

Annual Audit and Inspection Letter

Colchester Borough Council

Audit 2007/08

March 2009



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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to 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 Our direction of travel assessment showed that some key services are improving. However, Colchester Borough Council compares unfavourably for both the rate of improvement and the number of top performing services.
- 2 Some key services are improving. For example, the Council performs well in the delivery of affordable housing. Access to services is also improving. The Council is working on improving engagement with hard to reach groups.
- 3 Some important services are not high performing. For example, the time taken to process new benefit claims has increased year-on-year to 25.8 days in 2007/08, compared to 21.2 days in the best performing councils. Performance of planning services is also below average.
- 4 The Council's overall approach to value for money is good; with clear understanding of areas of higher spend. However, whilst the community stadium project was delivered on time and on budget, the visual arts centre project has demonstrated weaknesses in project and contract management resulting in additional expenditure, delays in project completion and critical press coverage.
- 5 The Council works well in partnership with effective working with the police in tackling crime and disorder.
- 6 As part of our 2007/08 audit, we have provided
 - an unqualified opinion on your financial statements;
 - a conclusion that your value for money arrangements are adequate; this included an assessment that your arrangements for ensuring data quality met minimum requirement; and
 - an unqualified report on your Best Value Performance Plan.
- 7 We assessed the Council's arrangements for its use of resources as performing well. Although, the overall assessment has not changed from the previous year, there have been reductions in some individual areas.

Action needed by the Council

- 8 The Council needs to:
 - incorporate in its improvement plan actions to ensure a consistent level of performance and improvement in key services;
 - further develop project management arrangements to ensure all projects are delivered in time and on budget; and
 - consider and implement changes to ensure improvements to the Benefits and planning service are delivered and are sustainable.

Purpose, responsibilities and scope

- 9 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.
- 10 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.
- 11 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).
- 12 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, the 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.
- 13 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.
- 14 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 Colchester Borough Council performing?

- 15 Colchester Borough Council was assessed as Excellent in the Comprehensive Performance Assessment carried out in 2004. These assessments have been completed in all district councils and have been updating where there was evidence of change. The following chart is the latest position across all district councils.

Figure 1 Overall performance of district councils in CPA



Source: Audit Commission

The improvement since last year - our Direction of Travel report

- 16 Some key services are improving. However, Colchester Borough Council compares unfavourably for both the rate of improvement and the number of top performing services. For example, the Council performs well in the delivery of affordable housing. However, time taken to process new benefit claims has increased. The Council's overall approach to value for money is good. It understands areas of higher spend and has a reasonably well managed capital programme linked to priorities. Whilst the stadium project was delivered in time and on budget, the visual arts centre project has demonstrated weaknesses in project and contract management resulting in additional expenditure, delays in project completion and critical press coverage.
- 17 The Council works well in partnership with effective working with the police in tackling crime and disorder. Strategies for improvement are aligned closely with those of partners to address key local issues. This has resulted in work on reducing health inequalities, reducing smoking and childhood obesity.

What evidence is there of the council improving outcomes?

- 18 Following the election of a new administration in May 2008, the Council's priorities were changed. The priorities are due to be confirmed following consultation.
- 19 Service improvement is slow. In the last year 53 per cent of performance indicators improved, which is below average compared to all district authorities. Only 24 per cent of indicators are in the best performing 25 per cent nationally, which is also below average. The Council therefore compares unfavourably for both the rate of improvement and the number of top performing services.
- 20 Some important services are not high performing. For example, the time taken to process new benefit claims has increased year-on-year to 25.8 days in 2007/08, compared to 21.2 days in the best performing councils. Council data (unaudited) for the first six months of 2008/09 indicates this has increased further to 29 days. The time taken to process benefits changes is also slow. At 13.8 days this is in the worst 25 per cent of councils nationally - performance for the best councils is approximately seven days. Council data indicates that this has increased in the first six months of 2008/09 to 20 days. Changes have been made and others are planned, but it is not clear within the current economic climate whether the Council aspires to improve its target for processing changes to less than 12 days, which is the level of the worst performing councils.
- 21 Performance of planning services is below average. Almost 70 per cent of major planning applications were determined within 13 weeks in 2007/08 which is below average performance, although this has improved since last year. Despite a slight improvement only 68 per cent of minor applications were determined within eight weeks, representing comparatively poor performance. In addition to the comparatively slow speed at which planning applications are determined, the number of appeals against decisions which were upheld is high. However, the Council has delivered growth in the East of England which is contributing to the housing need in the local area. The Council has undertaken a fundamental review of planning services, which includes business process reengineering to ensure processes are fit for purpose. Early indications show that planning services are improving.
- 22 Some key services are improving. For example, the Council performs well in the delivery of affordable housing. This continues a sustained drive over the last few years and in 2007/08 265 such dwellings were provided, which is amongst the greatest number delivered by any district council. In addition the standard of housing is improving; the proportion of non-decent homes fell from 38 to 23 per cent. Average re-let times are also showing sustained falls. Although the average length of time in bed and breakfast accommodation is getting longer, less time is spent in hostel accommodation. Overall improved housing services are supporting those whose circumstances make them vulnerable.

How is Colchester Borough Council performing?

- 23** Performance for recycling, waste collection and environmental cleanliness is mixed. There was a slight improvement in the recycling rate in 2007/8 to 31.23 per cent; however performance is below average. The Council has undertaken a range of initiatives which has resulted in households in Colchester generating less waste than average, although the amount of waste collected has increased. The cost of delivering waste and recycling services increased in 2007/08, representing a higher cost than average for all councils nationally. The Council is planning to address waste issues, including investigating new technology for waste disposal, which has led to it withdrawing from the county municipal waste strategy. The amount of graffiti and litter has increased, resulting in Colchester having more litter and graffiti than average. Environmental Services are showing early signs of improvement and are a key area of focus for the new administration.
- 24** The Council works well in partnership with others to deliver wider community outcomes. The Council successfully managed the development of a Community Stadium which provides facilities for Colchester Football Club. In addition, effective partnership working is tackling crime and disorder. Reductions in 2007/08 were made in burglaries, robberies, household and personal crime and theft of and from vehicles. Many of these areas of crime remain comparatively low in Colchester. However incidence of violence and sexual offences remain a problem. Effective partnership action supports shared and corporate priorities and is resulting in reduced fear of crime as perceived by local people.
- 25** Access to services is improving. For example, access to the Town Hall has improved through improved wheelchair access and installation of a hearing loop system. Although the Council remains at level 2 of the local government equality scheme, it is making good progress towards achieving level 3 under the strong leadership of the Chief Executive with good councillor engagement. The Council is working on improving engagement with hard to reach groups, including through use of customer segmentation tools such as MOSAIC and Touchstone. Improved access to services supports those whose circumstances make them more vulnerable.
- 26** The Council's overall approach to value for money is good. It understands areas of higher spend and has a reasonably well managed capital programme linked to priorities. However, there have been some significant weaknesses in project and contract management of the visual arts centre, which led to additional expenditure, delays in project completion and critical press coverage. The funding partners continue to support the project, for example through the allocation of additional budget and appointment of a completion coordinator, but plans to finalise the building are not in place and significant risks to completion remain.
- 27** The Council has worked well to deliver quality services in a cost effective way. This has included work with partners, for example via the Procurement Hub which has delivered savings. The ICT strategy has enabled savings to be made from flexible working and via negotiated reductions in costs.

How much progress has it made in implementing improvement plans to sustain future improvement?

- 28 The Council has good performance management processes and plans and has put in place a new strategic plan of the new administration. It is aware that a new performance management framework will be needed to reflect not only internal changes but also requirements around the Local Area Agreement and the new national indicator set. It is intended that the partnership strategy, currently in draft, will help to consolidate partnerships' performance management arrangements.
- 29 There are some performance management mechanisms which are not fully supporting sustainable improvement. It is not clear to what degree comparative information with other councils is actively used to set targets. Whilst Colchester can demonstrate improvements in some services, other councils are improving faster, for example in recycling.
- 30 The Council works effectively in partnership. Strategies for improvement are aligned closely with those of partners to address key local issues. For example, the Council has agreed key themes in the sustainable community strategy which link to the local development framework, the regional plans and the Council's own strategic and service plans. The Council has worked effectively on partnership for improvements for disadvantaged residents and people with disabilities. This has resulted in work on reducing health inequalities, reducing smoking and childhood obesity.
- 31 Improvements have been made in a number of areas. In the year to March 2008 the Council focused attention particularly on regeneration, enabling the achievement of significant outcomes such as increased affordable housing and the new community stadium. The new administration has changed its priority focus to improve services which are performing less well, such as recycling and waste collection, cleanliness and issues impacting on tenant satisfaction.
- 32 Capacity is improving. A more robust approach to sickness absence is increasing capacity. A reorganisation of the senior management team and recent work to increase new portfolio holders' understanding of service budgets supports the delivery of services. However the economic downturn is impacting on resources and therefore the Council has moved staff from some departments, for example planning, in order to redeploy resources to services as demand changes. Such actions support the £0.5m corporate savings target.
- 33 There are no significant weaknesses in governance arrangements for securing continuous improvements. There is a new administration which is establishing relationships with officers, identifying its priorities and developing mechanism to deliver them.

Benefits service diagnostic

- 34 This work was undertaken to identify if improvements to the Benefits service are sustainable and assess the extent of customer focus of the service.
- 35 The Benefits service faced significant problems at the end of 2006/07 and beginning of 2007/08 which it has started to overcome. There were staff shortages due to long term sickness absences and vacancies. This adversely impacted on its performance. This was particularly noticeable at the end of the first quarter of 2007/08. For the remainder of the year performance improved in relation to both new claims and changes of circumstances quarter on quarter.
- 36 Improved performance levels achieved at the end of 2007/08 have not been sustained. It is experiencing reduced performance levels in 2008/09 following the move to a new corporate document management system. It is working to address these and anticipates them being resolved early in September. It also has an increasing caseload. It is working to address this by improving efficiency. However, it needs to develop a better understanding of when this caseload increase requires extra capacity to be able to maintain acceptable performance levels.
- 37 The Benefits service has been proactive in encouraging customers to report changes in circumstances. This helps prevent errors remaining in the benefits system. However, it does not have a track record of top quartile performance in relation to the average time taken to process changes of circumstances.
- 38 The Benefits service is well managed. It has a good performance management system in place and it makes appropriate use of performance information to target resources where they are most needed. The Service provides appropriate additional support for those identified as being in most need. Customers in severe hardship receive extra benefit from the closely managed Discretionary Housing Payment scheme. The Council also recognises the importance of welfare support for many households. It provides a Welfare Rights team who help customers access the wider benefits system and work with the Benefits service to promote take-up of HB and CTB.

Health inequalities in Essex

- 39 We reported on our assessment of the arrangements to reduce health inequalities in Essex, in our 2007 Annual Audit and Inspection Letter. The audit identified four main areas to be addressed:
- strategic approach;
 - information and joint planning;
 - delivery and monitoring performance; and
 - political involvement.
- 40 We intend to follow up progress on this work as part of 2009/10 audit.

The audit of the accounts and value for money

- 41** Your appointed auditor reported separately to the Accounts and Regulatory Committee on the issues arising from the 2007/08 audit and issued:
- an audit report, providing an unqualified opinion on your accounts and a conclusion on your vfm arrangements to say that these arrangements are adequate on 30 September 2008; and
 - a report on the Best Value Performance Plan confirming that the Plan has been audited.

Use of Resources

- 42** 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

- 43 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in these five areas as follows.

Table 1

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

Note: 1 = lowest, 4 = highest

The key issues arising from the audit

Audit of the accounts

- 44 The Council received an unqualified opinion on the financial statements and an unqualified opinion on the value for money conclusion. The accounts and supporting working papers were timely and prepared to a good standard and officers were responsive to audit queries facilitating the smooth operation of the audit. There were no material amendments to the accounts.

Use of resources

- 45 Our use of resources assessment noted that the Council continues to perform well in a number of key areas. Whilst the Council has maintained its overall score of '3' and the individual theme scores of '3', the score for KLOE 2.2 has dropped from a '3' to a '2'. This is due to the problems experienced with the firstsite:newsite project and the Colchester Borough Homes contract, which we believe indicates weaknesses in managing the performance of projects with partners. This has also affected the score for KLOE 5.2, which otherwise would have increased to '3'. At the same time we have recognised the Council's performance in other projects, such as the new Community Stadium.
- 46 Overall, we judged the Council to be performing well and consistently above minimum standards.
- 47 A detailed report of our findings in respect of use of resources has been issued and Members should monitor progress against the improvement points noted within this report. The key findings from our work are noted below.

Financial reporting

- 48 The Council prepared annual accounts in accordance with the relevant timetables and statutory guidance and we were able to issue an unqualified audit opinion by the deadline. There were no material audit amendments. Supporting working papers provided were of a good standard.
- 49 The Council continues to publish the accounts, annual audit letter and committee minutes on the website. Summary financial statements are also produced. Consultation has taken place in respect of the format of the accounts.

Financial management

- 50 The Council's Medium Term Financial Forecast (MTFF) is embedded throughout the organisation and includes key priorities driven by the Corporate Plan, links to other strategies and policies and is used in the setting of service plans. Budgets and the capital programme continue to be soundly based and are designed to deliver the Council's strategic priorities.
- 51 Performance is actively managed against budgets, variances are reviewed and action taken. Budget monitoring is informed by a risk assessment and is focused on large, high risk or volatile budgets with focus on key variances. However, some weaknesses were identified around the financial review of some partnership and contract arrangements, principally the firstsite:newsite project, which has led to the score for this KLOE reducing from a level '3' to a level '2'.
- 52 The Council has adequate processes to manage its asset base with members clearly taking responsibility for asset management arrangements and the property portfolio being used as an enabler of change.

Financial standing

- 53 The Council continues to manage its spending within its available resources and has appropriate performance measures in place for reacting to under/over spend. The Council has set target levels for its balances in line with budget principles and set out in the MTFF. Annual approval of the budget and treasury management practices includes an assessment of financial risk, levels of balances required and a holistic review of reserves.
- 54 Budgets are set using detailed plans, are well monitored and have historically been under spent. A report is provided for review to Members on the adequacy of reserves and there is a policy and level for reserves. Income is monitored against budget, and this is regularly reported to at management level and to members.
- 55 There is monitoring information to review overpayment recovery and debt recovery and this process is assisted by performance indicators and monthly reconciliations.
- 56 Colchester has £4m invested with Landsbanki. These investments were made in accordance with their Treasury Management strategy. These investments were placed after 31 March 2008 which is the period under review and prompt action has been taken to deal with this issue. Reserves and balances are sufficient to ensure that there is no significant deterioration in the Council's overall financial standing.

The audit of the accounts and value for money

Internal control

- 57 Risk management arrangements continue to be embedded. A risk strategy is in place and approved by Members. A corporate risk register is regularly updated, and contains specific and generic risks in respect of partnerships. The Finance and Scrutiny Panel who are responsible for risk management regularly review the corporate risk register. Project initiation contains a risk assessment.
- 58 The Council has adequate arrangements in place to maintain a sound system of internal control. An annual review of effectiveness has been carried out and the Annual Governance Statement has been reviewed by the Accounts and Regulatory Committee. Sources of assurance have been reviewed and an action plan is in place. A project is underway to bring business continuity plans into one comprehensive document which will be reviewed and tested regularly. The assessment at level 3 reflects the significant progress that has been made in this area despite plans not being finalised.
- 59 The Council continues to have good arrangements in place to promote and ensure probity and propriety in the conduct of its business. A whistle-blowing policy is in place.
- 60 There is a code of conduct in place with the appropriate anti-fraud and corruption policies and ethical standards which are communicated to all staff.

Value for money

- 61 The Council's performance compares well with others and a range of quality services are delivered appropriate to statutory duties and local needs, whilst relatively low overall costs are maintained. Total spending per service area is low when compared to the nearest neighbours groups and all districts.
- 62 The Council understands areas of higher spend and these are planned within the overall budget strategy. Some managed savings were made although some were fortuitous rather than planned.
- 63 There is a reasonably well managed capital programme linked to priorities with projects usually completed on time and within budget. However, there have been delays with the firstsite:newsite project.
- 64 There is an embedded approach to reviewing services (both budgets and performance) including changes over time and clear evidence of improvements made in VFM leading to efficiency savings of £4.1m (£0.5m in excess of target).
- 65 The council uses best procurement practices and consideration is given not only to costs, but also to benefits to the wider community. For example the council has adopted the OGC framework for energy, securing savings of approx 5 per cent of energy costs. Energy and cost savings are planned through a carbon management programme.
- 66 Significant weaknesses were found in contract monitoring of some large scale projects undertaken in partnership which led to substantial difficulties, additional expenditure, delays in project completion and negative press coverage.

Data quality

- 67 The Council's arrangements for ensuring data quality, which fed into our value for money conclusion, concluded that the arrangements were consistently above minimum requirements.

Grant claim certification

- 68 Certification of grant claims at the request of the grant paying bodies resulted in two of the six claims submitted for certification required amendment and a qualification letter to accompany the certificate.
- 69 In addition, a new approach to our certification of the Housing Benefit grant claim was adopted, as required by the DWP. In line with a number of other Councils the new approach identified some issues, including:
- difficulties in selecting the required sample from the benefits system to comply with the new sampling methodology; and
 - data input errors meant that amendments to the claim and further detailed testing was required.
- 70 We liaised with the responsible officers throughout the grant claims audits to resolve as many of the issues as possible prior to certification.

Looking ahead

- 71** 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.
- 72** 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.
- 73** The first results of our work on CAA will be published in the autumn of 2009. This will include the performance data from 2008/09, the first year of the new National Indicator Set and key aspects of each area's Local Area Agreement.

Closing remarks

- 74** This letter has been discussed and agreed with the Chief Executive and senior officers. A copy of the letter will be presented at the next appropriate Committee meeting. Copies will be provided to all Council members.
- 75** Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Council during the year.

Table 2 Reports issued

Report	Date of issue
Audit and inspection plan	April 2007
Annual Governance Report	September 2008
Opinion on financial statements	September 2008
Value for money conclusion	September 2008
Benefits Service diagnostic	September 2008
Use of Resources report	February 2009
Annual audit and inspection letter	March 2009

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

Availability of this letter

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

Ian Davidson
Comprehensive Area Assessment Lead

13 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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