

Annual Audit and Inspection Letter

Southampton City 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.

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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 for 2005/06 and from an analysis of the Council's performance and its improvement over the year to December 2006, as measured through the Comprehensive Performance Assessment (CPA) framework.
- 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.
- 3 The Council has continued to perform strongly and to improve the services that matter most to its residents. There have been notable achievements in the following areas.
 - Adult social care services are serving most people well and have excellent capacity to improve.
 - Services for children and young people are consistently above minimum requirements with good capacity to improve.
 - There are no longer any City schools in special measures and support to schools has improved significantly.
 - There has been significant improvement in planning, recycling and waste collection performance and public satisfaction with these services has increased.
 - The percentage of council homes that meet the decent homes standard has increased in one year from 39 per cent to 68 per cent.
 - The Council is working pro-actively with partners across urban South Hampshire to increase economic growth for the benefit of local residents.
 - The Council is achieving better value for money demonstrated by improved performance in its relatively high cost environmental services.
- 4 As part of its modernisation of support services, and in order to progress essential investment in IT facilities, the Council is seeking a strategic services partnership (SSP) with a commercial organisation. This is a major innovative project with many potential benefits for the Council but is also very complex. In deciding the way forward, the Council will need to be satisfied that the proposed deal offers better value than alternative options and has the necessary flexibility to respond to internal and external changes, and to accommodate strategic and technical developments, at an acceptable cost.

- 5 We have also identified some areas for improvement, which the Council is addressing. These include:
- Benefits service – for a few years the service has performed well below the required level because of serious management failings. New managers have been recruited and action is being taken to improve performance management, strengthen processes and controls and ensure that staff receive the training and support they need. These changes are starting to have an impact as benefit claims are now being processed more quickly.
 - Risk management – the Audit Committee is now responsible on behalf of the Council for overseeing risk management. It is important that the councillors involved receive regular training, and that the Committee receives the information it needs to judge the risks faced by the Council and how effectively those risks are being managed.
 - Governance of partnerships – partnership working is becoming an increasingly significant part of the Council's operation, and there is an associated growth in pooled budgets. There are some inconsistencies in the current governance arrangements for these partnerships and it is important that a robust and consistent approach is adopted.
 - Internal Audit – in 2005 our assessment of Internal Audit showed that they were not meeting fully any of the CIPFA standards. Major changes have been made to the structure and status of Internal Audit since that time, and it is important that the comprehensive programme of improvements is completed to ensure that Internal Audit is achieving the required standard.
 - Value for money – arrangements for benchmarking and for managing costs alongside performance have been strengthened. The Council now needs to demonstrate the outcomes from these processes, and the impact of value for money improvements on residents.
 - Debt management – the Council's collection rates for council tax and non-domestic rates have been relatively poor. Recent changes to the arrangements for managing debt appear to have been successful in turning this around. The Council needs to ensure that these improvements are sustained.

Action needed by the Council

- 6 We highlight below, particular actions arising from our work over the last year that relate to councillors' responsibilities:
- Ensure that robust and consistent governance arrangements are applied to significant partnerships that involve financial commitments.
 - Ensure that the programme of improvements to the Benefits Service, Internal Audit and debt management are completed, and recent performance improvements sustained.

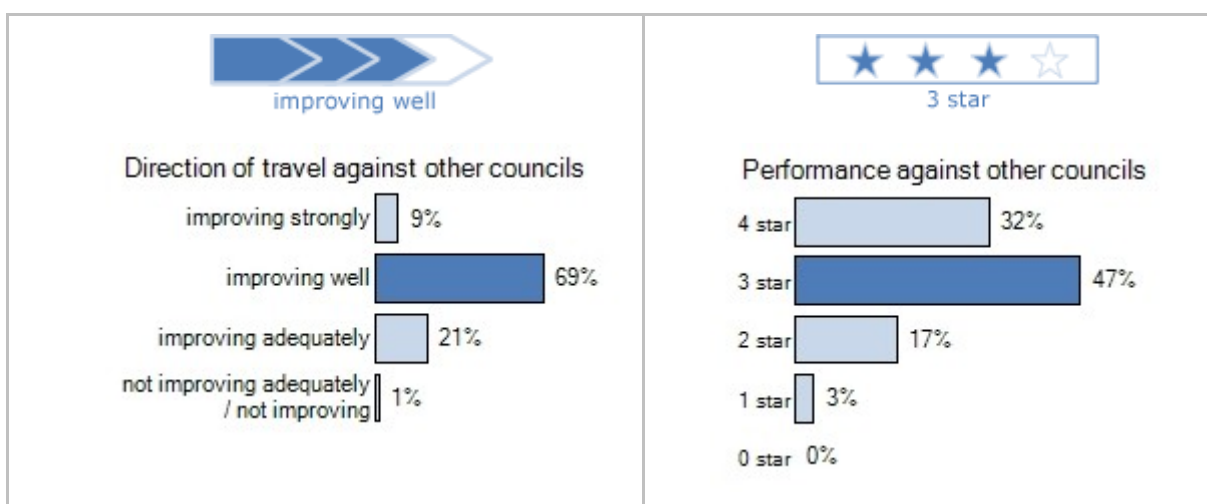
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- Ensure that councillors with risk management responsibilities are adequately trained and receive the information they need to discharge their responsibilities.
- Review the outcomes of benchmarking and value for money monitoring, and the impact on service users and residents.

How is Southampton City Council performing?

- 7 The Audit Commission's overall judgement is that the Council is improving well and we have classified it as three-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.

Table 1 Southampton compared with other councils



Source: Audit Commission

- 8 The detailed assessment for Southampton City Council is as follows.

Our overall assessment - the CPA scorecard

Table 2 CPA scorecard

Element	Assessment
Direction of Travel judgement	Improving well
Overall	3 star
Current performance	
Children and young people	3 out of 4
Social care (adults)	3 out of 4
Use of resources	3 out of 4
Housing	3 out of 4
Environment	4 out of 4

Element	Assessment
Culture	3 out of 4
Benefits	2 out of 4
Corporate assessment/capacity to improve	3 out of 4

(Note: 1=lowest, 4= highest)

The improvement since last year - our Direction of Travel report

Overall Performance

- 9 The Council has a consistent track record in improving outcomes for its residents and communities. Based on a basket of performance indicators (PIs) relating to the CPA shared priorities and corporate health, more than half showed improvement in 2005/06 and more than a quarter were within the best 25 per cent of all councils. Customer satisfaction has improved, for the Council overall and for most services including leisure and cultural facilities, with nine out of the 13 headline results in the 2006 survey being in the best 25 per cent of all unitary authorities. The Council's performance in its five priority areas is summarised below.

Tackling deprivation and inequalities

- 10 The Council has improved in most areas. Using Area Investment Framework funding the Council working with other key partners is enabling the provision of increased job and training opportunities in its most disadvantaged neighbourhoods. It is also working with partners across urban South Hampshire to increase economic growth for the benefit of local residents. The Council supports a high number of disabled people compared to the rest of the country, to enable them to attend further education establishments and to access employment. The performance of the benefit service deteriorated in 2005/06, including speed of processing claims, although the overall accuracy improved, and the service was assessed as 'fair' by the Benefit Fraud Inspectorate (BFI). However, performance has improved from April 2006, resulting in significant increases in processing speeds.

Enabling independent living

- 11 The Council has improved in most areas. The Annual Performance Assessment (APA) for adult social care concluded that the Council is serving most people well with excellent capacity to improve. Direct payments have increased and there is a high level of user satisfaction with the choice and quality of services provided. The Council has performed well in supporting and valuing carers' contributions and in the timely provision of equipment and adaptations. It is working with partners on preventative and early intervention services, and its performance on delayed transfers from hospital to social care is starting to improve in 2006/07 despite significant demand pressures. However, admissions to residential care and waiting times for a new assessment have increased. The Council is successful in supporting people with mental health problems to live at home, and is the second highest performing authority in providing treatment to problem drug users. Performance on helping people with learning disabilities to live at home has improved slightly but remains below the level of similar councils.

Lifelong learning

- 12 Educational attainment has improved and performance is comparable with similar authorities, although remaining below the national average. There were improvements in GCSE A-C grades and in some, but not all, subjects at key stages two and three. The educational qualifications of looked after children also improved. There are no longer any schools in special measures and support to schools, for example on special educational needs and exclusion, has improved significantly. School attendance has improved marginally but unfilled school places have not reduced in the last year. However, the Council is addressing this through its Learning Futures programme which is designed to reconfigure secondary school provision in the City as well as improving overall educational attainment.

Street scene and environment

- 13 Planning and recycling performance has improved strongly and waste collection, including the collection of kerbside recyclables, has also improved. The speed of processing major and minor planning applications has continued to improve. Levels of waste recycled achieved the government target. Residents of the City are more satisfied with planning, street cleanliness, waste collection and recycling. The first phase of a major highways programme has delivered road, pedestrian and street lighting improvements across the City aimed at improving road safety and minimising traffic congestion. The Council is now exploring public finance initiative (PFI) options for obtaining further investment in street lighting and roads. These developments are supported by improvements to public transport and measures to encourage walking and cycling. Bus usage and user satisfaction with bus services has increased.

Community safety and reducing crime

- 14 The Council has invested significantly in community safety initiatives although the benefit of this is not yet evident from crime statistics. The Council has substantially improved its performance on the reporting and recording of racial incidents and fewer residents are concerned about anti-social behaviour such as vandalism and drunkenness.

CPA shared priorities: sustainable and healthier communities

- 15 The Council delivered more shared ownership and other affordable homes in 2005/06 and increased the percentage of council homes meeting the 'decent homes' standard to 68 per cent from 39 per cent in 2004/05. This is in addition to the improvements in planning, recycling and transport infrastructure.
- 16 Housing improvements are helping to achieve healthier communities. These include increased energy efficiency, more houses in multiple occupation meeting government standards and more private sector homes ready for use. However, the Council has not improved the re-let times of its own housing stock since the introduction of its popular 'choice-based lettings' system. Teenage pregnancies have reduced and there is better access to dental services and healthy-lifestyle schemes for residents of the priority neighbourhoods.

CPA shared priorities: children and young people, and older people

- 17 The APA assessment of children's services concluded that the Council is serving most children and young people well, and pointed to improvements across all of the Government's priority areas as set out in Every Child Matters. The percentage of looked after children fostered or adopted increased and foster placements are more stable. More children and young people are participating in physical activity and involved in decision-making in schools. However, the number of young people not in education, employment or training has increased and this is being tackled by the Council and its partners through the City's new Local Area Agreement with the Government.
- 18 The APA assessment of adult social care services concluded that the Council is serving most adults well and has improved its services though not significantly. The Council is helping older people to live independently, but has not been able to reduce delays for older residents transferring back to the community from acute hospital settings, who require on-going high-level care and support. The Later Years Partnership is raising the profile of older people's needs and their views are now more effectively fed into Council plans through the Seniors' Council.

Access

- 19 The Council is improving access to services, including for harder-to-reach groups, and consultation with such groups is effective, for example on the plans for neighbourhood management and community hubs. The Council has progressed to level 2 of the Equality Standard and an improved number of services are now accessible on-line. Customer satisfaction with the Gateway one-stop shop service, has improved and disabled people now have access to facilities in 51 per cent of the Council's buildings, compared to 18 per cent in 2004/05. The percentage of staff from black and minority ethnic (BME) communities and those with disabilities employed by the Council remain below average. However, the Council is aiming to increase staff representation from all local communities through a wide range of recruitment initiatives including the provision of job shops within priority neighbourhoods.

Value for money

- 20 The Council is achieving better value for money. The relationship between costs and performance is a more positive one for both low and high cost services, as shown in the better outcomes for recycling and educational attainment. The Council makes better use of benchmarking to challenge value for money and is on target to achieve the three year Efficiency Review target of 7.5 per cent efficiency gains. Implementation of the new procurement strategy is starting to deliver savings although these are not yet of significant value.

Sustaining future improvement

- 21 The Council has robust corporate and service plans and strategies to enable it to deliver future improvement. These include a new Local Transport Plan which has been rated as 'Good', resulting in increased Government funding for transport initiatives in 2007/08. Plans for social care were assessed as excellent for adults and good for children and young people, and action plans have been developed for all of the City's 11 priority neighbourhoods. The Council is working effectively with its partners on the development of a Local Area Agreement which will address future challenges in relation to children and young people, health and older people, safer and stronger communities, and economic development and enterprise.
- 22 The Council achieved 88 per cent of the key challenges in its 2005/06 City Performance Plan and is implementing a range of other improvement plans. It is strengthening the management of the benefits service, improving the governance arrangements of the children and young people's partnership and taking action through the Safe City Partnership to address crime rates. The Council is improving the management of its capital programme, although the outcomes of this for current capital projects are not yet evident. The Council's performance on council tax and business rate collection worsened in 2005/06 and was below average compared to similar councils. Performance is improving in 2006/07 but the results of new measures to increase collection are expected to have more impact in 2007/08.

- 23 The Council is demonstrating improved capacity to implement its future plans and strategies. The strengthening of top management is contributing to improved outcomes for weaker services. Partnership working is improving with the Southampton Partnership achieving top rating in its assessment by the Government Office for the South east (GOSE) and the New Deal for Communities Partnership is assessed as 'good'. Risk management arrangements are stronger, with a more effective internal audit function and more robust performance management of the complex 'organisational futures' project. Sickness absence has reduced and the Council responds effectively to complaints.
- 24 As there are no significant weaknesses in these arrangements, the Council is well placed to deliver further service improvements.

Service inspections

- 25 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. Relationship Managers share information and seek to provide 'joined up' regulation to the Council. During the last year the Council has received the following assessments from other inspectorates.
- 26 The Commission for Social Care Inspection (CSCI) and the Office for Standards in Education (OFSTED) carried out an Annual Performance Assessment of the Council's services for children and young people in 2006. The results of this are reported under Lifelong Learning and CPA shared priorities above.
- 27 CSCI also carried out a performance assessment of the Council's adult social care services and the results of this are similarly reported above.
- 28 The Benefit Fraud Inspectorate (BFI) carried out an assessment for purposes of CPA 2006 and concluded that the Council was meeting only 3 of the 12 performance measures where the Department for Work and Pensions had set a Standard. This resulted in the service being assessed as 'Fair'. Key findings of the inspection were a lack of management control and assurance in the benefits team, inability of the one-stop-shop to meet its performance targets on face-to-face customer contact because of limited staff resources, and failure to provide staff with essential training. The Council has brought in new managers and is dealing with all of these issues through a re-structuring of the service and review and revision of internal processes.

Financial management and value for money

- 29 As your appointed auditor I have reported separately to the Standards and Governance Committee on the issues arising from our 2005/06 audit and have provided:
- an unqualified opinion on your accounts;
 - a conclusion on your vfm arrangements to say that these arrangements are adequate except in respect of weaknesses in arrangements for internal control, particularly Internal Audit and benefits administration, and risk management. These matters have been addressed since the end of 2005/06 and we will be re-assessing them in the next few months; and
 - a report on the best value performance plan confirming that the plan has been audited and meets the statutory requirements.
- 30 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 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).
- 31 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in these five areas as follows.

Table 3 Assessment of the use of resources, August 2006

Element	Assessment
Financial reporting	3 out of 4
Financial management	2 out of 4
Financial standing	3 out of 4
Internal control	2 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)

- 32 The key issues arising from the audit carried out in August 2006, as reflected in the above judgements where appropriate, are as follows.

Financial reporting

- 33 The financial statements were produced within the statutory deadlines, presented fairly the Council's financial position and contained only a small number of non-trivial errors, and we were able to issue an unqualified opinion. The statements were presented to councillors with an explanatory report and were subject to robust scrutiny. Notable improvements since our 2005 assessment include the provision of comprehensive and well organised supporting papers and a more effective senior officer review of the accounts before the commencement of the audit. The Council published summary accounts in a user-friendly format which, together with the City Improvement Plan, provided a comprehensive report to the public.

Financial management

- 34 The council has key plans and strategies in place including a good asset management plan. Budget monitoring and asset management processes are robust. A Medium-Term Service and Financial Planning initiative commenced this year, aimed at delivering greater integration of strategic planning and developing an appropriate, affordable resource plan for the next three years. A new Property Management Database has been implemented and is being integrated into the Council's asset management arrangements. The Council is also standardising and formalising its processes for option appraisals to support asset investment and disposal decisions. We have suggested some areas for improvement, including:
- Ensuring that there is consistent and robust governance of significant partnerships that involve joint financial commitments.
 - Reporting financial and non financial information alongside budget updates, to inform budget monitoring.
 - Ensuring the property management database is consistent with other asset records and is maintained up to date.

Financial standing

- 35 The Council has effective budgetary reporting arrangements and consistently maintains spending within budget. It has a Treasury Management strategy in place which is compliant with CIPFA standards.

Internal control

- 36** The Council's risk management processes have been further developed and significantly improved. A risk management strategy has been formally adopted, risk registers are being updated and councillors are now receiving regular reports. Internal Audit has significantly strengthened its approach and is restructuring to ensure more effective delivery, and an Audit Committee has been established. There is now a sound annual effectiveness review process to support the Statement on Internal Control (SIC) and councillors' roles in scrutinising and approving the SIC are clear. The Council promotes probity and propriety in the conduct of its business, but needs to ensure that all staff and stakeholders remain alert to the risks. We have highlighted some areas for attention:
- Ensure that relevant councillors are adequately trained in risk management and receive sufficient information to judge whether corporate business risks are being actively managed.
 - Complete the implementation of the action plan to ensure that Internal Audit meet the CIPFA code of practice standards.
 - Put in place a corporate IT business continuity plan, and processes to ensure it is reviewed and tested regularly.
 - Ensure that the code of conduct for staff and the anti-fraud and corruption policy are given a high profile, communicated throughout the organisation and regularly refreshed.

Value for money

- 37** The Council's overall spend per head of population is below average when compared with its nearest neighbours. Where comparative spending is higher than other councils, for example on waste management and transport, the Council is able to demonstrate that this is in line with its priorities. Generally there is a positive relationship between costs and performance. This is illustrated by the maximum three-star rating of the Council's relatively low-cost social services, and a CPA rating of 4 for its relatively high cost environment services together with the achievement of significantly improved recycling rates.
- 38** The Council manages its capital programme within budget. It acted promptly to address weaknesses exposed by significant overspends on three capital projects in 2005/06, and both capital programme monitoring and project management across the organisation have been strengthened. The Council has clear information on costs and has improved its use of benchmarking in high level performance reporting to enable a more robust comparison of its costs and performance. Councillors and managers are starting to performance-manage costs and service outcomes together, to identify where better value for money can be obtained. However, it is too early to demonstrate results from these improved processes.

- 39 The Council is not consistently tracking the impact of its investments and value for money improvements on users. For example, the Council is not clear whether its additional investment in a relatively high cost subsidised fares scheme has delivered the desired outcomes for users. Business efficiency targets are set for all services and the Council is on target to achieve the cumulative Efficiency Review target of 7.5 per cent gain over a three year period. The Council has a new procurement strategy and has achieved some procurement savings, although on present trends it is unlikely to meet its 2006/07 target.

Other work

Data quality

- 40 This year, for the first time, we carried out a review of the arrangements the Council has in place for ensuring the quality of its performance management data. We concluded that the Council has sound corporate arrangements for data quality in place and these are generally being applied in practice. There is scope to enhance arrangements by developing a corporate policy and strategy on data quality, strengthening controls over data sharing with external organisations, and meeting the training needs of key officers with responsibility for data quality. Our review and spot checks of eight indicators enabled us to accept seven without amendment, and one with a minor amendment.

Strategic service partnership

- 41 As part of its modernisation of support services, the Council is seeking a strategic services partnership (SSP) with a commercial organisation. This is a major innovative project with significant financial, legal and operational risks for the Council. We agreed to provide independent comment on related developments. We were not seeking to influence directly any decision the Council might take on this matter, and for this reason, our report in September 2006 presented our views in terms of questions for the Council to consider around the main risk areas. We updated these questions in our further report in March 2007, and the main ones were:
- Is the SSP affordable to the Council and if it exceeds budgetary provision how will this be met?
 - If Council or statutory requirements change, is sufficient flexibility built into the contract to respond to this and if such changes have cost implications how will these be met?
 - Is scope for strategic developments contained within the contractual terms and conditions, including price, or will the Council's strategic approach be constrained?
 - Is there sufficient technical development built into the standard bid and, should extra elements be required above those, how will these be afforded?

- 42 These issues have to be considered alongside the risks and costs associated with retaining the services in-house and financing the necessary modernisation and investment from borrowing. The final decision on awarding an SSP contract is to be taken by the full Council in July.

Health flexibilities and pooled budgets

- 43 The Health Act 1999 enabled the establishment of partnership arrangements between National Health Service (NHS) bodies and local councils, aimed at providing greater flexibility and opportunity to develop innovative approaches to user-focused services. As the Council is putting significant and increasing resources into supporting such partnerships, it needs to be sure that this is achieving value for money. We looked at current arrangements in order to obtain assurance about value for money and the management of associated risks.
- 44 We concluded that the Council and its health partners work well together and are keen to achieve effective partnership working. Several arrangements are already bringing benefits to users, and more schemes are planned. Appropriate governance arrangements are in place for individual schemes but, until recently, have been undeveloped at the strategic level.
- 45 We identified some significant risks in the arrangements. A number of projects were functioning without a finalised and agreed contract, and finalising of contracts had been hindered by, for example, a lack of good project management with clear timescales and milestones. Overall, the lack of a strong, strategic steer on partnership working was resulting in piecemeal and uncoordinated development.
- 46 We agreed with officers an action plan to address these risks and the target dates for actions have now passed. We will be following up progress as part of our current year's audit work.

Management of benefits

- 47 In 2004/05, the Council's benefits customers were not receiving a satisfactory level of service. The Council performed poorly compared to other unitary councils and failed to meet the Department for Work and Pensions (DWP) standard in key areas such as new claims and overpayment recovery. We assessed the causes of under-performance and offered views on how the structure of the service could be changed to enable improvement.
- 48 We found that the Council had failed to deal effectively with poor performance in the Benefit Service and that it was delivering poor value for money. We identified the key issues that were impeding the Council's ability to improve performance in this area, which included:
- ineffective and inconsistent performance management with little drive for service improvement;
 - high sickness levels and low staff morale, together with inadequate refresher training for staff; and
 - a lack of effective resource planning and integrated working between teams.

- 49 We suggested that there was an overriding need to address the fundamental management and performance management issues, as well as taking the opportunity of restructuring to improve performance. The Council has increased investment in the Benefit Service, brought in new managers and is introducing new structures and processes, and we have confidence these actions will address the main concerns and improve services to the customer.

Conclusion

- 50 This letter was discussed and agreed with the Chief Executive, the Director of Resources, the Council's Solicitor and the Head of Corporate Policy and performance on 14 March 2007. A copy of the letter will be presented to the Council on 21 May 2007.
- 51 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

- 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.

Stephen Taylor
Relationship Manager
March 2007