

Annual Audit and Inspection Letter

March 2008



Annual Audit and Inspection Letter

Dudley Metropolitan Borough Council

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles.

- Auditors are appointed independently from the bodies being audited.
- The scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business.
- Auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998, the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

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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Key messages

- 1 The key messages for the Council included in this report are as follows.
 - The Council is improving well and for the first time we have assessed it overall as a four-star Council, the highest score available. This has resulted from steady improvement over a number of years, with three service areas (adult social care, housing and benefits) now awarded the maximum score of 4 and none with a score below 3.
 - The Council continues to manage its resources effectively, with an overall score of 3 for this area. We have identified some areas for further improvement including asset management and risk management in partnerships.
 - We were again able to give an unqualified opinion on the Council's annual accounts for 2006/07. The accounts were produced very promptly and we were able to give our opinion comfortably within the statutory deadline.
 - The Council's physical regeneration schemes are backed by a sound and prioritised strategic framework and our main concern is whether the Council's resources are becoming over-stretched in implementing them.
 - While there is a sound corporate performance management framework, more work needs to be done to apply this consistently at service level and to ensure further development of outcome-based targets.
 - Dudley, along with other West Midlands authorities, needs to build on the recent efforts to increase bus patronage.

Action needed by the Council

- 2 The key actions needed by the Council have been outlined in the separate reports we and the other inspectorates have produced during the year. They include:
 - continue to provide effective support to schools in the teaching and assessment of mathematics;
 - work with schools to help reduce the number of exclusions, especially at secondary schools;
 - continue working with partners to reduce delayed discharges;
 - consolidate recent improvements in accessing substance misuse services and planned discharge from treatment programmes;
 - review its officer capacity and the extent of its in house professional expertise to deliver its planned major regeneration projects;
 - continue to take action to improve performance in planning and cultural services;

- continue to work with partners to increase bus use;
- continue to assess the financial impact of single status and equal pay back pay; and
- continue to develop risk management and asset management arrangements.

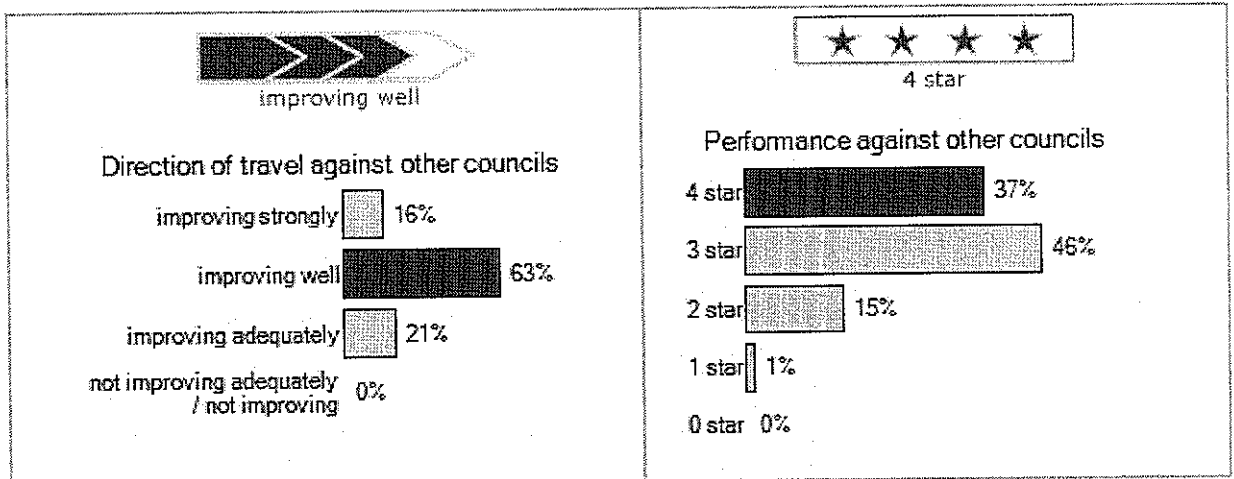
Purpose, responsibilities and scope

- 3 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) and the findings and conclusions from the audit of the Council for 2006/07.
- 4 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.
- 5 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.
- 6 As your appointed auditor I am 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, I review and report 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.
- 7 This letter includes the latest assessment of 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.
- 8 We have listed the reports issued to the Council relating to 2006/07 audit and inspection work at the end of this letter.

How is Dudley Council performing?

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

Figure 1



Councils with a CPA star rating under review or with a direction of travel judgement that is subject to review are excluded from this analysis

Source: Audit Commission

- 10 The detailed assessment for Dudley Council is as follows.

Our overall assessment - the CPA scorecard

Table 1 CPA scorecard

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

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

- 11 Our summary of the Council's improvement, published as part of the scorecard, is as follows.

Dudley Metropolitan Borough Council is improving well. It is improving in priority services and continues to increase the impact of its wider community role. The extent of improvement compared to other councils is good. The external assessment score for adult social care was 'excellent' and the assessment identified several significant improvements and excellent capacity for sustaining improvement. Children's services maintained the 'good' external rating from 2006. There have been significant improvements in educational achievement, including the achievements of children in care and in improving the quality of 14–19 education and training. The housing service was again assessed with the highest score and the Council also maintained an 'excellent' rating for its housing benefit service. Good progress has been made in regeneration where ambitious plans are about to be implemented in key areas of the borough. The Council makes a positive contribution to wider community outcomes such as working with diverse communities to strengthen cohesion. Strong partnership working has led to a continued decline in crime levels. Value for money continues to improve and the Council has good capacity with its partners to make future improvements.

The improvement since last year - our Direction of Travel report

Children and young people

- 12 Children's services have maintained the 'good' rating from 2006. Ofsted's annual performance assessment found that the Council's capacity to improve is also good. The Council has responded well to the recommendations made in the 2006 joint area review and there have been significant improvements in educational achievement. The Council has made good progress in improving the quality of 14 to 19 education and training and has increased the provision of programmes to prepare young people for employment.
- 13 Ofsted's annual performance assessment has identified a number of areas for development. These include:
- improving results in mathematics in primary schools and in the first three years of secondary;
 - reducing the number of exclusions, especially at secondary schools; and
 - reducing young people's fear of crime and anti-social behaviour.

Social care (adults)

- 14 The Commission for Social Care Inspection (CSCI) judged that the Council's social care services are delivering excellent outcomes and that the Council has excellent capacity to improve.
- 15 CSCI's annual performance assessment identified a large number of strengths in the Council's social care services. For example, CSCI found that:
- people are well informed about the services that are available in the borough;
 - consultation with service users is wide ranging and directly influences outcomes for people;
 - there is a wide range of traditional and innovative services available to ensure that older people can remain in their own homes if they wish to do so; and
 - high numbers of people with a physical disability are helped to live at home.
- 16 CSCI's annual performance assessment also identified some key areas for improvement, such as:
- reducing delayed discharges; and
 - consolidating recent improvements in accessing substance misuse services and planned discharge from treatment programmes.

Housing

- 17 The Council has maintained its maximum CPA score of 4 which was first awarded in 2006. This reflects the Council's strong performance in preventing homelessness, timeliness of repair and maintenance work and energy efficiency.

Environment

- 18 The Council is performing well in this service area and has above average performance in a number of areas, such as:
- cleanliness of public places;
 - reducing road casualties;
 - building homes on previously developed land; and
 - consumer and business satisfaction with trading standards services.
- 19 One area in which the Council performs comparatively poorly is the percentage of planning appeals allowed against the Council's decision to refuse a planning application.

Culture

- 20 The Council's performance has improved in this service area and this is reflected in an increase in the CPA score from 2 in 2006 to 3 in 2007. The Council has above average performance in a number of service areas, such as:
- resident and user satisfaction with libraries;
 - library service standards on ICT provision and stock; and
 - museums accreditation.
- 21 As in 2006, the Council has below average performance in respect of:
- the percentage of adults participating in at least 30 minutes of moderate intensity sport and active recreation on three or more days a week; and
 - the percentage of the population that are within 20 minutes travel time of a range of three different sports facility types.

Benefits

- 22 The Council has maintained its maximum CPA score of 4 which was first awarded in 2006. This reflects the Council's strong performance in benefit administration and counter-fraud activities.

Use of Resources

- 23 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).
- 24 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in these five areas as follows.

Table 2 Use of resources scores

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, as reflected in the above judgements where appropriate, are as follows.

Financial reporting

- 25 The Council continues to perform well in financial reporting. The audit of the 2006/07 accounts is covered in greater detail in a later section of this letter.

Financial management

- 26 Overall, the Council performs well on financial management. We have seen improvements in the Council's medium term financial strategy over the last year and management of performance against budgets continues to be a strength. There is scope for the Council to further improve its asset management arrangements. In particular, the Council needs to develop a set of local performance measures which evaluate asset use in relation to corporate objectives.

Financial standing

- 27 The Council's financial position continues to be well managed. In 2006/07, the Council contained spending within overall budgets and there were no significant underspends or overspends. General Fund balances increased from £3.3m to £11.5m between the start and the end of the financial year. This increase was due to balances, which had previously been treated as earmarked reserves and provisions, being transferred to General Fund balances. This was the outcome of a review of the purposes for which these earmarked reserves and provisions were being held. The effect of the estimated outturn for 2007/08 on the General Fund balance of £11.5m was reported to Cabinet on 9 January 2008. It was estimated that £6.9m of these balances would be used to support spending in 2007/08. This would have had the effect of reducing General Fund balances to £4.6m at the end of the financial year. However, the Council has performed a further review of earmarked reserves which identified £3m to be transferred to General Fund balances at 31 March 2008. This means that the Council will have General Fund balances of £7.6m available to support spending in 2008/09 and later years.
- 28 The final costs of single status and equal pay back pay remain uncertain. The Council has made provision in its forward plans for the total ongoing costs of single status and equal pay back pay but this will need to be reviewed as revised pay and grading structures and back pay levels are agreed with staff.
- 29 Council Tax collection rates rose slightly in 2006/07 compared to the previous year and the Council's performance continues to rank in the upper quartile for metropolitan authorities. Business rates collection rates stayed at the same level in 2006/07 as in the previous year and continue to be below average for metropolitan authorities. There was an increase in the collection rate for housing rents and the Council's performance now ranks in the upper quartile for metropolitan authorities.

Internal control

- 30 The Council has a sound system of internal control in place and performs well on promoting and ensuring probity and propriety in the conduct of its business. The Council continues to improve its risk management arrangements but further improvements are needed if the Council is to be assessed as performing well in this area. In particular, the Council needs to ensure that its risk management process considers risks in relation to significant partnerships and provides for assurances to be obtained about the management of those risks.

Value for money

- 31 The Council continues to provide value for money and has good arrangements in place to manage and improve value for money. This is demonstrated by the fact that the Council continues to have a low Band D Council Tax in comparison to comparable, and neighbouring, local authorities.

The audit of the accounts and value for money

- 32 As your appointed auditor, I have reported separately to the Audit Committee on 20 September 2007 the issues arising from our 2006/07 audit and have issued:
- my audit report, providing an unqualified opinion on your accounts and a conclusion on your vfm arrangements to say that these arrangements are adequate on 24 September 2007; and
 - my report on the Best Value Performance Plan confirming that the Plan has been audited.
- 33 My report to the Audit Committee on 20 September 2007 did not contain any significant issues in respect of the accounts which need to be reported in this letter.
- 34 My report concluded that the Council had adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources - the value for money conclusion. We performed a number of specific pieces of work to assist us in reaching this conclusion. The findings from these pieces of work are detailed further below.

Major regeneration projects and their partnerships

- 35 Our work focussed on the Brierley Hill, Castle Hill and Dudley town centre regeneration projects. We found that the Council has a sound and prioritised strategic framework within which all its major regeneration projects sit. It is proactive and successful in obtaining external resources with which to deliver them and makes considered decisions based on risk and best value about how best to implement them. The Council's prioritisation of Brierley Hill and Castle Hill/Dudley has a clear rationale based on comprehensive borough and ward level economic information and needs analysis.
- 36 The Council has a very successful ten year track record of major project regeneration in Brierley Hill and of partnership working through the linked Brierley Hill Regeneration Partnership (BHRP). The Castle Hill/Dudley regeneration projects will shortly reach delivery stage and the Council intends to draw on the good practice in Brierley Hill.
- 37 The most significant risk that the Council faces in delivering regeneration projects is its capacity being over-stretched. In addition to the Brierley Hill and Castle Hill/Dudley projects, the Council has also prioritised three further town centres and five smaller centres. Our work also found that the Council has an excessive number of partnerships on its partnerships database. It is not clear that all of these are partnerships within the Council's definition and if they are adding a value to the Council's objectives commensurate with the officer resources expended on them. No review has been carried out to date.

- 38 The Council's corporate arrangements for partnership working and major regeneration project management have not been the subject of a scrutiny review. The corporate arrangements have great importance in terms of their impact on capacity, efficiency and governance. Without consideration within the future programme for overview and scrutiny, it will not be clear how effective they actually are.
- 39 Therefore our key recommendations are that the Council:
- review its partnership database and consider withdrawing from any forums that are not partnerships and which do not add value to its priority objectives; and
 - review its officer capacity and the extent of its in house professional expertise to deliver its planned major regeneration projects.

Performance management and target setting

- 40 The CPA Corporate Assessment, which was reported in last year's letter, found that the Council's performance management arrangements have been strengthened but that they were not being applied consistently and rigorously throughout the Council. Our work reviewed this area in greater detail and found that:
- good corporate arrangements for performance monitoring and reporting are in place but there are different formats used for reporting at a service level which can disguise poor practice;
 - there is a clear corporate approach to managing individual performance but guidance on dealing with poor performance is unclear;
 - the performance management culture is still developing and corporate processes are not fully embedded within individual services; and
 - resources and performance are not reported together at a priority level which can make it difficult to judge whether the delivery of individual priorities represents value for money.
- 41 The CPA Corporate Assessment report also found that the Council needed to focus more on outcomes rather than outputs. Our work in this area found that the Council is moving towards more outcome focussed indicators. However, this still has to be embedded within service departments. Departmental target setting is not always ambitious and corporate policy is not fully reflected in service targets. There is evidence that scrutiny of corporate targets has led to targets being improved to make them more challenging.
- 42 Therefore our key recommendations are that the Council:
- report resources and performance together at a priority level; and
 - ensures that corporate target setting guidelines are being followed at service level to deliver challenging and outcome focussed targets.

Increasing bus use in the West Midlands

- 43 The West Midlands metropolitan councils and Centro-WMPTA have committed themselves to increasing bus use but, despite delivering a number of significant schemes to improve the bus infrastructure, the overall long-term decline in bus use has continued. Passenger numbers fell by 11 per cent between 2000/01 and 2005/06 in the West Midlands with a further fall in 2006/07. A step change is required if the decline is to be arrested, and further change if the target for increasing bus use is to be achieved.
- 44 Accordingly we carried out a cross-cutting project across Centro-WMPTA and the seven West Midlands metropolitan councils. This assessed the arrangements that these organisations have in place to address the decline in bus use. We concluded that, whilst there is no 'magic bullet' or single solution that will reverse the decline in bus use, a range of integrated and sustained actions are required if performance is to improve. The authorities are now taking a more constructive approach to partnership at the strategic level - both amongst the authorities themselves and also with the bus operators. However, a clear and comprehensive agreement on the way forward, owned by all relevant partners, is lacking. We identified three main areas where lessons need to be learnt from past performance.
- Partnerships - the collective resources of Centro-WMPTA, the metropolitan councils and bus operators have not been used to full effect to improve bus use. Results have been achieved, such as the Safer Travel Police Team and Network West Midlands, but there is an acknowledgement that more could have been achieved, and that much more needs to be achieved if the challenging target is to be reached. There are clear aims and strategies for the improvement of bus services in the West Midlands. However, their effectiveness is limited by a lack of shared understanding by the key agencies involved in their delivery. Crucially, the Bus Strategy and the targets are not 'owned' by the bus operators.
 - Leadership - Providing authoritative and visible leadership on bus issues has proved difficult due to the multiple organisations involved in delivery, their different and changing political complexions and their complementary but different roles and objectives. As a result, the authorities have not provided consistent, effective leadership on promoting bus use.
 - Performance management - procedures for target setting, monitoring and taking effective remedial action are not sufficiently robust. The central issue of why it is that schemes designed to increase bus use are not having the predicted impact on the target has not been regularly or rigorously addressed.
- 45 We have made a number of recommendations to Centro-WMPTA and the seven metropolitan councils which are necessary for significant progress to be made. The organisations are working together to produce an action plan in response to our recommendations.

Looking ahead

- 46 The public service inspectorates are currently developing 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.
- 47 CAA will result in reduced levels of inspection and better coordination of inspection activity. The key components of CAA will be a joint inspectorate annual area risk assessment and reporting performance on the new national indicator set, together with a joint inspectorate annual direction of travel assessment and an annual use of resources assessment. The auditors' use of resources judgements will therefore continue, but their scope will be widened to cover issues such as commissioning and the sustainable use of resources.
- 48 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 Local Area Agreements.

Closing remarks

- 49 This letter has been discussed and agreed with the Chief Executive and Director of Finance. A copy of the letter will be presented at the Audit Committee on 10 April 2008.
- 50 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 3 Reports issued

Report	Date of issue
Audit and inspection plan	March 2007
Increasing bus use in the West Midlands	August 2007
Annual Governance Report	September 2007
Opinion on financial statements	September 2007
Value for money conclusion	September 2007
Major regeneration projects and their partnerships	November 2007
Performance management and target setting	November 2007
Data quality	December 2007
Annual audit and inspection letter	March 2008

- 51 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

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

John Gregory
District Auditor and Relationship Manager

March 2008