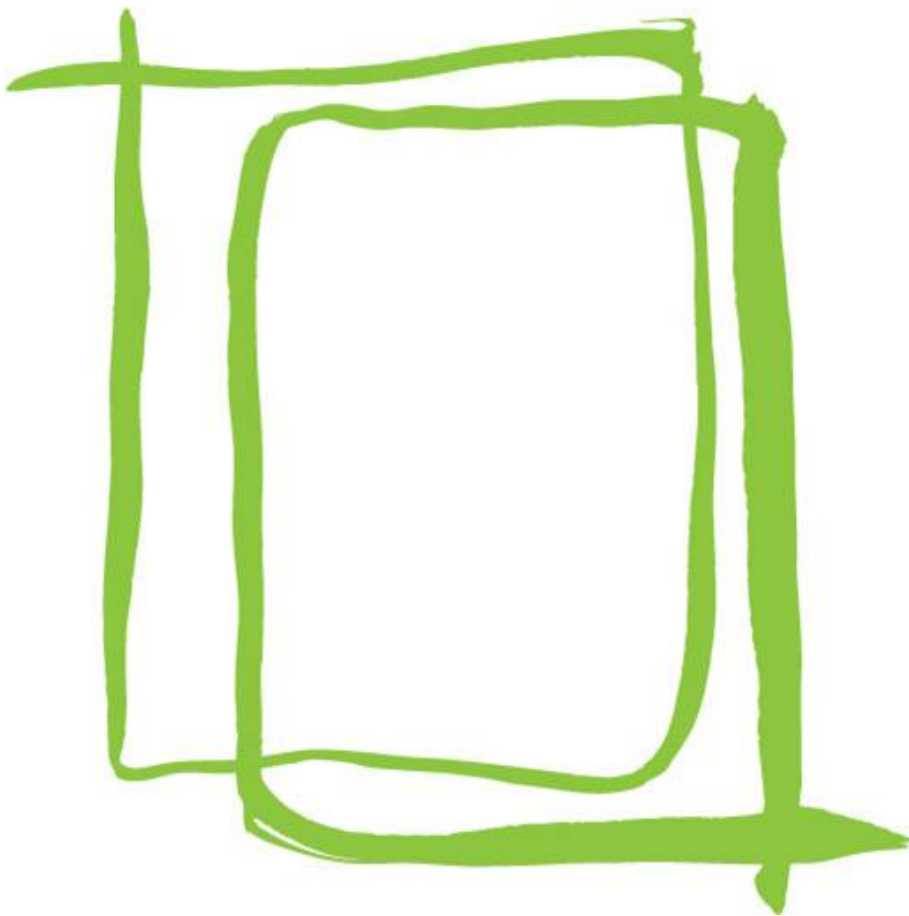


# Use of Resources

Southampton City Council

Audit 2008/09

March 2009



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## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
  - any third party.
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# Introduction

- 1 The Use of Resources assessment evaluates how well councils manage and use their resources. This is the fourth assessment carried out at the council and is the last under the CPA framework. Next year there will be a new assessment which will form part of the Comprehensive Area Assessment. The assessment of Use of Resources focuses on the importance of having strategic financial management, sound governance and effective financial reporting arrangements. These should support your Council in the achievement of its priorities and improving services, whilst delivering value for money.
- 2 This assessment relates to the financial year 2007/08 and is based on the key lines of enquiry for 2008. Changes to the criteria underpinning the key lines of enquiry were consulted on in April 2007 and the final key lines of enquiry were published in August 2007. These changes were made to:
  - reflect developments in professional guidance, legislative requirements and best practice; and
  - signal some of the changes proposed for the new use of resources under CAA, smoothing the transition to CAA.
- 3 The overall use of resources assessment is made up of five themes. Judgements have been made for each theme using the Audit Commission's scale, see Table 1 below. This scale is used across its inspection and performance assessment frameworks.

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**Table 1 Standard scale used for assessments and inspections**

1	Below minimum requirements – inadequate performance
2	Only at minimum requirements – adequate performance
3	Consistently above minimum requirements – performing well
4	Well above minimum requirements – performing strongly

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- 4 In forming our assessment, we have used the methodology set out in the Use of Resources Guidance for Councils 2008, which can be found on the Commission's web site. We have also taken account of our findings and conclusions from previous years' assessments and updated these for any changes and improvements to the Council's arrangements.
  - 5 The five theme scores for Southampton City Council are outlined overleaf. The improved scores reflect the Council's focus on implementing changes to address the areas for improvement that were previously identified in relation to financial management, internal control and the management and improvement of value for money. Following completion of national quality control, the Commission notified you of your Council's overall score for use of resources and supporting the theme scores, on 8 December 2008.

- 6 This summary sets out our key findings in relation to each theme and key areas for improvement.

# Use of resources judgements

**Table 2 Summary of scores at theme and KLOE level**

Key lines of enquiry (KLOEs)	Score 2008	Score 2007
<b>Financial reporting</b>	<b>3</b>	<b>3</b>
1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.	3	3
1.2 The Council promotes external accountability.	3	3
<b>Financial management</b>	<b>3</b>	<b>2</b>
2.1 The Council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities.	3	2
2.2 The Council manages performance against budgets.	3	2
2.3 The Council manages its asset base.	3	3
<b>Financial standing</b>	<b>3</b>	<b>3</b>
3.1 The Council manages its spending within the available resources.	3	3
<b>Internal control</b>	<b>3</b>	<b>2</b>
4.1 The Council manages its significant business risks.	3	3
4.2 The Council has arrangements in place to maintain a sound system of internal control.	2	2
4.3 The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	3	2
<b>Value for money</b>	<b>3</b>	<b>3</b>
5.1 The Council currently achieves good value for money.	3	3
5.2 The Council manages and improves value for money.	3	2

# Theme summaries

- 7 The key findings and conclusions for each of the five themes are summarised in the following tables. Areas for improvement to existing arrangements are highlighted where they relate to our assessment of level '2' and '3' criteria and will continue to be relevant to the next use of resources assessment.

## Financial reporting

<b>Theme score 3</b>	
<b>Key findings and conclusions</b>	
<p>The financial statements were again produced within the statutory deadlines, presented fairly the Council's financial position and we were able to issue an unqualified opinion before the 30 September 2008. The accounts contained only a small number of non-trivial errors that had no impact on the council's financial position at 31 March 2008, and the supporting documentation provided for audit was clear and comprehensive. The statements were presented to members with an explanatory report and were subject to robust scrutiny by members.</p> <p>The Council has demonstrated that it has received feedback on the content of the summary financial statements through the 'City View' publication, and that this has been used to inform the format of summaries that are produced. Summary data is produced in formats that are accessible and readily understandable by the public.</p>	
<p>KLOE 1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.</p>	<p>Auditor's discretion has been exercised in relation to a minor delay in the completion of the audit of the 'whole of government accounts' return. We did not consider this significant enough to warrant a reduction in the score of 3.</p>
<p>KLOE 1.2 The Council promotes external accountability.</p>	

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### Financial management

<b>Theme score 3</b>	
<b>Key findings and conclusions</b>	
The integration of service and financial planning within the medium term service and financial plan has assisted the Council to ensure that financial planning is driven by corporate policies and priorities. The Council has built upon its robust budget process by beginning to utilise performance information to help explain variations between actual and budgeted expenditure. The Council has an effective property management database and asset register, both of which are fully embedded.	
KLOE 2.1 The Council's medium-term financial strategy (MTFS), budgets and capital programme are soundly based and designed to deliver its strategic priorities.	
KLOE 2.2 The Council manages performance against budgets.	
KLOE 2.3 The Council manages its asset base.	

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**Financial standing**

<b>Theme score 3</b>	
<b>Key findings and conclusions</b>	
<p>The Council has effective budgetary reporting arrangements and consistently maintains spending within budget. There are target levels for reserves, although these are frequently exceeded. A Treasury Management strategy is in place and is compliant with CIPFA standards. There is scope to improve performance on income collection, in particular in relation to current and former tenant rent arrears.</p>	
<p>KLOE 3.1 The Council manages its spending within the available resources.</p>	

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Internal control

<b>Theme score 3</b>	
<b>Key findings and conclusions</b>	
<p>The Council's risk management processes have continued to improve and the Audit Committee has continued to develop during the year. The Committee has received regular risk management reports and takes action as appropriate. Internal Audit's level of compliance with the standards set by Cipfa for management and approach to internal audit has improved.</p> <p>The Council needs to demonstrate that it has fully embedded its IT disaster recovery plans and that the reconciliation processes for Housing Benefits and revenues systems are operating as expected.</p> <p>The Council has reviewed the arrangements that are in place to collect non-residential social care income and has developed an action plan to address the weaknesses that have been identified.</p>	
KLOE 4.1 The Council manages its significant business risks.	
KLOE 4.2 The Council has arrangements in place to maintain a sound system of internal control.	<p>Ensure that the revised non-residential social care billing policy and replacement income billing module are implemented.</p> <p>Fully introduce the disaster recovery plan for IT and ensure that it is regularly reviewed and tested.</p> <p>Complete the development of appropriate governance arrangements for all significant partnerships, including finalising the partnership protocol.</p>
KLOE 4.3 The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	<p>Complete the planned 'Ethical Governance review' to assess the effectiveness of members' compliance with the code of conduct.</p>

## Value for money

<b>Theme score 3</b>	
<b>Key findings and conclusions</b>	
<p>The Council continues to achieve good value for money (VFM). The Council's costs are low overall compared to other councils and most of its higher cost services are performing well and delivering good outcomes for local people, for example waste collection and older people's services. The Council has improved performance in the last year in some high-cost priority services such as council tax collection, housing benefits and education attainment although performance remains below average compared to other councils. The Council is not consistently achieving good VFM in housing management and needs to significantly improve meeting gas safety check requirements in residents' homes.</p> <p>The Council has strengthened its management of the capital programme and capital investment is resulting in improvements such as more council homes meeting the decent homes standard and less people hurt or killed in road accidents.</p> <p>The Council manages and improves VFM well and has made progress since last year. It is making better use of benchmarking information which is contributing to improved performance and it has integrated financial and performance monitoring. It is using its strategic services partnership, established in October 2007, to invest in new technology, including a new call centre, and this has started to deliver efficiencies and more accessible services. The Council has achieved £18.6 million of efficiency savings over the last three years, exceeding its target by £3.5 million. Procurement practices have improved and the Council achieved £1.1 million of procurement savings in 2007/08. The Council has not yet evaluated partnerships' contribution to improving VFM but has plans to do this when implementing the 'partnership protocol'.</p>	
KLOE 5.1 The Council currently achieves good value for money.	<p>Sustain improved performance in relatively high cost priority services where performance is below the average of other councils, for example council tax collection, housing benefits and educational attainment.</p> <p>Demonstrate a significant improvement in performance on gas safety and better VFM across housing management services.</p>
KLOE 5.2 The Council manages and improves value for money.	Evaluate partnerships' contribution to improving VFM as part of implementing the Council's partnership protocol.

# Conclusion

- 8 The Council has continued to build upon the sound foundations that were evident during previous years. It has demonstrated a determination to improve upon the key issues which were highlighted in the last assessment as well as addressing new criteria that were included this year. The judgement is made on the basis of the 2007/08 financial year and processes in place at 31 March 2008. Where change has been implemented since the 1 April 2008 it has not been possible to formally reflect this in this year's judgement, but we will reflect them where they are relevant to the new style Use of resources assessment in 2009.
- 9 In order for the Council's processes to be regarded as embedded there are some areas where further improvement is required. This includes, for example, the issue of social care income collection, where the Council is aiming to introduce a new charging policy for non-residential care and a replacement billing module during 2009. We have taken the view that these problems, although significant, are not material to the Council's overall financial affairs and not representative of its standards of internal control, which are otherwise sound.
- 10 The Council is providing good value for money (VFM) in most of its services and has effective arrangements for improving VFM. It needs to sustain and build on the improvements made in those relatively high cost priority services where performance is below average compared to other councils.

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## Use of resources 2008/09

- 11 From 2008/09, the auditors' assessment of use of resources will be based on new key lines of enquiry and will form part of the new performance assessment framework for local government and its partners, known as Comprehensive Area Assessment (CAA).
- 12 Key lines of enquiry (KLOE) for use of resources were published in May 2008 following consultation. These reflect the needs of CAA and incorporate a number of improvements including: a clearer focus on value for money achievements and further emphasis on commissioning of services, outcomes for local people and partnership working.
- 13 The assessment is structured into three themes.
  - Managing finances: sound and strategic financial management.
  - Governing the business: strategic commissioning and good governance.
  - Managing resources: effective management of natural resources, assets and people.
- 14 The approach to our use of resources assessment will continue to be risk based and proportionate, drawing on evidence from previous years where relevant. Not all key lines of enquiry in the managing resources theme will be assessed each year. For single tier and county councils auditors will not assess workforce planning during 2009.

- 15 The Commission will specify each year in its annual work programme and fees document which key lines of enquiry will be assessed in that year.

# Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	Internal Control					
R1	Ensure that the revised non-residential social care billing policy and the replacement income billing module are implemented.	3	Carolyn Williamson	Yes	The new policy and charging module are in the process of being delivered per the specific action plan resulting from the PWC review.	Dec 2009
R2	Fully introduce the IT disaster recovery plan and ensure that it is regularly reviewed and tested.	2	Carolyn Williamson	Yes	IT disaster recovery plan in place during December 2008 per Capita contractual requirements. Regular review and testing is now part of normal business activity.	Dec 2008
R3	Complete the development of appropriate governance arrangements for all significant partnerships, including finalising the partnership protocol	3	Mark Heath	Yes	A draft Partnership Code and Toolkit have been created. The Audit Commission (in consultancy mode) have been commissioned to quality assure these documents. In early January 2009, a workshop was held, facilitated by the Audit Commission, to test the validity and implementation of the Code and Toolkit, which has produced a significant number of very valuable comments that are now being taken on board. The intention is to produce a revised Code for consideration and discussion, with those who attended the workshop to re-test its validity, following which the Code will be submitted for approval at the May AGM for inclusion within the Constitution and the Toolkit will be posted on the Council's intranet site.	May 2008

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date								
	R4 Complete the planned 'Ethical Governance review' to assess the effectiveness of members' compliance with the code of conduct.	2	Mark Heath	Yes	<p>The Standards and Governance Committee on 21 April 2008 agreed to conduct an Ethical Governance Audit and that the approach to be undertaken should be the 'light touch' as set out in the guidance with assistance being provided from the Improvement and Development Agency (IDeA).</p> <p>The Solicitor to the Council has been in detailed discussions with the IDeA and as a result in partnership with them, has identified a suitable peer team to undertake an Ethical Governance Audit in March 2009.</p>	April 2009								
	R5 Sustain improved performance in the following relatively high cost priority services where performance is below the average of other councils:	3	Carolyn Williamson	Yes	<p>The Revenues &amp; Benefits service has been delivering against a three year action plan since 2006/7 and significant improvements have been achieved in both performance and cost terms. The performance improvements are as recorded by the DWP and the service cost reductions are as follows:-</p>									
	<ul style="list-style-type: none"> <li>council tax collection</li> <li>housing benefits</li> </ul>	3	Carolyn Williamson	Yes	<table> <tr> <td></td> <td>£000's</td> </tr> <tr> <td>2006/7</td> <td>4800</td> </tr> <tr> <td>2007/8</td> <td>4389</td> </tr> <tr> <td>2008/9 (est)</td> <td>4277</td> </tr> </table>		£000's	2006/7	4800	2007/8	4389	2008/9 (est)	4277	
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2008/9 (est)	4277													

## Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
					<p>The operational delivery of this service transferred to Capita on 1 October 2007. This has delivered a cost reduction of 7 per cent against the Council's cost of service and determined revised performance standards which are presented as KPI's within the contract and which attract service credits when the performance targets are not delivered.</p> <p>The contract with Capita allows for the annual agreement of performance targets and therefore these will continue to be agreed annually in April focussing upon continuous improvement but also taking account of value for money. This allows the previous year's actual performance and costs to be considered when setting the targets whilst still meeting the timescales for approval of the Corporate Improvement Plan at the AGM in May of each year.</p>	Ongoing
	<ul style="list-style-type: none"> <li>educational attainment</li> </ul>	3	Clive Webster	Yes	<p>Southampton is in the second quartile of unitary authorities on spending on the Dedicated Schools' Grant. The gap in attainment with the national average has narrowed in each of the last three years at GCSE from 9.8 per cent to 5.3 per cent in 2008 and also at the foundation stage (five-year old pupils). However, educational attainment in primary schools remains well below the national average. A new Raising Attainment Plan for 2009-2012 is currently being developed in partnership with head teachers and principals to ensure that this issue is addressed robustly.</p>	July 2009

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	R6 Evaluate partnerships' contribution to improving VFM as part of implementing the Council's partnership protocol.	2	Joy Wilmot-Palmer	Yes	Process to be developed by the end of 2009/10 following the agreement and implementation of the new protocol.	March 2010



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# The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

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As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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