chief Financial Officer as at 31 March 2011, though he also concludes there is little scope for reducing reserves further over the medium term. The Council is therefore dealing with a difficult financial situation and the outlook remains challenging.

Economy, Efficiency and Effectiveness

- 3.14 The Council has a good track record of securing value for money and managing its finances effectively. Securing value for money across all services is a 'core value' of the Council which is consistently understood throughout the organisation, and evidenced through the performance management framework. We have previously reported strengths in the Council's arrangements, including the effectiveness of the 'Star Chamber' approach to support the annual budget and service planning process.
- 3.15 The Council has continued to develop the value for money approach over the last 12 months. In 2010/11, the Council's performance management system ('Covalent') became fully operational, bringing further transparency to the Council's performance reporting and enabling the timely and detailed reporting of progress towards priorities and targets.
- 3.16 The Council made progress with its efficiency and savings plans (known as the 'Better for Less Programme') over the last 12 months. The Programme is being developed and implemented with the assistance of external consultants. It is anticipated the Better for Less

Programme will secure further efficiencies and improved value for money as frontline services become more streamlined; customer focused and as new ways of working are established.

- 3.17 The Council has taken the necessary action to conclude the major procurement of its waste treatment (collection and disposal); street cleansing and recycling contracts. While some delays occurred in finalising the procurement, the integrated contract became fully operational on 1 December 2010. The external contractor is due to construct a new waste transfer station and has introduced changes designed to increase the level of recycling (for instance enabling residents to recycle paper and card separately from other materials). The Council expects significant savings to be secured over the life of the contract and reported improved performance towards its targets for reducing waste and increasing recycling as at 31 March 2011. In addition, the Council reported 74 per cent of residents were satisfied with the waste recycling service.
- 3.18 The Better for Less Programme prioritised the customer contact and administration services for review based on analysis of costs and performance. The Council is working to establish a more centralised customer service arrangement with a single point of entry for service users. Extensive consultation continues with staff and Trade Union groups to ensure the project proceeds on time and on budget.
- 3.19 The Council decided to maintain its investment in Children's Services and Adult Social Care services in the year, based on its review of priorities and the improvement necessary in the performance of those services. There have been some positive outcomes, with the best GCSE results reported to date (based on provisional results in 2011) and the achievement of targets for reducing delays in discharging patients requiring social care from hospital. The number of adults managing their own social care budgets increased by 100 per cent (to 1,800 people) following the additional resources invested the year. A significant increase in referrals of children for an assessment of their social care needs means certain targets were not met and the Council is continuing to examine options for improving the service. Targets to improve the educational achievement of looked after children were not met in the year. However, the Council's performance did improve compared to previous years. The Council is continuing to examine ways of improving performance towards its targets for looked after children.
- 3.20 The Council continues to use information about costs and benchmarking to support the decision making process. For example, the Council understands those services where costs are higher than other Councils and where performance appears to be out of line with the level of investment made (such as the revenues and benefits service). The Council has used this information to inform the development and implementation of the 'Better for Less Programme'.

Fraud Resilience

- 3.21 Fraud is a problem which undermines the stability and financial health of organisations from every economic sector. In the public sector, it can deny local people the quality of public services which taxpayers pay for, undermine job security and cause additional costs for consumers of public services. It is therefore a problem which is important and needs to be addressed.
- 3.22 Over the last fifteen years there has been a change in how fraud is addressed. This change has seen organisations move from focussing on individual fraudsters and merely reacting to what they do, with investigations which lead to potential sanctions and the recovery of losses, to treating fraud as a business cost like any other and seeking to pre-empt and reduce it.
- 3.23 We reviewed Medway's resilience to fraud and found the Council collects some qualitative information about the nature of the fraud problems and associated risks it faces. Individual managers recognise that fraud is an issue and had thought about how it might impact in their own services. However, information about fraud risk is not consistently collated across

Medway's operations, though high-profile individual cases of fraud are communicated appropriately. The Council's commitment to addressing the problem of fraud is clear but it is difficult to see how this can be achieved without comprehensive information about the nature and scale of fraud. We therefore recommended the Council should take steps to:

- establish a more strategic approach to tackling fraud
- establish an accurate measurement of the nature and scale of fraud
- create a central counter fraud resource and function
- prepare a clear programme of work to develop a stronger anti-fraud culture and stronger deterrent effect
- develop key performance indicators for Council-wide fraud.

Audit of grant claims and other Government returns

- 3.24 In April 2011 we reported the Council's arrangements for preparing grant claims and other returns to Government departments were variable. We made a number of recommendations to assist officers involved in the claims preparation process and to reduce the overall fee for the audit. While none of the claims audited as at 31 October 2011 have been qualified, most claims we reviewed required amendment because balances did not fully reconcile with underlying accounting records. We will provide an update to the Audit Committee about the outcome of our audit of 2010/11 claims in February 2012.

4 Progress towards priorities

- 4.1 The Council kept its corporate objectives under review throughout the year based on changing priorities and available resources. The Council Plan for the period 2010 to 2013 was refreshed in the year with a revised Plan focussing on a smaller number of objectives published in February 2011. The Council reported its performance towards its six priorities using 56 different performance indicators in 2010/11. The quarterly performance reports are comprehensive and enable the Cabinet and the Council's Scrutiny Committees to review and challenge reported outcomes.
- 4.2 As at 31 March 2011, the Council reported that 39 indicators (70 per cent) were on, or very close to, the target level. A total of 17 indicators (30 per cent) were behind target and management action was taken to address the situation, as summarised below.
- 4.3 All targets for ensuring a 'clean and green' environment were met. Notably, performance towards the Council's targets for reducing waste produced and increasing recycling were surpassed. However, the Council's own CO² emissions increased by 14 per cent between 2008/09 and 2009/10. It is now taking action, through a number of projects which commenced in 2011 based on analysis of data, to reduce the use of energy and water in its buildings and other premises (such as leisure centres).
- 4.4 Most targets for ensuring 'safer communities' were achieved through the work of the Medway Community Partnership. In particular, targets for tackling anti-social behaviour; reducing the fear of crime and reducing repeat offences involving violent crime were met or performance surpassed expectations. The Partnership reported a range of positive outcomes towards priorities identified by local people in its annual report, including reductions in non-domestic burglaries (13.2 per cent); violence against the person (6.5 per cent); theft of motor vehicles (3.4 per cent); serious anti-social behaviour (13.4 per cent) and the number of young offenders aged 10 to 19 years (13.6 per cent). Further work is underway with the local 'Connexions' service to improve the effectiveness of drug treatment services in the area, recognising some people seeking such support and advice have complex needs.
- 4.5 'Children and young people having the best start in life' remains a Council priority, with progress measured towards a range of national and local performance indicators. Provisional results at the end of October 2011 indicate the performance of Medway's children in achieving GCSE results improved and is the best reported to date, as shown below.

Performance	2009/10 Actual	2010/11 Provisional
Percentage of children achieving five or more GCSEs including English and Mathematics Grade A* to C	53.5%	55.6%
Percentage of children achieving five or more GCSEs Grade A* to C	76.5%	82.5%

- 4.6 Performance towards the Early Years Foundation Stage also improved across the four measures published by the Government for Communication and Language; and Social and Emotional Development. Progress towards the Department for Education's 'Key Stages' (Standard Attainment Tests for reading; writing and mathematics) was mixed, with some outcomes generally in line with target at Key Stage 1 (children aged seven years) and Key Stage 3 (Teacher Assessments for English, mathematics and science at secondary school) but with significant areas for improvement at Key Stage 2 (final year of primary school).
- 4.7 A Government inspection of the Children's Social Care service in February 2011 identified strengths across the Council's arrangements and some areas for further development (such as ensuring the quality and timeliness of assessments).

- 4.8 Performance towards the Council's targets was mixed in the year, mainly due to the increase in referrals to the Children's social care service (over 12 per cent increase to 3,700 referrals in the year) and the increase in referrals leading to an assessment of needs (to 68 per cent compared to the target level of 55 per cent), as shown below.

Indicator	2009/10 Actual	2010/11 Target	2010/11 Actual
Percentage of child protection cases which were reviewed within required timescales	95.5%	100%	92.4%
Percentage of core assessments for children's social care that were carried out within 35 working days of their commencement	68.3%	80%	74.1%
Percentage of children becoming the subject of Child Protection Plan for a second or subsequent time	17.6%	12%	14.5%
Looked after children cases which were reviewed within required timescales	92.1%	95%	82.3%

- 4.9 The Council performed well to increase the number of adoptions made within 12 months (87 per cent compared to the target of 70 per cent) and in maintaining Looked after Children in the same placement for more than two years (80 per cent compared to the target of 73 per cent).

- 4.10 The Council's performance towards its targets to promote 'Older and vulnerable people maintaining their independence' and 'healthy lifestyles' was mixed in the year, with five of the 12 targets not met. The Council has worked hard to implement the Government's plans for self directed support and direct payments. There have been some positive outcomes, with over 1,800 people (more than double the previous year and including all new assessments) successfully managing their own budgets as at 31 March 2011. The national target to achieve 30 per cent was not met, though the Council did ensure 23 per cent of eligible people were in control of their own budgets and increased the number of direct payments made. To further improve performance towards the government's target, the Council is investing in new systems and additional capacity for the service. The following table highlights other areas where the Council's targets were not met in the year.

Indicator	2009/10 Actual	2010/11 Target	2010/11 Actual
Percentage of social care assessments made from first contact to completion of assessment within four weeks	85%	94%	71.6%
Carers receiving needs assessment review, advice and information or a specific service	8.1%	15%	9.8%
Percentage of vulnerable people who are supported to maintain independent living	94.7%	97%	94.9%

- 4.11 The Council is continuing to work closely, through the Medway 'Whole Systems Board', with local commissioners and providers of healthcare services as the Governments reforms of the NHS are implemented. Performance in reducing the number of delayed discharges continues to improve and no delayed discharges from hospitals were attributable to the Council in the quarter ending 31 March 2011. The number of adults in settled accommodation as at 31 March 2011 amounted to 590 people. However, the Council's target that 74 per cent of such adults should receive secondary mental health services was not met (only 62.4 per cent of such adults received such services).

- 4.12 'People travelling easily and safely in Medway' is a Council priority containing many challenging targets. While the Council invests significant amounts in improving Transport infrastructure each year, the resultant improved performance is often secured only in the

longer term (for instance the local transport plan agreed by the Council in March 2011 covers the next 15 years). As at 31 March 2011, the Council reported:

- targets for the completion of major infrastructure projects to improve public transport and the maintenance of non-principal roads were adversely affected by the adverse winter weather and delays attributable to projects
- the target to achieve 9.2 million bus and rail journeys originating in the area was not met, and performance deteriorated by 700,000 journeys compared to 2009/10 because of the continuing difficult economic conditions and adverse winter weather.

- 4.13 Progress towards the Council's priority for ensuring 'Everyone benefits from the area's regeneration' was generally positive in the year, with major projects progressing and additional investment made to minimise the impact of the economic downturn on local people. The Council also exceeded its targets for bringing empty houses back into use (135 properties compared to the target of 100) and completed 95 per cent of homelessness assessments within 28 days (compared to the target of 90 per cent). While the average time to re-let council dwellings improved towards the end of the year, overall performance (33 days) was behind the Council's target of 25 days. Positively, the Council established 1,150 new affordable homes in the year which significantly surpassed the target of 617 homes.

Performance as at 30 September 2011

- 4.14 The abolition of the Government's national indicator set and the refocusing of the Council's priorities provided an opportunity for Medway to review the range of indicators used to manage its performance. From April 2011, the Council has reduced the number of published indicators from 56 to 47 indicators. The Council has also merged two priority areas into a single priority for 'A safe, clean and green Medway'.
- 4.15 At the end of September 2011, eleven indicators (27 per cent) are outside the Council's acceptable variance. Some indicators in the Council's priority areas for vulnerable children and young people, and older people remain behind target, as shown below.

Indicator	31 March 2011	2011/12 Target	30 September
Adults with learning difficulties in employment	2.7%	5%	1.1%
Carers receiving needs assessment review, advice and information or a specific service	9.8%	20%	6.5%
Social Care clients receiving self directed support in the period	22.9%	50%	23.6%
Care Leavers in Education, Employment or Training	51.6%	60%	25%
Looked after Children participating in their reviews	N/A	95%	79%
Looked after children cases which were reviewed within required timescales	82.3%	95%	85.3%
Percentage of initial assessments for children's social care carried out within 10 days of referral	77.9%	78%	73.6%
Employment that has lasted more than 26 weeks	N/A	50 people	8 people
New registrations by local people accessing employment support services	498 people	600 people	134 people
Number of jobs taken up in the period (Flexible New Deal)	N/A	150	34
Satisfaction levels with community safety teams	N/A	70%	61%

5 Emerging issues

Financial outlook

- 5.1 The Council published a revised medium term financial plan for the period 2011/12 to 2014/15, highlighting its expenditure plans and resources for the period. It is working to eliminate identified budget gaps in each of the next three years while maintaining general reserves and balances at the level reported as at 31 March 2011 (£17 million). The total budget gap identified amounts to £11.4 million. The position is summarised in the following table.

	2012/13 £m	2013/14 £m	2014/15 £m	Total
Medium Term Financial Plan highlights quantifies the financial impact of the:				
• Growth in demand for services	6.0	1.4	2.7	£10.1m
• (Additional)/Reduced General Fund Resources	3.5	(1.0)	(1.2)	£1.3m
Budget Gap identified	9.5	0.4	1.5	£11.4m

- 5.2 However, significant risks have been highlighted by the Council which may affect the achievement of its financial objectives. In particular, the savings identified from the customer service transformation programme will need be achieved.

Economic outlook

- 5.3 As highlighted above, the Council has invested resources to reduce the impact of the economic downturn in the area. It is working with partners such as the local Chamber of Commerce, Medway's Universities and further education establishments; the Medway Local Strategic Partnership and the Kent Forum accordingly. As at 31 March 2011 the Council reported:

- a reduction in overall unemployment of 11 per cent and of youth unemployment of 16 per cent in the area compared to 2010 levels
- the award of 45 local business start up grants towards the target of 75 such grants by March 2012
- an increase in the number of interest free loans (12 awarded amounting to £139,000) which assisted in safeguarding jobs
- employing 170 people at Medway Council and a further 116 people in the local voluntary sector using the Future Jobs Fund
- enabling 654 people to access local employers, with 123 people subsequently employed using the Flexible New Deal programme.

- 5.4 In 2011/12, the Council placed renewed emphasis on its objective for ensuring local people have the skills they need to take up job opportunities. Resources secured through the Government's 'Welfare to Work' programme are enabling the Council and its partners to target unemployed people for intensive support. The programme is expected to be delivered over the next five years. The Council recognises achievement of its targets to raise the level of skills among local people and to create and safeguard employment opportunities will be extremely challenging.

Localism Bill

- 5.5 The Localism Bill was considered by Parliament on 13 December 2010. Subject to consultation and amendment, it is expected to receive royal assent by 30 November 2011. The Bill contains important developments for the public sector and local authorities in particular. The Council has considered the impact of the Bill on its future financing and operations and on local communities. In particular, the Bill provides for:
- the introduction of a general power of competence for Councils coupled with more freedom to adopt alternative governance structures
 - more flexibility and discretion over the award of business rate relief
 - the abolition of the Housing Revenue Account (HRA) and its replacement with a 'self-financing' HRA by April 2012
 - changes to the planning system following the abolition of Regional Spatial Strategies.
- 5.6 Medway has assigned responsibility for reviewing the impact of the Localism Bill on its operations to individual Cabinet Members and the Senior Management Team. The Standards Committee has received an update about the proposals to allow local authorities to adopt their own provisions to regulate members' conduct.
- 5.7 The Bill could have a significant impact on the way the Council sets and then collects rental income for its dwellings and for the future investment in housing development. The Housing Revenue Account business plan has been updated for the 2011/12 year accordingly and in anticipation of further, substantial guidance being circulated by the Government.

Health and Social Care Bill

- 5.8 The Health and Social Care Bill (2010/11) is due to be enacted in 2012 though the outcome of the House of Lords review of the draft Bill is awaited. The Bill proposes major structural change for the commissioning and provision of healthcare including an increase in the responsibilities of GPs to commission services for their patients and the management of budgets by local GP consortia. An independent NHS Board is proposed to allocate resources and provide commissioning guidance to GP Consortia and the Council working with its partners towards the early implementers of a 'shadow' health and wellbeing board for the area. The new arrangements build on the Council's successful track record of working in partnership with commissioners and providers of healthcare services. The shadow board was established in September 2011 and includes purchasers of healthcare services from across the NHS, public health, social care and children's services. Medway is represented by four Councillors working alongside health and social care professionals to plan services for the area.

Welfare Reform

- 5.9 In November 2010, the Government published a White Paper known as '*Universal Credit: Welfare that works*'. The proposals aim to simplify the benefits system, including entitlement to Housing Benefit. A further document was published in August 2011, entitled '*Localising support for council tax in England*'. Council Tax benefit is not expected to be included in the Universal Credit. The Government's proposals are likely to have important implications for local authorities with responsibilities for administering benefits. For instance, Housing Benefit is expected to be included in a 'Universal Credit' following a relatively short implementation period. It is not yet clear how claimants requiring assistance in preparing applications will be dealt with locally. The Council is considering the impact of the Government's proposals on the future provision of benefit services and recognises the timetable for full implementation is challenging.
- 5.10 The framework for awarding council tax benefit is also expected to change, with more flexibility provided to local authorities to design a local scheme of benefit and entitlements

while protecting vulnerable and older people. Further details about the scheme design, its funding arrangements and the timetable for implementation are awaited.

Core Strategy

- 5.11 Medway published the second draft of its Core Strategy in August 2011 setting out the Council's vision to develop the area over the period to 2028. When consultation is complete, the core strategy will be submitted to the Government for review (by March 2012). The strategy will guide all major development decisions and investment plans for the Council. An independent Planning Inspector is due to be appointed by the Government in July 2012 to hear the views of local people and to conclude whether the strategy is soundly based. The Council has highlighted the significant additional work which may arise in the event the strategy is not approved by the Inspector by the due date of 31 October 2012.

Appendix: Reports issued in relation to the 2010/11 audit

Report	Date Issued
Audit plan	December 2010
ISA265 report to Audit Committee	June 2011
Fraud resilience report	May 2011
Annual governance report (and addendum)	September 2011