

Annual Audit and Inspection Letter

Harborough District Council

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As an independent watchdog, we provide important information on the quality of public services. As a driving force for improvement in those services, we provide practical recommendations and spread best practice. As an independent auditor, we ensure that public services are good value for money and that public money is properly spent.

Status of our reports

This report provides an overall summary of the Audit Commission's assessment of the Council, drawing on audit, inspection and performance assessment work and is prepared by your Relationship Manager.

In this report, the Commission summarises findings and conclusions from the statutory audit, which have previously been reported to you by your appointed auditor. Appointed auditors act separately from the Commission and, in meeting their statutory responsibilities, are required to exercise their professional judgement independently of the Commission (and the audited body). The findings and conclusions therefore remain those of the appointed auditor and should be considered within the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission.

Reports prepared by appointed auditors are:

- prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission; and
- addressed to members or officers and prepared for the sole use of the audited body; no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

www.audit-commission.gov.uk

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Our overall summary

- 1 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the findings and conclusions from the audit of the Council and from any inspections that have been undertaken in the last year. The letter includes our review of how well the Council has progressed (our Direction of Travel report) and the auditor's assessment of how well the Council has managed its finances (the Use of Resources scores). These latter components will be an important feed into any future decision regarding the potential for rescoring the Council's Comprehensive Performance Assessment (CPA) category.
- 2 The report is addressed to the Council, in particular it has been written for councillors, but is available as a public document for stakeholders, including members of the community served by the Council.

Main messages for the Council

- 3 The last year was a challenging one for the Council with significant transition in its leadership, both politically and managerially. Despite this the Council has made progress in some areas although the overall rate of improvement is below average, and the level of improvement against the council's own priorities is inconsistent, with performance targets not being achieved. However stronger service planning arrangements are now in place and the capacity required to secure improvement in the future is being put in place.
- 4 The Council continues to perform well in its overall governance arrangements. Our use of resources assessment continues to show that the Council is performing consistently above minimum requirements on all of the main non-value for money themes which is reflected by an unqualified audit opinion and an unqualified value for money conclusion being given.
- 5 A specific governance failure occurred in relation to the Council's refusal to grant planning permission on a site in Kibworth Beauchamp. The subsequent conclusion of the government appointed inspector that, in his judgment, 'members rejected the advice of consultants and their own officers with no sound basis for doing so.' resulted in the Council incurring unwarranted expenditure of £195,739. A Special Scrutiny Panel reviewed the council's actions and concluded that the heart of the matters was a failure by members to balance the fourfold responsibilities of a Councillor: to represent their ward, as a member of a political group, to foster the best interest of the whole district, and to act in a quasi-judicial role.

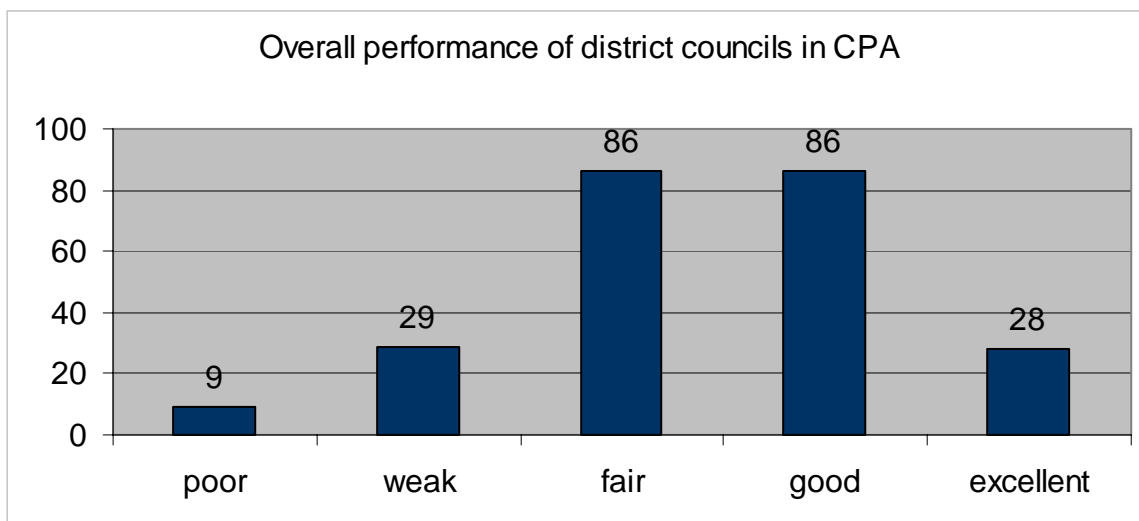
Action needed by the Council

- 6 The Council should focus efforts on improving performance in the areas set out below. Members have a key part to play in this respect, in:
 - ensuring a strong focus on performance management to achieve broader continuous improvement;
 - furthering efforts to improve relations with other councils in Leicestershire; and
 - ensuring the report to be received by full Council on 23 April 2007 in respect of implementing the recommendations of the Special Scrutiny Panel is acted upon and that lessons to be learnt become embedded in the organisational culture.

How is Harborough District Council performing?

- 7 Harborough District Council was assessed as Good in the Comprehensive Performance Assessment carried out in 2004. These assessments have been completed in all district councils and we are now starting to update these assessments, through an updated corporate assessment, in councils where there is evidence of change. The following chart is the latest position across all district councils.

Figure 1 Overall performance of district councils in CPA



Source: Audit Commission

The improvement since last year - our Direction of Travel report

What evidence is there of the Council improving outcomes?

- 8 Harborough District Council's current priorities are based on the environment, housing, social inclusion and efficiency. This report reflects the Council's progress in 2005/06 against these priorities.
- 9 Overall progress against national performance indicators is below that of most other councils. Against an Audit Commission basket of Performance Indicators (PIs), 52 per cent improved in 2005/06 compared with the previous year. This is below the national average for district councils and the proportion of PIs in the top 25 per cent nationally is also below average.
- 10 The Council has made mixed progress in delivering its priority of the environment. It is continuing to perform well on recycling, for which it is amongst the top 25 per cent of authorities in the country. In 2006 it received a 'highly commended' accreditation at the National Recycling Awards. It is also amongst the best councils nationally on cleanliness. However waste collection has increased with a rise of 4.6 per cent in the amount to landfill against previous year. The cost of waste collection is also comparatively high. The Council has introduced four generic enforcement officers who are having an impact on levels of litter, graffiti and abandoned cars. Overall progress within planning has been slow with all five national indicators below the national average.
- 11 The Council has made some modest improvements within housing from a comparatively low base. There have been small improvement in re-let times and non-decent homes. In 2005/06 the Council gave out over £500,000 in housing grants for disability, energy and other projects resulting in improved facilities for more vulnerable residents. However, most of the housing 2005/06 national indicators are below the national median and the service cannot make significant improvements until the outcome of the proposed stock transfer and future funding levels is resolved.
- 12 Good progress has been made in aspects of social inclusion but the Council is not performing well in some basic areas. The Council has developed and is measuring a suite of local customer access performance indicators which show an overall improvement in 2005/06 against previous year; website usage is increased by 46 per cent and call centre use 55 per cent. The Council is also improving telephone answering and e-mail response but is not improving query resolution at first point of contact. It has extended telephone opening hours and introduced a new lifeline number which is available all of the time. Outreach has also improved through sub-offices in four of the towns and villages outside of Market Harborough. However progress within housing benefits is poor with all key indicators including processing times not improving even though some are amongst the worst councils nationally. The Council has not completed an overall needs assessment to inform its social inclusion policies and has not improved from level 1 on the equality standard for local government.

- 13 The Council's costs are mostly low but overall value for money is not improving when compared to other authorities and most of the Council's indicators are below the national median.

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

- 14 The Council has mostly ambitious plans designed to improve performance in priority areas but it lacked the capacity to deliver them in 2005/06, missing many of its own targets. Although targets were hit for most aspects of environment, housing repairs, those for waste arising and benefits were missed. The Council has worked hard to address this in 2006/07 with improved business plans focused on priorities and indications with the result that substantially fewer targets are being missed in the first half of 2006/07. There are now more robust and realistic plans for priority areas including the housing stock transfer and the formation of a leisure trust and the Council has improved capacity to ensure they are delivered.
- 15 The Council has taken positive steps to improve capacity. It has undertaken a senior management re-structure to provide more strategic capacity. Extensive work has taken place internally and in consultation with the community to sharpen the Council's priorities and 35 non-priorities have been identified. The 'ten' performance management system is now embedded and there is a new approach to planning linking financial and business plans for 2007/08. ICT improvements to benefits are now working and beginning to have an impact on performance.
- 16 The Council is developing capacity by working in partnership. Through the Welland partnership it already has shared service including internal audit and plans to capitalise on the opportunities presented by the recently formed procurement unit. It works with East Northamptonshire Council on ICT contracts; the private sector to deliver leisure facilities and, with local parishes on areas such as ground maintenance and access to services. It is developing a new 'streetscene' contract to commence in 2008 with a focus on outcomes and joint working with other authorities. The Council is also widening the role of its generic enforcement team to include parking and is securing external funding particularly through planning gain and recycling credits. The Council has clear plans and commitment for its housing stock transfer which if successful is likely to result in significant additional investment. It is now within its project plan deadlines and has engaged with tenants extensively.
- 17 Partnership working is embedded into the operation of the Council and is having a positive impact on capacity although it needs to reinforce efforts to improve leadership relations with other councils in Leicestershire.

Service inspections

- 18 We have not completed any service inspections since we issued our last annual audit and inspection letter.

Financial management and value for money

Key issues arising from the audit of accounts

- 19 Your appointed auditor has reported separately to the Accounts Committee on the issues arising from the 2005/06 audit and has provided:
- an unqualified opinion on your accounts;
 - a conclusion on your vfm arrangements to say that these arrangements are adequate; and
 - a report on the Best Value Performance Plan confirming that the Plan has been prepared in accordance with statutory guidance and that it contains all appropriate outturns and targets.
- 20 While no statutory recommendations were raised in the report on the BVPP the appointed auditor wishes to draw your attention to the failure by the Council to approve the Annual Report which now forms part of the statutory BVPP at Harborough District Council, either before or after publication. All elements of the BVPP should be approved by Members before publication and subsequently by full Council.

Key issues arising from work on use of resources

- 21 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).

- 22 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	2006 Assessment	2005 Assessment
Financial reporting	3 out of 4	3 out of 4
Financial management	3 out of 4	3 out of 4
Financial standing	3 out of 4	3 out of 4
Internal control	3 out of 4	3 out of 4
Value for money	2 out of 4	3 out of 4
Overall assessment of the Audit Commission	3 out of 4	3 out of 4

(Note: 1 = lowest, 4 = highest)

- 23 The audit is conducted by assessing the Council against a standard set of Key Lines of Enquiry (KLOEs) as published by the Audit Commission. As shown in the above table the Council continues to perform well overall. However, whilst the Council's overall spend on services is amongst the lowest in England its performance in key services is mixed against its peers which has resulted in the Council being assessed as only performing adequately in terms of providing VFM services this year. The key issues arising from the audit, as reflected in the above judgements, are summarised below.
- 24 The Council continues to produce its accounts well within deadlines. The accounts were presented fairly and subject to robust member scrutiny. An unqualified opinion was issued but a small number of non-trivial errors resulted in a small decline in performance on the sub-theme this year. The Council has improved upon the openness and external accountability of its financial reporting and continues to perform well overall on the main theme.
- 25 The Council could further increase the openness of reporting by developing further the approach to consultation on the annual report. For future years, where comments on the annual report are received following consultation the Council should take them into account, in particular the need to report in 'plain english'. The annual report could be made more accessible to local user needs by clearly showing in the different languages used within the District, and in large print, that it is available in these formats.

- 26 The Council has taken effective action over the past years to ensure that its medium-term financial strategy (MTFS), budgets and capital programme are soundly based but the MTFS now needs updating. Performance is actively managed against budgets but partnerships is an area for development. The Council has not developed the management of its asset base as quickly as anticipated resulting in a number of improvement areas being identified and a small decline in performance this year.
- 27 The Council manages its finances well. Its financial reserves for 2005/06 were in line with the policy agreed by members and a new corporate debt team has been set up to address arrears levels. However, Members should become more actively involved in setting targets for, and monitoring performance against, financial health indicators.
- 28 Risk management has been evolving and improving and has been embedded throughout the organisation through the TEN system. Systems of internal control are sound but could be further strengthened by the creation of a standalone Audit Committee, or ensuring that the arrangements for carrying out the functions of an audit committee are effectively carried out. The Council needs to further develop its arrangements for ensuring the probity and propriety in the conduct of its business, particularly regarding the provision of training on standards of ethical behaviour.
- 29 For the functions of an audit committee to be effectively carried out they should be independent of the executive function, with terms of reference that are consistent with CIPFA's guidance. The arrangements should provide effective challenge across the council and independent assurance on the risk management framework and associated internal control environment to members and the public, and demonstrate the impact of its work.
- 30 The Council's overall spend on services is amongst the lowest amongst districts in England but performance in key services is mixed. Only 39 per cent of PIs are at or above the national median and 34 per cent are in the lowest quartile. Performance in some priority areas like benefits (social inclusion) and planning (environment) has reduced, although the introduction of the new revenues system in the year impacted on the benefits figures. This mixed performance against its peers has resulted in the Council being assessed as only performing adequately in terms of providing VFM services this year.
- 31 The Council is focused on keeping costs and council tax low. Overall service costs reflect service outcomes ie where costs are low outcomes are usually below average. Higher cost services such as waste deliver good outcomes. Robust measures are in place to ensure revenue and capital is directed towards priority areas, for example the environment is well resourced to deliver good performance. The Council now needs to:
- ensure that those areas where performance has reduced are subject to robust performance management and monitoring;
 - set SMART targets for priority areas in line with the best performing authorities in order to raise the overall performance of the Council;

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- establish a framework to compare costs routinely;
- carry out a full independent options appraisal for the planned 'streetscene' contract due to commence in 2008 to ensure maximum value for money; and
- re-visit performance management arrangements to ensure the new housing partner delivers sustained improvements to value for money should the LSVT stock transfer be successful.

Key issues arising from other work undertaken during the year

Financial standing

- 32 The Deputy Chief Executive's report (as Chief Financial Officer) on the budget set for 2007/8 has highlighted that the budget does not allow for the maintenance of reserves in line with the Council's policy. This is primarily due to the Council meeting early retirement costs of £80,570 in 2007/08. The report has reiterated the need to maintain a minimum level of reserves, equivalent to one months net direct expenditure, and shows that the costs of the early retirements will be recovered from the services concerned over a three year period.
- 33 Your auditor will continue to monitor your ongoing levels of reserves and the action taken to redress the situation.

Challenge

- 34 In May 2005 a public inquiry into an application by David Wilson Homes to build houses on a site in Kibworth Beauchamp concluded that the Council had been wrong to refuse planning permission. The government appointed Inspector recommended that the application for a full award of costs by the appellants (David Wilson) be allowed as, in his judgment, 'members rejected the advice of consultants and their own officers with no sound basis for doing so.'
- 35 The costs were determined as £150,000 and in addition to this the Council had incurred expenditure of £45,739 in preparing its case for the inquiry. Council tax payers have therefore had to meet total costs of £195,739 as a result of the inquiry concluding that members had not acted reasonably.
- 36 The conclusion of unreasonable behaviour led to your appointed auditor considering whether to produce a report in the public interest in order to highlight where the Council had gone wrong, assess whether it had acted unlawfully and what it needed to do to ensure it did not behave in a similar way in the future. However, the Council was also keen to learn from its experiences and had determined to set up a Special Scrutiny Panel to investigate the matter. It was therefore agreed that your appointed auditor would await the findings of this panel before considering whether further action was required.
- 37 The panel produced its final report in January. It concluded that at the heart of the matter was a failure by members to balance the fourfold responsibilities of a Councillor: to represent their ward, as a member of a political group, to foster the best interest of the whole district, and to act in a quasi-judicial role. The panel concluded that errors of judgment made by a majority of Councillors prompted many to refuse the advice of Counsel and officers on more than one occasion with the consequences above. The panel made seven recommendations.
 - Members need careful training in how to balance the fourfold responsibilities of a Councillor.

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- Noting the errors made in failing to alert Members of the cost implications of the recovery of the application there should be communication training for officers who have to advise Members.
- There should be more rigorous keeping of notes/minutes of significant internal and external meetings.
- Noting the way in which preparations were made for the Inquiry, and especially the failure to submit a Rule 6 statement, a detailed Procedure for Conducting Appeals and a Planning Handbook for the benefit of all Members should be created.
- As much difficulty was created in the apparently conflicting relationship with the Strategic Planning Authority greater attention should be paid to relationships with all external statutory consultees.
- Training in Planning should be compulsory for all Members on an annual basis (or sooner if changes in planning regulations occur).
- As a result of three former officers referring to bullying or unreasonable pressure Members and officers need to understand how to relate to each other with mutual respect and support.

38 Your appointed auditor has reviewed the panel's work and findings and concluded that the review has been conducted in an open manner, that its breadth of coverage and evidence received was satisfactory and that the overall conclusions are reasonable. The matter has been conducted and reported in public and full council has requested a report on how the recommendations will be implemented by 23 April 2007. Subject to a review of the implementation report and evidence that the Council is acting upon the lessons learned your appointed auditor does not believe further formal action, and associated costs, are warranted at this time. However, he will continue monitor progress as part of his audit plan and report back as necessary.

Conclusion

- 39 This letter has been discussed and agreed with the senior management team. A copy of the letter will be presented to Members at a date still to be confirmed.
- 40 The Council has taken a positive and constructive approach to our audit and inspection I would like to take this opportunity to express my appreciation for the council's assistance and co-operation.

Availability of this letter

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

Nigel Toms
Relationship Manager
March 2007