

# Annual Audit and Inspection Letter

## Dudley Metropolitan Borough Council

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<b>Reference:</b>	DU057 Annual Audit and Inspection Letter
<b>Date:</b>	January 2005

## Executive summary

### The purpose of this letter

This is our audit and inspection 'Annual Letter' for Members which incorporates the Annual Audit Letter for 2003/04, and is presented by the Council's Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections of the Council.

Appendix 1 includes the statutory report on the Best Value Performance Plan issued in December 2004.

Appendix 2 sets out the scope of audit and inspection.

Appendix 3 provides information about the fees charged.

## Key messages

### Council performance

Results have been mixed. While Dudley has generally maintained its services at the level we saw last year, the service score for environment has fallen. Progress has been made in education, social care, recycling and use of resources and we expect to see these services improve in the next 12 months.

Although 26 per cent of Dudley's indicators that compare Council performance are now among the best performing, only 37 per cent improved and fewer indicators are now above average. To meet its future challenges and improvement priorities, Dudley needs to continue to improve its ability to manage its performance, projects and risks.

The Council has strong leadership and recognising that it still has work to do has outlined clearer improvement priorities. It has aligned its service plans with the overall Council Plan and is working to a clear planning cycle. Alongside improvements to the way it manages itself, it has ambitious targets for services.

Based on Dudley's current plan, the Council is well placed to improve the way it works and the services it provides to local people.

### Financial position

Continued effective financial management has resulted in maintenance of levels of earmarked reserves in line with good practice. General fund balances remain in excess of £3 million. However the Council continues to be subject to considerable financial pressures and linking spending to Council priorities remains a challenge. Members will need to be aware of the revenue implications of future funding decisions.

### Risk management

Whilst good progress has been made in implementing a formal risk register further improvements involving members are now needed to embed the risk management process across the authority. The Council's Statement on Internal Control acknowledges this area as a significant internal control issue.

### Fraud and corruption

Your overall arrangements have improved with the approval of an Anti-Fraud and Corruption Policy. Further work is still required to raise the level of fraud awareness across the Council.

### Action needed by the Council

Specific action that we recommend is taken by the Council includes:

- improve and work to embed risk management arrangements over the next 12 months;
- implement a systematic approach to raising fraud awareness across the Council; and
- ensure formal review and report back on the impact of the Council's code of corporate governance.

## Council performance

### CPA scorecard

*Dudley remains as a 'fair' Council in the updated comprehensive performance assessment published in December 2004.*

Element	Assessment 2004	Assessment 2003
Overall	Fair	Fair
Current performance	out of 4	out of 4
Education	3	3
Housing	2	2
Use of resources	4	4
Social care (children)	2	2
Social care (adults)	3	3
Benefits	4	4
Environment	2	3
Libraries and leisure	2	2
Capacity to improve (not reassessed in 2004)	2	2

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

Updated CPA scores were published on 16 December 2004. The text published alongside your scores is set out in the key messages above.

### CPA improvement report

#### Introduction

Dudley Metropolitan Borough Council was rated a 'fair' Council by its Comprehensive Performance Assessment (CPA) in 2002 and maintained this rating in 2003. The overall ratings given and since maintained are three out of four on its services and two out of four on the way the Council is run.

The Council's areas of relative weakness were, at service level, social care for children and housing and, at a corporate level, performance management, enhancing learning and future plans. Dudley put forward seven priorities for improvement in the light of CPA. The Council has continued to invest in both its services and its corporate capacity in 2004. The Council has refined its priorities and now is working to six higher level objectives which are 'Environment Matters, Safety Matters, Learning Matters, Regeneration Matters, Caring Matters and Local People Matter'.

This qualitative assessment reports on how well the Council has planned and delivered improvement since December 2003.

#### Ambition and prioritisation

In its corporate assessment ambition was a strength and in general terms this remains the situation. The Council's objectives have now been refined and it is further developing its vision to improve customer access and to regenerate the Castle Hill and Brierley Hill areas of the borough. The Council has refined its priorities and now is working to the six higher level objectives above.

The Council continues to have clear strengths in its priorities. These objectives are further underpinned by key improvement targets. In its BVPP the Council has set itself stretching targets in priority areas. Dudley's LPSA sets challenging but achievable targets for improvement in several key indicators including a strong community safety focus. Stretch targets have been set within the agreement with respect to vehicle crime, burglary and alcohol misuse.

The Council has now aligned its directorate plans with the Council Plan and is working to a clear corporate planning cycle.

#### Capacity

Capacity was an area of weakness in CPA in 2002. The Council has taken steps and worked through 2003 and 2004 to increase capacity. For instance, in terms of buildings, the asset management plan has a good rating and a follow up inspection of property services found significant progress has been made.

The Council has started to implement a range of new financial systems, including the general ledger, revenues and benefits, payroll and HR. Systems are to go live over the period January 2005 to January 2006. Together with the continued use of the EFQM Excellence model across the organisation, the Council has introduced a new, project management approach; examples of this approach are being used in major projects.

In addition, a corporate procurement strategy has been drawn up and an implementation plan has been agreed. All reported inspections in the last year, across a range of services, have found improvement prospects to be promising.

In terms of partnership working the Council has, in general, a positive and constructive approach to partnership working including a willingness to engage, good levels of positive participation and a good level of flexibility in the Council's approach to partnership work. For example the Council is entering into a partnering arrangement with a local company for building maintenance based upon the Egan principles of best practice within the construction industry. However, in this critical area for the Council's future plans, there are a number of improvements that the Council needs to make in how it manages, resources and monitors the work. The lack of a formal corporate strategy on partnership working has resulted in inconsistencies and the key areas for improvement are: developing more robust performance management arrangements so that the Council is clearer about the inputs and outcomes from its partnership activity, ensuring that officers and members are more aware of and take account of probity issues when they work in partnership and greater clarity over the level of resources the Council commits to partnership activity.

#### **Performance management**

Performance management was an area of weakness in CPA in 2002. In particular there were concerns about inconsistency and underdeveloped risk management. The Council has recognised the need to make improvements and a range of actions have started. The impact of these actions is not yet evident.

The corporate performance management framework has been further developed. For instance monitoring reports are now aligned with the Council plan objectives and arrangements are in place to focus on performance issues and any areas of slippage. A lead cabinet member has cross-cutting responsibility to focus on performance management. Under the heading 'aiming for excellence', the Council has identified a set of values and behaviours for all to follow.

The Council has been selected as an IDEA (Improvement and Development Agency) performance management pilot. The Council's Customer Access to Services (CATS) programme is being designed to deliver 100 per cent performance monitoring of all service delivery to the public.

The Council has started improving its risk assessment. It has agreed a strategy and through a series of workshops is identifying risks with a view to producing a risk register.

#### **Achievement of improvement**

Overall in terms of national performance indicators (PIs) for 2003/04 there is a mixed picture around Council services from what was a relatively strong starting position. These PIs show that while 52 per cent of Council services continue to perform above the national average, last year this was 59 per cent. Fifteen per cent are in the bottom quartile, compared to 12 per cent last year. Comparing performance with 2002/03 shows that only 39 per cent of these national indicators improved, while 61 per cent have stayed the same or declined. Satisfaction levels in 2003/04 had dropped and overall public satisfaction with the service provided by the Council is 51 per cent which, after taking deprivation levels into account, is 2.5 per cent worse than would be expected. More recent surveys conducted by the Council suggest this position has now improved.

In terms of Dudley's own analysis including local PIs, between 2002/03 and 2003/04 performance was maintained or improved on 70 per cent of indicators with 49 per cent improving, the most significant improvement being in Housing and Social Care.

In Housing Benefit, the Council has consistently improved its performance against both Performance Standards and the claims processing Best Value Performance Indicators since the original CPA in 2002. Current reported performance for the first quarter of 2004/05 shows the average time to process new claims is 13 days inside the Performance Standards target and accuracy is 100 per cent.

Improvements against the corporate objectives are set out below.

### Learning matters

The authority has again been judged by Ofsted as being in the upper band of two-star, with proven improvements and secure capacity for further improvement. The Adult Learning Inspectorate reported that adult learning is now good or satisfactory. The Directorate Strategic Plan now incorporates all the statutory planning documents. Dudley's key issues are set out clearly and it has a range of plans and strategies to deal with them. These priorities include:

- promoting school success and avoiding school failure;
- promoting inclusive practice;
- extending the role of schools to provide a wider range of joined up services to adults and children; and
- the development of Children's Centres and support for the provision of effective early years education and childcare.

Effective support and challenge for schools remains a priority. School results have improved above the national average at KS2 and KS4. Two schools have been supported in moving out of the OFSTED serious weakness category. OFSTED inspections of schools have generally been favourable.

The authority has done some nationally recognised work on reform of the school workforce, and the ODPM has recognised it as a Beacon Council for modernising the school workforce.

Cross-cutting work with Leisure Services is underway to promote the extended local provision of sports and leisure services across the whole community through a network of provision based on school sites.

The education of looked-after children remains a high priority and improvement rates for these children exceeds both the Dudley and national averages at KS1, KS2 and KS3. The Council has steps in place to consolidate these improvements and to improve results at KS4.

The achievement gap between the whole population and the BME population has continued to close through strategies such as the Taleeme Markaz supplementary school.

The authority has adopted clear strategies to improve attendance and behaviour, and expects to meet challenging LPSA targets.

Partnership working with the voluntary and private sectors remains a high priority, particularly in the areas of childcare and early years, and of adult and community learning. Partnership working within the Directorate has now matured, with formal and informal learning opportunities developed with the Library Service. A strength is the integrated development of the Community Grid for Learning (in community and adult education), the People's Network (in libraries) and the Dudley Grid for Learning (in schools).

### Caring matters

In social services the Council has maintained its services scores of three for adults and two for children. Across adults and children's services, 73 per cent of PIs are in the two top ranking categories in 2003/04 compared with 53 per cent in 2002/03. Twenty nine per cent of PIs for children's services have improved with a further 53 per cent maintaining a top two banding. Thirty eight per cent of the adult PIs have improved at least one rating with a further 46 per cent maintaining a top two banding.

Progress following the joint review has included a strengthened business planning process aligned to the corporate centre and a rigorous and effective recruitment and retention strategy across the directorate, including children's services. The Council has established a fully staffed permanent senior management team for the first time in three-years. There has been significant investment in children and family services and a continued strengthening of child protection.

Achievements noted by CSCI in September 2004 since their last review include corporate recognition of the cross-cutting nature of services for children, promotion of performance management and continuing safeguarding of children in an effective way.

In terms of adult services, the Council has responded well to the Government's priorities to promote independence for older people, with Dudley working effectively in a complex system of health partners. There has been improved provision of intensive homecare. Fair access to services was seen as a strength in both adults and children's services.

The Social Services Directorate is in a strong position to maintain its improvement progress as evidenced by excellent prospects for improvement for adults and promising prospects for improvement for children. Areas where it needs to improve include further developing corporate parenting role and the need to demonstrate improved performance arising from partnership work with education.

In terms of the Supporting People programme an inspection judged that the service was fair with promising prospects for delivering further improvements. Strengths which reflect the Council investing in future services included the commissioning body working hard to make sure that the key building blocks essential to the smooth running of the Supporting People programme have been put in place. There is good corporate ownership of the programme and a strong focus on financial controls.

The Council's vision for the Supporting People programme is clear. Areas of strategic overlap with wider Council planning and performance improvement initiatives have been identified. There are particularly good cross agency linkages with respect to homelessness, young people's needs and in services to meet the needs of older people residing in Council run sheltered accommodation. There have also been effective links made with the community safety strategy. A number of new services have been commissioned in areas where previously there was limited or no provision.

### Environment matters

Overall since 2002/03, 41 per cent of performance indicators have improved and 59 per cent have stayed the same or declined. In the CPA model, the sub blocks for environment PIs all show a worse score in 2003/04 than 2002/03. This is due to a decline in Dudley's position relative to other Councils on road condition and the relative reduction in the number of road casualties. However within the environment area there are positive signs of progress in meeting local and national agendas, particularly in the area of recycling.

In **waste**, the percentage of waste recycled or composted (and the percentage land-filled) is improving and the Council is making good progress to reach its statutory waste target. The introduction of a green waste collection scheme has been very well received by the public, but the Council remains below average in terms of its coverage of the borough. The tonnage of waste collected has now improved and needs to be sustained to contribute to reducing the reliance on landfill, an aspect where performance is improving and remains in the best quartile.

The recent waste inspection supported the Council's good performance and progress. The service was judged as good with promising prospects for improvement. However, there are some areas for improvement. For instance the medium to long-term aims for the service have not been defined.

In terms of **highways**, targets set for improving the condition of all roads have been met. The Council has moved forward on its proposals to have a single point of contact for street care services linked to the Council's overarching access to services project. However PIs show that performance is still on the whole below average and not improving. Dudley's position relative to other Councils on road condition and the relative reduction in the number of road casualties has declined. Dudley has agreed a stretch LPSA target for roads that will more accurately assess their position.

The Council's transportation policy and its implementation are being managed to bring about social and economic benefits to the borough. A new £25 million Sustainable Access Network is on course for design for Brierley Hill and the Council is working with Centro and other local authority partners to extend Metro from Wednesbury to Brierley Hill.

In **planning**, performance has improved in some areas but overall it remains below average and a number of the Council's own targets were not met in 2003/04. The customer satisfaction rating for planning services in 2003/04 was 63 per cent. Improvements have included extending availability duty planning officers from 9.30am to 4.30pm. A new team structure approach has been put in place to deliver a better performance management regime in development control. Development Services has been chosen by English Heritage as one of only five Councils to submit a bid for a regeneration partnership scheme in a Conservation Area for Dudley town. The Council still has recruitment and retention problems, which it is starting to address with additional resources.

In **culture**, there are major challenges around the future of cultural services and its role in delivering the Council's priorities. The production of a cultural strategy is the key element in this regard. To this end the Council has set up a cross-directorate strategy using the 'shared priorities' of national and local government and the Council has sought to become a 'pathfinder' authority as part of the LGA/DCMS pilot project. The Council has considered a report on the future of leisure centre provision in the Borough and has taken the difficult decision to close a facility. This is in order to create the capacity to invest in other facilities and to extend the service by working in partnership with schools to maximise the use of their sports facilities. This should provide more community based facilities such as the multi-use games areas and all weather courts that are being developed across the Borough.

Additionally, the Council, in partnership with the PCTs, is investing in the health improvement agenda through the 'Steps to Health' project and successfully obtaining funding for the Active Dudley Project. Such partnership working is a key strength of the service. The 'Parks Liveability Agenda' is also a priority for the Council and is included as one of the key projects within the Council plan. In the past year, the Council was awarded £3.4 million from the Government's 'Liveability Fund' and this will fund a three-year programme of improvements within the Borough's parks and open spaces.

### **Modernising housing services**

The Council has put much effort and energy into tackling housing strategy and getting back on track following the 'no' vote around the proposed large scale voluntary transfer (LSVT). The strategic housing service has been assessed by inspection as fair with promising prospects for improvement. Dudley is developing its role as an effective strategic enabler and has achieved a number of positive outcomes for service users through partnership working. It is approaching investment in its own stock in a strategic way and is working to make best use of available resources and has engaged well with its tenants.

It has also developed comprehensive homelessness and private sector housing strategies. Other strengths identified include a good understanding of the extent and nature of housing need in the borough, active involvement in regional and sub regional housing partnership work and Dudley Housing's work with the citizen's advice bureau on a project to offer money advice to new Council tenants in order to prevent repeat homelessness. However, there are weaknesses. These included the lack of a robust approach to homelessness case management, the quality of accommodation provided at the Council's own hostel for homeless families, the waiting time faced by disabled facilities grant customers and a lack of engagement with homeless and private sector housing service users.

The current housing management service is above average in terms of the percentage of homes which are 'decent' and the Government's 2004 target for reducing non-decent homes by one third has already been achieved for the Council's own stock although the actual level of improvement in 2003/04 was below average. Good progress is also being made towards the Government's 2005 Home Energy Conservation Act target. There are other areas where performance has significantly improved. For example, the percentage of rent collected during 2003/04 was 97.1 per cent and rent arrears of current tenants as a proportion of rental income has reduced to 2 per cent in 2003/04. In terms of lettings average re-let times for Council dwellings have now reduced from a turnaround time of 53 days in 2001/02 to 38 days in 2003/04. The percentage of urgent repairs completed within agreed time limits improved from 98 per cent in 2002/03 to 99.1 per cent in 2003/04.

Progress achieved since the inspection includes improvements to case management of homelessness and proposals have been drafted to considerably modernise and alter the layout of internal hostel accommodation. The issue of long waiting times for disabled facilities grants identified at the time of the inspection has been reviewed on a regular basis and additional investment over a three-year period commencing in the current year. This will enable waiting times to be reduced by more than half over the three-year period. Performance on meeting the new targets is very carefully monitored and current evidence shows that we are already ahead of target to reduce waiting times.

### **Regeneration matters**

At the heart of the Council's regeneration programme is the revitalisation of its four main town centres of Dudley, Brierley Hill, Stourbridge and Halesowen.

The Council has ambitious plans to redevelop the Castle Hill area adjacent to Dudley Town Centre. Plans are being developed with a major national developer to radically transform the site and the surrounding area.

The plans include improved facilities and access to the zoo and castle, new retail development, new leisure facilities, including a hotel and 55 new homes.

Work on the Brierley Hill Master Plan is currently underway in consultation with the community, major landowners and the recently created Brierley Hill Regeneration Partnership. This vision is the transformation of this key strategic centre including the introduction of a new metro line and the creation of the parallel route to alleviate congestion on the main arterial roads through the town.

In addition, the Council has helped secure £8 million of European funding to part fund a total development package of £30 million for the creation of new office accommodation at the Waterfront. Some of this funding has supported the creation of the Brierley Hill Regeneration Partnership in conjunction with a multi-national private sector organisation. This is to ensure the area attracts its forecast of 10,000 new jobs from a wide range of leisure, retail and service sector developers and that local people have the necessary skills to take up the new employment opportunities together with regenerating civic, community amenities, improving access and the street environment. It is envisaged that the total private sector investment will be around £100 million.

Funds have recently been secured to commission a regeneration master plan for Stourbridge town centre which will stimulate further private sector investment into the town. In anticipation of the outcomes a Stourbridge Developers' Forum has been set up by the Council and will be followed by a Stourbridge Town Centre Partnership of wider interest groups and stakeholders Planning for the future, the Council, Centro and an existing property owner are in advance discussions to bring about major improvements and additions to Halesowen town centre including a new bus station. A masterplan for Halesowen will be developed in 2005/06.



Over the last two years the foundations have been laid for improving the Borough's ability to exploit the visitor economy. Following the preparation of regional and sub-regional strategies the Council is now implementing a resultant action plan to increase visitor numbers and visitor spend within its area. It is also taking the lead on the aspiration for the Black Country canal network to become a world heritage site as designated by UNESCO.

### Local people matter

The Council has a vision to 'Make One Council a Reality' through its CATS (Customer Access to Services) programme which has been designed to deliver a comprehensive customer service in respect of every service the Council delivers to the public irrespective of the chosen method of contact (personal visit, telephone, letter, email etc). There will be high street service centres in five key locations in the borough and key outcomes will be multiple customer service centres, kiosk access points and new standards. It has commissioned external advisors and approved a project outline which is linked to a strategic property review. Evidence of the Council turning its vision into reality is that the opening of the first centre is imminent and the programme continues to the summer of 2007. Success here is linked to target 11 of the LPSA that Dudley is finalising with the ODPM and relates to access to services. The CATS programme is being designed to deliver 100 per cent performance monitoring of all service delivery to the public.

More information on our work in this area is given later in this Letter.

On e-Government, the Council is now confident that it will deliver 100 per cent compliance with BVPI 157 well before the end of 2005.

### Safety matters

The youth service continues to provide effective targeted support for young people from the most vulnerable communities, especially those covered by Anti-Social Behaviour Act Exclusion Orders.

Falls in recorded crimes in the borough recently reported have been attributed to the effectiveness of partnership working co-ordinated through the local crime and disorder reduction partnership (CDRP). Overall reported levels are down 17 per cent, with house burglaries down 27 per cent, robbery down 30 per cent, vehicle crime down 27 per cent and violent crime down 4.5 per cent. The Council's community safety section is continuing to work to build on this success with the police and other partners.

Organisational arrangements have been rationalised. The CDRP has merged with the drugs action advisory team (DAAT), establishing a new strategic board, to improve and align the focus for community safety matters. The Council now has a fully staffed strategic community safety team, underpinned by new analytical and commissioning processes to address gaps and trends as identified. There are links to the Dudley community partnership (DCP) through common membership of the strategic board and DCP. A Council officer is involved in writing the community safety element of the DCP's 15-year community plan.

Work is also proceeding to implement the government-driven Public Protection Order (PPO) strategy and the pending performance management framework.

The Council's local public service agreement (LPSA) has a strong community safety focus. Stretch targets have been set within the agreement with respect to, vehicle crime, burglary and alcohol misuse.

### Future plans

The Council's vision and plans on regeneration and safety are set out above and in addition, there are some significant plans which set out how it will improve services and outcomes for people in Dudley. There are significant plans to improve customer access via customer service centres at five locations in the borough. This approach will also enable the Council to meet its target for e-access to services before December 2005.

In terms of the Children's Act, the Council is responding and has established a corporate strategic body with an aim to ensure children are a key focus for the Council and to assist interagency planning. It is important that the Council establishes its strategic approach with its partners so that all concerned with Services for children are clear about how the Every Child Matters agenda is to be met in Dudley.

## Other work relating to improvement priorities

### Customer access strategy

Included in Dudley's improvement plan, Customer Access to Services (CATS) is one of the Council's key action areas. Customer service standards and developing the Council as a customer facing organisation are seen as essential for achieving improvements.

In April 2004, we reported that the CATS programme was approaching the end of its high level scoping and approval phase. Amongst our key recommendations were the need to adopt a programme board structure to ensure robust priority setting and effective use of resources.

An action plan to address these issues was agreed and two areas for future Audit Commission review identified. These covered projections for process improvement and evidence of customer need.

Business process re-engineering (BPR) is now underway and it is intended that the outcomes from the BPR process will be fed into the budget setting process.

Included in our 2004/05 plan, we are reviewing your recent market research and customer satisfaction survey. We are also in the process of assessing whether your customer needs information is adequate and valid in terms of setting customer service development priorities. We are intending to validate the outcomes of your BPR analysis.

The progress of our review however, is dependent on project timescales being met and timely supply of information. We are working closely with officers to ensure this happens.

### Partnership working

The outcomes from our review of your partnership working have already been summarised above.

Following on from this, in 2004/05 we will be carrying out a review of the Council's engagement with, and participation in, the Brierley Hill Regeneration partnership and report to you as appropriate.

### Project management

Facilitated by the work of the project management improvement group in particular, you introduced a standardised corporate approach to project management through project management guidelines in March 2004.

Amongst our recommendations are the need to review governance arrangements for the future development and implementation of the guidelines. Also the guidance needs to be reconsidered with specific reference to the distinction between mandatory and optional compliance as well as complex and small/simple systems.

In the second phase of the review which is scheduled to start in early 2005, we intend to examine the project management of selected projects which are to be agreed with officers.

## Action planning

As shown in our 2003/04 audit and inspection plan, we have reviewed your progress on cascading the results of corporate improvement work into directorate and service work. This approach also included review of arrangements for action taken to improve performance in a number of service areas.

Our draft report has now been discussed with officers and initial findings show that the Council's 'making the difference programme' and other corporate initiatives to drive improvement have begun to make a positive impact on directorate planning. However, at service level the impact of improvement activity is less well established, although there are some examples of good practice which could be disseminated.

## Local Public Service Agreement (LPSA) monitoring

The Council and the Office of the Deputy Prime Minister (ODPM) are close to concluding an LPSA agreement covering 12 cross-directorate performance targets.

Our review which is currently underway considers the Council's approach to monitoring its performance against the LPSA. This includes investigation of strategy development and action plans to meet targets as well as the adequacy of the Council's arrangements for setting, monitoring and reviewing progress in the LPSA target areas.

On the conclusion of our work, we will discuss any issues arising as appropriate and agree a way forward with you.

## Other Audit Commission Inspections

The results of our inspection of waste, strategic housing and supporting people have already been summarised earlier in this Letter.

## Working with other inspectorates and regulators

An important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators who also review and report on the Council's performance. These include:

- Ofsted;
- Commission for Social Care Inspection (CSCI);
- Benefits Fraud Inspectorate (BFI);
- DfES; and
- Local Government Office contact.

We share information and seek to provide 'joined up' regulation to the Council. During the last year the Council has, in addition to the assessments for CPA purposes, received one assessment from other inspectorates.

CSCI carried out an inspection of children's services in Dudley. The inspection team concluded that some people were well served by the Social Services Directorate and that prospects for further improvement of children's services were promising.

## Accounts and governance

### Audit of 2003/04 accounts

*We gave an unqualified opinion on the Council's accounts on 1 October 2004. The Council is well placed to meet tighter statutory timetables for the annual production of accounts. Corporate finance officers have responded well to the requirement for revised disclosures on pension costs. In line with statutory requirements, the Council produced a Statement of Internal Control.*

### Matters arising from the final accounts audit

The published accounts are an essential means by which the Council reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources. The Audit Committee approved the Council's annual accounts on 26 August 2004, in line with statutory requirements.

Timeliness in producing the accounts will become increasingly important over the next few years as the deadline for completion of the accounts is brought forward in line with the Government's requirement. Whilst the accounts have been prepared to meet the requirements this year as in previous years, the deadlines will become increasingly difficult to achieve. However, based on current processes and with careful planning, the Council is well placed to respond to these requirements.

Officers responded well to the extra disclosure requirements of FRS17 in 2003/04.

These clearly identify net pension fund liabilities in the statement of accounts. As for other authorities in the West Midlands Pension Fund, consideration will need to be given to the financial implications on contribution rates of the actuary's review in 2004/05.

### Report to those with responsibility for governance in the Council

We are required by professional standards to report to those charged with governance (in this case the Audit Committee) certain matters before we give an opinion on the financial statements.

As for 2002/03, the accounts presented for audit contained only trifling errors and consequently there were no significant matters we needed to report to the Audit Committee for 2003/04.

## Financial standing

*Continued effective financial management has resulted in maintenance of levels of earmarked reserves in line with good practice. General fund balances remain in excess of £3 million.*

*However the Council continues to be subject to considerable financial pressures and linking spending to Council priorities remains a challenge. Members will need to be aware of the revenue implications of future funding decisions.*

### General fund spending and balances

General fund balances continue to exceed £3 million (see Exhibit 1). As in previous years, it is planned that these balances will primarily be used to fund spending in the subsequent year ie 2004/05.

#### EXHIBIT 1

##### Reserves

	2003/04 £m	2002/03 £m	2001/02 £m
General Fund Balances	3.2	3.8	2.2
Earmarked reserves (including insurance fund)	33.0	26.3	26.5
<b>Total</b>	<b>36.2</b>	<b>30.1</b>	<b>28.7</b>

However, the Council's medium-term financial planning will need to consider the sustainability of current and future expenditure in determining potential use of reserves and the use of prudential borrowing. Revenue implications of funding decisions will need to be considered as part of the risk assessment process.

Although earmarked reserves have increased by almost £7 million, most of the increase reflects the need to fund the Council's priority capital schemes. As part of the Council's medium-term forecasting and 2005/06 budget setting, a full review of earmarked reserves is due to be undertaken in line with normal practice.

Following a beneficial technical adjustment to HRA subsidy, the authority achieved a surplus of £1.5 million with HRA balances increasing from £2.4 million to £4.0 million. However, as reported in the HRA Business Plan, the Council will need to finance delivery of the Decent Homes Standard by 2010 and continues to face financial pressures as a result.

### Revenue outturn

You continue to demonstrate robust budgetary control procedures resulting in good financial management (Exhibit 2).

#### EXHIBIT 2

#### Revenue outturn

	Approved Budget £000 2003/04	Outturn £000 2003/04
Total net service costs	312,268	312,103
Use of reserves	(1,311)	(1,146)
Amount to be met by government grants and local taxpayer	310,957	310,957

Sound financial management is also reflected in the Housing Revenue Account outturn which showed a small surplus of £20,000, compared with a forecast deficit of £18,000.

### Capital programme

Whilst there was some slippage on the capital programme, this was mainly due to a delay in payments on one specific regeneration project. The capital outturn for 2003/04 was £64.3 million compared to a budget of £71 million. Whilst the relative level of borrowing to fund the programme has increased from 22 per cent to 28 per cent from 2002/03, this is within a well controlled financial management framework. As at December 2004, forecast outturn reflects the budget for the 2004/05 capital programme.

### Income collection and arrears

The Council continues to report high income collection rates and low levels of arrears. Both NNDR and Council tax collection rates continue to be very high, with the latter rising once again to 97.7 per cent.

Housing rent arrears continue to fall for both current and former tenants. As at 31 March 2004, current tenant arrears stood at £1.5 million, falling by £150,000 in the year.

### Pensions Fund deficit

In our previous audit letter we commented on the Council's financial planning processes which incorporate the impact of changes in on-going contribution rates to the West Midlands Pension Fund.

For 2003/04, the Council reported the total cost of its net pension fund liabilities at just over £126 million: a reduction from £159 million in 2002/03. It is intended that this will be taken into account in determining revised future contribution rates, when the results of the actuary's current review of pension fund contribution rates is known.

The Council continues to be proactive in managing its contribution to the pension fund and this has resulted in rates remaining unchanged for 2004/05.

### Systems of internal financial control

*During 2003/04 the Council has implemented a code of corporate governance which aims to strengthen the internal control environment.*

*Audit Services continue to meet key responsibilities and produce good quality work which meets CIPFA standard.*

In line with best practice, the Council's internal control environment has been strengthened in 2003/04 with the production of a code of corporate governance in line with CIPFA/SOLACE guidance. It has also established corporate guidelines for managing new projects.

Formal review and report back on the impact of the code will be essential to demonstrating its effectiveness. You are planning to carry out this review annually.

### Audit services

2003/04 was the final year of the four-year audit strategic plan. As a result of staff turnover and maternity leave, the full establishment for Audit Services was reduced by the equivalent of more than one full post for the year. However 93 per cent of planned work was completed by the end of the year. Although this has reduced slightly since 2002/03 (96 per cent), performance still remains above the 90 per cent good practice benchmark.

Once again our review of Audit Services confirmed that CIPFA standards are being met and good quality work is produced.

As requested by the Council, due to a shortfall in Audit Services resources as already stated, we have undertaken a wider range of high level control testing for 2003/04 opinion purposes. We did not identify any systems weaknesses which would have a material impact on your financial systems as a result of this work.

### Standards of financial conduct and the prevention and detection of fraud and corruption

*Your overall arrangements have been improved with the approval of an anti-fraud and corruption policy. Further work is required to raise the level of fraud awareness across the Council.*

The anti-fraud and corruption policy was approved and endorsed by members in July 2004. The policy which brings together existing policy elements already in place, for example whistleblowing, will provide a basis for raising the level of fraud awareness across the Council.

Although some initial action has been taken to disseminate awareness through directorate manager forums, there now needs to be a more systematic approach across the Council.

### Legality of transactions

We have not identified any significant weaknesses in the framework established by the Council for ensuring the legality of its significant financial transactions.

### Risk management

During 2003/04 the Council has carried out a thorough and measured approach to producing a corporate risk register involving all directorates. Audit services in particular have played a key role in this process.

The Council's Statement on Internal Control acknowledges this area as a significant internal control issue. Consequently further work is needed to embed the process across the authority which includes:

- wider engagement of members in the process;
- identification of corporate risks and using the risks identified to help the decision making process; and
- developing procedures to review the risk register on a periodic basis to ensure it is being used effectively.

### Corporate Financial System (CFS)

Through on-going liaison with the project team, and based on current projections, the authority appears to be on target to implement CFS from April 2006. Whilst we have not yet carried out a detailed review, officers continue to involve us with developments. We aim to ensure that these liaison arrangements continue as the effective operation of CFS is fundamental to the Council's internal control environment.

### Other work

#### Grant claims

Over recent years the number of claims requiring audit certification has grown and audit fees have risen in line with this growth. In accordance with strategic regulation, the Audit Commission has adopted a more risk-based approach to the certification of grant claims. With effect from 2003/04 the smaller claims have not been subject to audit or have received a lighter touch. The approach to larger claims has been determined by risk and the adequacy of the Council's control environment.

The Council's arrangements for managing and quality assuring grant claims submitted for audit has improved in 2003/04. In particular we have noted:

- improvement in working papers supporting some claims; and
- introduction of a system to formally document supervisor checks of grant claims prior to submission for audit.

We will continue to work closely with officers to support this improvement.

## National Fraud Initiative

The NFI, which is undertaken every two years, brings together data from local authorities, NHS bodies, government departments and other agencies, to detect a wide range of frauds against the public sector. In Dudley MBC the use of NFI is well established in detecting and leading to action on benefit fraud in particular. Where action has been taken in other areas, no significant issues have been identified.

## Looking forward

### Future audit and inspection work

We have an agreed plan for 2004/05 and we have reported in this letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2004/05 accounts, will be reported in next year's Annual Letter. Our planned work, together with that of other inspectorates, is included on both the Audit Commission and LSIF (Local Services Inspectorates Forum) websites.

We have sought to ensure, wherever possible, that our work relates to the improvement priorities of the Council. We will continue with this approach when planning our programme of work for 2005/06. We will seek to reconsider, with you, your improvement priorities in the light of the latest CPA assessment and your own analysis, and develop an agreed programme by 31 March 2005. We will continue to work with other inspectorates and regulators to develop a co-ordinated approach to regulation.

Some key areas of work included in our audit plan for 2004/05 issued in June 2004 include:

- inspection of cultural services;
- review of progress on implementing your procurement strategy;
- corporate workforce planning including implementation of single status; and
- review of specific partnership arrangements.

## Revision to the Code of Audit Practice

The Audit Commission has consulted on a revised Code of Audit Practice for application to the audit of the 2005/06 accounts. The new Code, which will be laid before Parliament in January 2005, is designed to secure:

- a more streamlined audit, which is proportionate to risk and targeted on areas where auditors have most to contribute to improvement;
- a stronger emphasis on value for money, focussing on bodies' corporate performance and financial management arrangements (rather than individual services and functions); and
- better and clearer reporting of the results of audits.

Further details will be provided in the Audit and Inspection Plan 2005/06.

## CPA 2005 and beyond

The Audit Commission has also consulted on a new framework for CPA in 2005 and beyond. The main changes proposed are as follows:

- rationalisation of service blocks;
- 'achievement' assessment element of Corporate Assessment to be driven by review of Community Plan and shared priority themes;
- a move away from the rigid numerical model, to one based on rules;
- corporate assessments to be undertaken on a rolling programme, integrated with Joint Area Reviews of children and young people;
- stronger focus on service delivery for users and customers; and
- more robust and explicit view of vfm and cost-effectiveness.


## Closing remarks

This letter has been discussed and agreed with the Director of Finance and Chief Executive. A copy of the letter will be presented at the Audit Committee and Executive in early 2005.

As in previous years, the Council has taken a positive and constructive approach to our audit and inspection. Once again, we would like to take this opportunity to express our appreciation for the Council's assistance and co-operation.

## Availability of this letter

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



**John Gregory**  
District Auditor



**Gary Stevens**  
Relationship Manager

January 2005

## Status of our reports to the Council

*Our annual audit and inspection letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Annual audit and inspection letters are prepared by relationship managers and appointed auditors and addressed to members and officers. They are prepared for the sole use of the audited and inspected body, and no responsibility is taken by the Audit Commission or its appointed auditors to any member or officer in their individual capacity, or to any third party.*



## Auditor's report to Dudley Metropolitan Borough Council on its Best Value Performance Plan for 2003/04

### Certificate

I certify that I have audited Dudley Metropolitan Borough Council's Best Value Performance Plan in accordance with Section 7 of the Local Government Act 1999 and the Audit Commission's Code of Audit Practice. I also had regard to supplementary guidance issued by the Audit Commission.

### Respective Responsibilities of the Authority and the Auditor

Under the Local Government Act 1999 (the Act) the Council is required to prepare and publish a Best Value Performance Plan summarising the Council's assessments of its performance and position in relation to its statutory duty to make arrangements to secure continuous improvement to the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

The Council is responsible for the preparation of the plan and for the information and assessments set out within it. The Council is also responsible for establishing appropriate performance management and internal control systems from which the information and assessments in its plan are derived. The form and content of the Best Value Performance Plan are prescribed in Section 6 of the Act and statutory guidance issued by the Government.

As the Council's auditor, I am required under Section 7 of the Act to carry out an audit of the Best Value Performance Plan, to certify that I have done so, and:

- to report whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in Section 6 of the Act and statutory guidance and, where appropriate, recommending how the plan should be amended so as to accord with statutory requirements;
- to recommend:
  - where appropriate, procedures to be followed in relation to the plan;
  - whether the Audit Commission should carry out a best value inspection of the Council under Section 10 of the Local Government Act 1999; and
  - whether the Secretary of State should give a direction under Section 15 of the Local Government Act 1999.

### Opinion

#### Basis of this opinion

For the purpose of forming my opinion whether the plan was prepared and published in accordance with the legislation and with regard to statutory guidance, I conducted my audit in accordance with the Audit Commission's Code of Audit Practice. In carrying out my audit work, I also had regard to supplementary guidance issued by the Audit Commission.

I planned and performed my work so as to obtain all the information and explanations, which I considered necessary in order to provide an opinion on whether the plan has been prepared and published in accordance with statutory requirements.

In giving my opinion I am not required to form a view on the completeness or accuracy of the information or the realism and achievability of the assessments published by the Council. My work therefore comprised a review and assessment of the plan and, where appropriate, examination on a test basis of relevant evidence, sufficient to satisfy me that the plan includes those matters prescribed in legislation and statutory guidance and that the arrangements for publishing the plan complied with the requirements of the legislation and statutory guidance.

Where I have qualified my audit opinion on the plan I am required to recommend how the plan should be amended so as to comply in all significant respects with the legislation and statutory guidance.

### **Opinion**

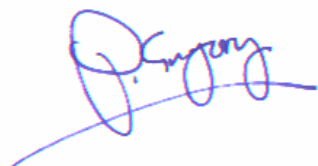
In my opinion, Dudley Metropolitan Borough Council has prepared and published its Best Value Performance Plan in all significant respects in accordance with section 6 of the Local Government Act 1999 and statutory guidance issued by the Government.

### **Recommendations on referral to the Audit Commission/Secretary of State**

I am required each year to recommend whether, on the basis of my audit work, the Audit Commission should carry out a best value inspection of the Council or whether the Secretary of State should give a direction.

### **On the basis of my work:**

- I do not recommend that the Audit Commission should carry out a best value inspection of Dudley Metropolitan Borough Council under section 10 of the Local Government Act 1999; and
- I do not recommend that the Secretary of State should give a direction under section 15 of the Local Government Act 1999.



**23 December 2004**

**John Gregory  
District Auditor**

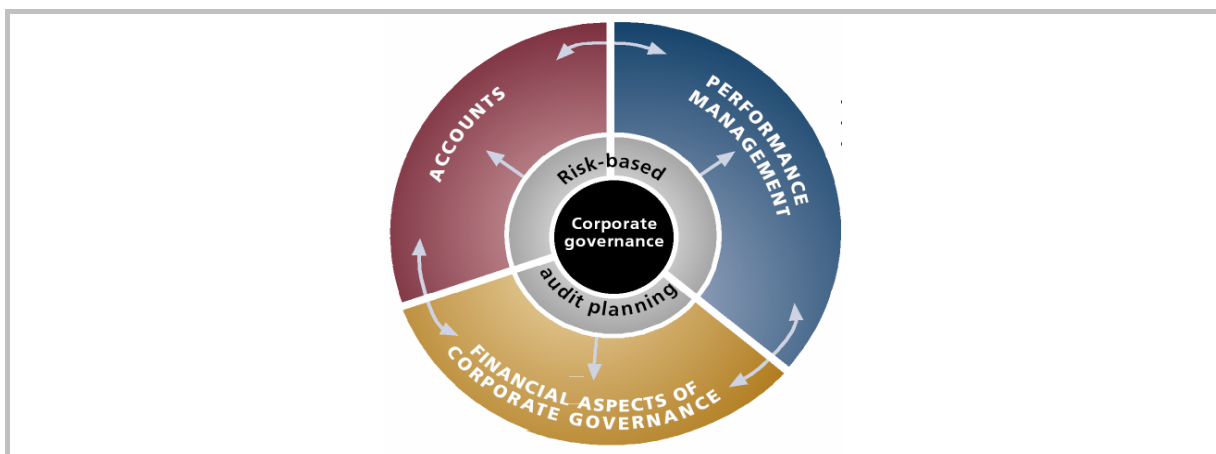
## Scope of audit and inspection

### Audit

Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.

Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Exhibit 3.

**EXHIBIT 3 THE THREE MAIN ELEMENTS OF OUR AUDIT OBJECTIVES**



#### Accounts

- Opinion.

#### Financial aspects of corporate governance

- Financial standing.
- Systems of internal financial control.
- Standards of financial conduct and the prevention and detection of fraud and corruption.
- Legality of transactions.

#### Performance management

- Use of resources.
- Performance information.
- Best Value Performance Plan.

## Inspection

Inspection work is based around Section 10 of the Local Government Act 1999, which requires us to carry out inspections and deliver reports that will:

- enable the Council and the public to judge whether best value is being delivered;
- enable the Council to assess how well it is doing;
- enable the Government to assess how well its policies are being implemented; and
- identify failing services where remedial action may be necessary.

The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.

## Audit and inspection fees

### Audit fee update

Audit area	Plan 2003/04	Actual 2003/04
Accounts	78,000	78,000
Financial aspects of corporate governance	49,800	49,800
Performance	130,071	130,071
<b>TOTAL CODE OF AUDIT PRACTICE FEE</b>	<b>257,871</b>	<b>257,871</b>
Grant Claim certification	80,000	102,000
Additional Voluntary work (under Section 35)	n/a	

The actual cost of grant claim certification work reflected an increased number of claims requiring certification during the year, which were not included in the original plan.

### Inspection fee update

The full year inspection fee is £106,155. The work reported in this audit and inspection letter has been funded by an element of the fee covering 2003/04 and by an element of the fee covering 2004/05. In both years the actual fee will be in line with that planned.