

Annual Audit and Inspection Letter

March 2008



# Annual Audit and Inspection Letter

**Lancaster City 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; and
- 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 and 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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## Key messages

- 1 The key messages for Lancaster City Council, included in this report, are as follows.
  - The City Council has recently been assessed as a 'Good' CPA council in its Corporate Assessment. The majority of Council services are improving with 63 per cent of national best value performance indicators (BVPIs) improving during 2006/07, exceeding the district council average. However, the percentage of these PIs where Lancaster City Council is in the top performing quartile fell from 42 per cent in 2005/06 to 29 per cent this year. The City Council has clear priorities for improvement and is making good progress against its own milestones.
  - Re-organisation of City Council Direct Services (CCDS) has resulted in significant improvements in waste management and cleanliness. The recycling/composting rate rose to 26 per cent in 2006/07, although this remains below the national average. Initial figures for the first nine months of 2007/08 indicate that 32 per cent of waste is now being recycled or composted.
  - The City Council's investment in improving the cleanliness of the local environment has been reflected in a substantial rise in public satisfaction levels to 61 per cent, although this is still below the national average. Planning performance was again mixed over the past year and Housing management services are generally improving.
  - The City Council is delivering on its priority to make services more accessible to citizens. Two new customer service centres opened in Lancaster and Morecambe town halls in October 2007 and the main switchboard has been incorporated into Customer Services.
  - The City Council's contribution to wider community outcomes is increasingly effective and there has been good progress with physical and economic regeneration programmes.
  - The City Council and its partners have helped to significantly reduce crime over the past year and are on target to meet their national target for reducing overall crime by 15 per cent by 2008.
  - The City Council's approach to equality and diversity is still underdeveloped. It has not progressed beyond Level 1 of the Local Government Equality Standard, partly due to capacity issues and partly because this area has not been a priority.
  - The City Council continues to make effective use of partnership working to expand capacity and deliver local priorities – for example the bulky waste collection service provided in conjunction with Furniture Matters.
  - Financial management, risk management and scrutiny arrangements have been strengthened over the past year. However, progress on workforce planning has been slow, with key strategies not yet finalised.

- The City Council has delivered its lowest council tax increase in eight years for 2007/08 at 3.9 per cent. However, the cost of its services increased in comparison to similar councils during 2006/07.

## **Accounts and Value for Money**

- We issued an unqualified opinion on Lancaster 's accounts on 24 September 2007.
- We concluded Lancaster City Council has adequate arrangements in place for achieving value for money in 2006/07. This conclusion is based heavily on our work from our Use of Resources (see below) and is not subject to scoring like many of our judgements.

## **Use of Resources**

- The City Council continues to demonstrate a strong performance. It has a strong approach to financial management and effective budget monitoring arrangements are in place. Value for money arrangements have improved and can be expected to result in positive outcomes in the year ahead.

## **Data Quality**

- The City Council has appropriate management arrangements in place for ensuring data quality and is performing well. Arrangements have improved in the last year.

## **Local Area Agreement**

- The City Council and its partners are making good progress in establishing robust arrangements for governance, financial and performance management of the Local area Agreement (LAA). District councils have revised their community strategies and corporate plans to reflect and integrate the LAA. The timing of the development of the LAA meant that it is also not well aligned with Ambition Lancashire. This has been recognised and the County Council has driven a review of the structure of the county LSP and of Ambition Lancashire.

## **Health Inequalities**

- Our initial findings show that health and local government bodies across the county are investing time, effort and money to address the complex challenges in Health Inequalities. However, there is not a consistent model or strategic regional approach to reducing the gap in Health Inequalities. Further work is scheduled to take forward this study during 2008/09.

## Action needed by the Council

- Continue to focus on those services which the City Council considers a priority, in order to improve performance.
- Continue to progress the VFM improvement agenda and show demonstrable outcomes from the changes implemented during 2006/07.
- Ensure the City Council has effective arrangements in place in its approach to equality and diversity to achieve Level 2, and in due course further levels, of the local Government Equality Standard.
- Develop resourced action plans to address future workforce development issues.
- Ensure that the City Council has effective arrangements in place to meet the challenge and requirements of the new performance assessment framework under the Comprehensive Area Assessment.
- Work with partners to develop a strategic and operational approach to the reduction of health inequalities in the Lancaster area.
- Review the revisions to the use of resources key lines of enquiry and ensure that the City Council can demonstrate compliance against these new and revised requirements for 2008.

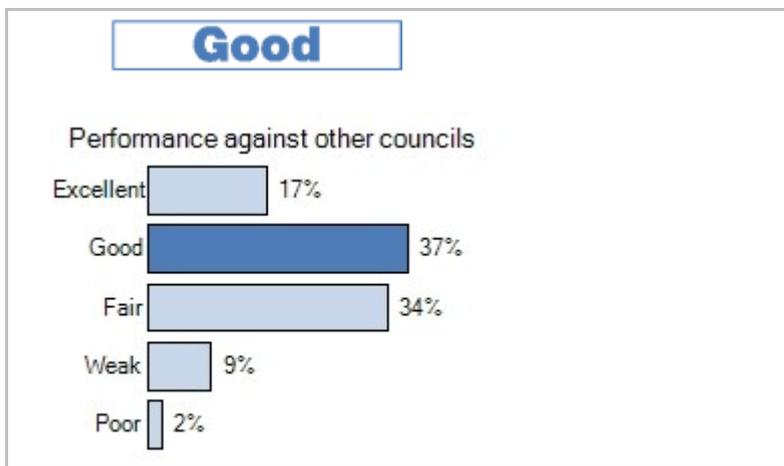
## Purpose, responsibilities and scope

- 2 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), the findings and conclusions from the audit of the Council for 2006/07 and from any inspections undertaken since the last Annual Audit and Inspection Letter.
- 3 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. We have made recommendations to assist the Council in meeting its responsibilities.
- 4 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](http://www.audit-commission.gov.uk). (In addition the Council is planning to publish it on its website).
- 5 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.
- 6 This letter includes the latest assessment on the City 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.
- 7 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 Lancaster City Council performing?

- 8 Lancaster City Council was assessed as Fair in the Comprehensive Performance Assessment carried out in 2004. These assessments have been completed in all district councils and we are now updating these assessments, through an updated corporate assessment, in councils where there is evidence of change. Lancaster is one such Council where a recent corporate assessment has now assessed the Council as 'Good'. The following chart shows the latest position across all district councils.

**Figure 1 Overall performance of district councils in CPA**



Source: Audit Commission

## The improvement since last year - our Direction of Travel report

- 9 Overall, the majority of City Council services are improving. Some 63 per cent of national best value performance indicators (BVPIs) improved during 2006/07, exceeding the district council average. However, the percentage of BVPIs where Lancaster is in the top performing quartile fell from 42 per cent in 2005/06 to 29 per cent this year, suggesting the magnitude of improvement in the past year is comparatively lower than average. Public satisfaction with the Council rose slightly but remains in the poorest quartile.
- 10 The City Council is delivering on its priority to make services more accessible to citizens. Two new customer service centres opened in Lancaster and Morecambe town halls in October 2007 and the main switchboard has been incorporated into Customer Services. Recent customer satisfaction ratings and call handling performance are impressive. Benefits are a strong performing service which continues to improve.

- 11 Re-organisation and improved management of City Council Direct Services (CCDS) has resulted in significant improvements in waste management and cleanliness. The recycling/composting rate rose to 26 per cent in 2006/07, although this remains below the national average. Initial figures for the first three quarters of 2007/08 indicate that 32 per cent of waste is now being recycled or composted. The Council provides kerbside collection for 90 per cent of households and satisfaction with recycling facilities has increased by five per cent. The total quantity of waste collected and cost per head remain broadly stable. All bulky waste collections were achieved within the 7 day standard.
- 12 The City Council's investment in improving the cleanliness of the local environment has been reflected in a substantial rise in public satisfaction levels to 61 per cent, although this is still below the national average. There have been good reductions in littering and fly-posting, but levels of graffiti are on the increase. The Council has gap funded four new Police Community Support Officers to focus on environmental enforcement and additional beat sweepers located in 'hot-spot' areas.
- 13 Planning performance was again mixed over the past year, with good progress in relation to major planning applications and appeals allowed, but deteriorating performance on minor applications and the quality of service checklist. The latter was due to the departure of a member of staff holding a key qualification.
- 14 Housing management services are generally improving. Tenant satisfaction has increased substantially to 80 per cent and the proportion of urgent repairs completed on time improved during 2006/07. However, performance in relation to non-urgent repairs and rent collection performance deteriorated. All council-owned homes meet decency standards. Homelessness services continue to improve. Despite a further increase in the number of households in temporary accommodation, average lengths of stay are reducing and are amongst the lowest nationally.
- 15 There have been slight falls in levels of public satisfaction with cultural and sporting facilities but, with the exception of parks and open spaces, satisfaction ratings still compare favourably with other authorities. The strategy for playground improvement is being implemented with work already completed in several playgrounds. The Council continues to invest in better facilities for cyclists as part of its role as a designated 'Cycling Demonstration Town' and has recorded a 7 per cent increase in cycling rates over the past year.
- 16 The City Council's contribution to wider community outcomes is increasingly effective and there has been good progress with physical and economic regeneration programmes. All key projects within the Lancaster and Morecambe Economic Development Zone have now been secured and work has begun on the flagship Luneside East development. Other achievements during the past year include improvements to the promenade in the West End of Morecambe, completion of new office and leisure facilities on the Cottom's Farm industrial site, and progress towards obtaining planning permission for the proposed new science park adjacent to Lancaster University.

- 17 The City Council and its partners have helped to significantly reduce crime over the past year and are on target to meet their national target for reducing overall crime by 15 per cent by 2008. Fear of crime remains relatively low and the Home Office gave Lancaster's CDRP a 'high performing' assessment in August 2007. Repeat offences of domestic violence have reduced by 12 per cent in the past year.
- 18 The City Council's approach to equality and diversity remains underdeveloped. It has not progressed beyond Level 1 of the Local Government Equality Standard, partly due to capacity issues and partly because this area has not been a priority. Consequently, while access to services has improved generally, it is not clear whether accessibility and quality of service are improving for all sub-groups in the population. Similarly, there has been good public consultation in relation to specific projects, but engagement with minority ethnic communities is underdeveloped. The Council recognises its weaknesses in this area and is taking steps to address them – for example, producing a 'Welcome to the District Pack' targeted at Polish and Chinese immigrant communities. There has been a small increase in the percentage of council staff who are from BME communities but this remains low and further effort is needed to make the Council's workforce more representative of the communities it serves. On a more positive note, the percentage of women among top earners rose to 51 per cent.
- 19 The City Council has clear priorities for improvement and is making good progress against its own milestones. Business planning and performance management have been further strengthened as the Performance Review Team process and Escendency system have become fully established. Strategies and plans are well linked but not all priorities are yet supported by outcome-focused targets (for example regarding healthy living) and not all action plans are SMART. In addition, performance management within some partnerships - including the LSP - is not yet fully embedded. The Council has adopted consistent standards for project management (LAMP) and 150 staff have so far received training in the methodology.
- 20 The City Council continues to make effective use of partnership working to expand capacity and deliver local priorities – for example the bulky waste collection service provided in conjunction with Furniture Matters. It has also had further success in exploiting external funding, most recently securing funding for a £3.5 million scheme to create a centre for creative industries in the Storey Institute.
- 21 Financial management, risk management and scrutiny arrangements have been strengthened over the past year. However, progress on workforce planning has been slow, with key strategies not yet finalised. The City Council has identified future workforce development issues but has no action plans in place to address these, meaning it does not have a clear picture of the capacity required to deliver its ambitions and priorities. There is also scope to clarify the roles and responsibilities of Cabinet members, particularly where portfolios do not align with performance management arrangements. Sickness absence rose to 11.82 days during 2006/07, remaining in the worst quartile of performance, but initial figures indicate improved performance in the first three quarters of 2007/08.

- 22** The City Council has delivered its lowest council tax increase in eight years for 2007/08 at 3.9 per cent. However, the cost of its services increased in comparison to similar councils during 2006/07. Hence, despite some notable performance improvements, the Council did not increase its value for money score in this year's Use of Resources assessment. Nevertheless, value for money arrangements are continuing to improve – for example, through the adoption of the VFM model – and there is a likelihood that these will deliver positive VFM outcomes in the year ahead.

## **Service inspections**

- 23** 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 City Council's performance. Relationship Managers share information and seek to provide 'joined up' regulation to the Council. During the last year the City Council has not received any inspections from other inspectorates.

## The audit of the accounts and value for money

- 24 As your appointed auditor I have reported separately to the Audit Committee on 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.

### Use of Resources

- 25 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).
- 26 For the purposes of the CPA we have assessed the City Council's arrangements for use of resources in these five areas as follows.

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**Table 1**

<b>Element</b>	<b>Assessment</b>
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	2 out of 4
<b>Overall assessment of the Audit Commission</b>	<b>3 out of 4</b>

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

## **The key issues arising from the audit**

- 27** The City Council continues to demonstrate a strong performance in most areas. Our current assessment reflects the position at 31 March 2007 and updates the work we did last year towards the end of 2006. Financial reporting arrangements are good and have been strengthened further through introduction of an annual report. The Council has a strong approach to financial management and effective budget monitoring arrangements are in place. There is sound system of internal control in place. There is however still some scope to further embed risk management arrangements across the Council and its significant partnerships. Work is ongoing to address this.
- 28** Value for money arrangements have improved and can be expected to result in positive outcomes in the year ahead. Recent performance improvements have been matched by a rise in comparative expenditure levels. The City Council approach would be strengthened by a clear analysis of the increases in costs in recent years and its impact on priorities for improvement.

## **Other Audit Work**

### **Data Quality**

- 29** This is the second year we have reviewed data quality at the City Council. Our overall view is that the Council has appropriate management arrangements in place for ensuring data quality and is performing well.
- 30** Arrangements in relation to data quality have improved in the last year. The Council has strengthened arrangements in relation to governance and leadership, policies and procedures and systems and processes. A data quality policy has been developed and this is being embedded within the organisation. The introduction of the new Escendency performance management system has raised the profile of performance information and this has led to renewed interest in assuring the quality of the data. Furthermore the Council has started to make the link between the quality of data and risk management. To this end the Council has highlighted data quality into their current risk register.
- 31** Our limited review of indicators for 2006/07 identified that they were fairly stated but some systems weaknesses were identified and a separate action plan to address these has been agreed with officers.

### **Local Area Agreement**

- 32** Our review, undertaken in Autumn 2007, concluded that there is a strong, shared commitment to developing targets, systems and structures to make sure that the Local Area Agreement (LAA) delivers good outcomes for local people across the County. Agreeing and delivering an LAA in a county as large, complex and diverse as Lancashire is a huge challenge. The County Council, Lancashire district councils and other partners recognise this and are rising to the challenge.

- 33 This commitment is bringing some real benefits in terms of improved partnership working, more productive relations between district councils and the County Council and greater consensus around what is important for the diverse communities that make up the county. The LAA has informed and improved community leadership locally and driven greater acceptance of joint working.
- 34 The LAA focuses on increased life expectancy, improving life chances, sustainable Lancashire communities and narrowing the gap between the most and the least disadvantaged. The overarching aims and targets are clear and were agreed following consultation with the wide range of partners involved.
- 35 The partnership is maturing and becoming more established. Leadership is developing well. Arrangements comply with LAA terms and conditions and statutory requirements. The Internal Audit function of the County Council plays a key role in assurance of arrangements.
- 36 The City Council is investing substantial capacity into building good governance and accountability. As a result some important building blocks are in place including good systems for performance monitoring and management. Others such as arrangements for financial management are developing well.
- 37 There has inevitably been a strong focus in the first phase on setting up systems and delivery chains. There is currently a risk of delivery mechanisms and processes becoming overly complex and bureaucratic so that the capacity of partners to participate in the range of processes, meetings and groups is strained.
- 38 There is the potential to use the expertise and capacity available in district councils more efficiently. For example drawing on their experience of managing Neighbourhood Renewal Funding. This would help to reduce the substantial capacity burden on the County Council.
- 39 Arrangements for decision making have been agreed but in some areas there is a lack of transparency. For example in relation to allocation of funds. The decisions of the steering groups and the performance group need to be more clearly stated and better communicated so that the rationale behind them can be understood.
- 40 Governance arrangements for delivery of county targets at a district level are not yet in place. There has been slow progress in drafting and agreeing suitable service level agreements and contracts. This means that accountabilities, responsibilities and resources are not clearly defined. It currently presents a risk to delivery.
- 41 The County Council and the leadership of the LAA are maintaining momentum around delivery and have gained the commitment of partners despite some of these problems of processes.

- 42** District councils have revised their community strategies and corporate plans to reflect and integrate the LAA. Local community strategies and Ambition Lancashire are not currently well integrated. The county vision is not well linked to local visions. However in Lancaster the City Council has undertaken to review and reorganise its local district LSP and its Sustainable Community Strategy. The timing of the development of the LAA meant that it is also not well aligned with Ambition Lancashire. This has been recognised and the County Council has driven a review of the structure of the county LSP and of Ambition Lancashire.

### **Health Inequalities**

- 43** In our audit plan for 2007/08 we stated our intention to undertake a study of Health Inequalities (HI) across Lancashire to include councils, primary care trusts and other stakeholders. HI is an issue for this borough and the county of Lancashire generally. There is significant variation within the borough and the county area on key measures of health such as:
- average life expectancy;
  - death by suicide and/or by accidents;
  - infant mortality rates; and
  - cancer, heart disease and stroke rates.
- 44** Our initial findings show that health and local government bodies across the county are investing time, effort and money to address the complex challenges in HI. However, there is not a consistent model or strategic regional approach to reducing the gap in HI. Activities suffer from the lack of a robust planning and project management framework and there is limited performance management of HI specific indicators. As a result there is a high risk that the investment will not help reduce the HI gap across the county over the next three years.
- 45** Health partnerships tend to develop individual initiatives but a lack of project management and performance reporting to cabinet/board level is preventing progress. HI information is available and being used to target resources towards deprived communities and groups. Better leadership on public health, and identification of HI champions at local level would facilitate more progress.
- 46** Our second phase of work, to be conducted in 2008/09, will be directed towards assisting organisations to develop co-ordinated strategies in order to ensure their corporate and partnership resources are used more effectively. This work will be aligned with HI developments within individual councils including Lancaster, health bodies and other significant stakeholders such as Government Office North West and the Department of Health.

## Looking ahead

- 47 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.
- 48 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.
- 49 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

- 50 This letter has been discussed and agreed with the Chief Executive. A copy of the letter will be presented at the Audit Committee on 23 April 2008. Copies need to be provided to all City Council members.
- 51 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the City Council during the year.

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**Table 2      Reports issued**

Report	Date of issue
Audit and inspection plan	June 2006
Your Business @ Risk	June 2007
IT Risk Assessment	June 2007
Annual Governance Report	September 2007
Opinion on financial statements	September 2007
Value for money conclusion	September 2007
Corporate Assessment	February 2008
Annual audit and inspection letter	March 2008

- 52 The City 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

- 53 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.

**Michael Thomas**  
**District Auditor and Relationship Manager**

March 2008