

ST&CC Annual Audit and Inspection Letter

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# Annual Audit and Inspection Letter

**Royal Borough of Kensington and Chelsea**

**Audit 2005/2006**

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 to the Council**

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 members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.

### **Copies of this report**

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# Contents

<b>Our overall summary</b>	<b>4</b>
Action needed by the Council	4
<b>How is the Royal Borough of Kensington and Chelsea performing?</b>	<b>5</b>
The improvement since last year - our Direction of Travel report	6
Corporate Assessment	6
<b>Financial management and value for money</b>	<b>10</b>
<b>Conclusion</b>	<b>14</b>
Availability of this letter	14

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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, from the Corporate Assessment, undertaken in October 2006 and from a wider analysis of the Council's performance and its improvement over the last year, 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 main messages for the Council included in this report are:
  - It continues to strengthen the way in which it uses its resources and secures value for money and is taking appropriate steps to address outstanding issues, such as high costs in some service areas.
  - The corporate assessment concluded that the Council is performing strongly and well above minimum requirements, with only two areas for development: establishing a more robust strategic approach to workforce planning and ensuring reviews of individual performance are undertaken consistently.

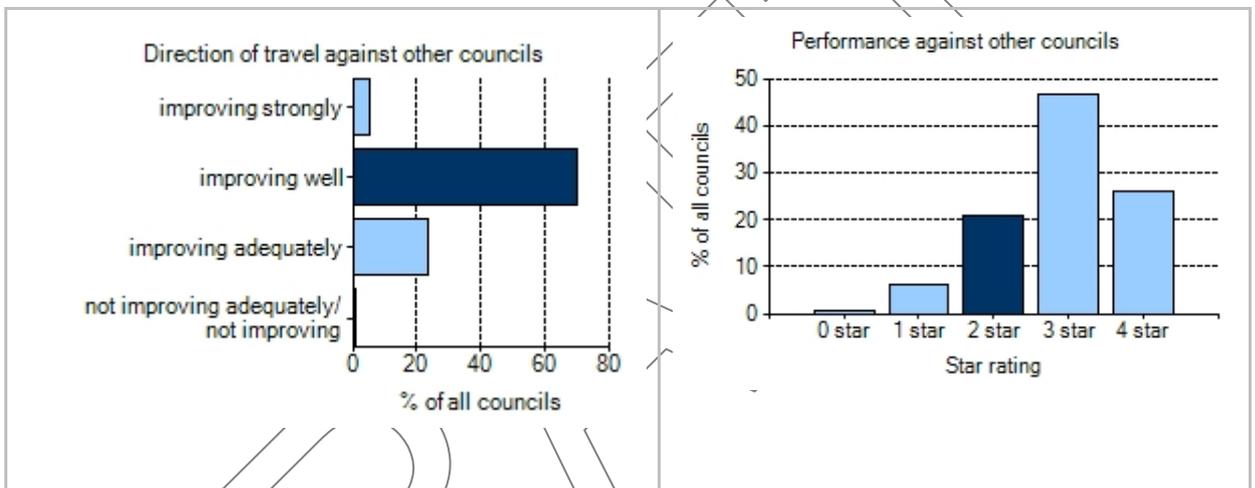
## Action needed by the Council

- 4 The Corporate Assessment report contains the following two areas for improvement:
- 5 Workforce planning is under-developed and a more robust strategic approach is needed. This should include an analysis of current skills, future needs and plans to address gaps, as well as plans to ensure that the workforce is more representative of the local population.
- 6 Performance development reviews are not yet used consistently across the Council. Most front line staff and middle managers receive performance appraisals, but the council does not currently monitor the coverage of its performance reviews. To improve further the performance culture the Council needs to ensure performance reviews are comprehensive and systematically monitored.

## How is the Royal Borough of Kensington and Chelsea performing?

- 7 The Audit Commission's overall judgement is that the Royal Borough of Kensington and Chelsea is improving strongly and we have classified the Council as XXXXXXX - **(to be completed when scorecard available)** 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**



Source: Audit Commission

- 8 The detailed assessment for the Royal Borough of Kensington and Chelsea is as follows.

### Our overall assessment - the CPA scorecard

**Table 2 CPA scorecard**

Element	Assessment
Direction of Travel judgement	Improving strongly
Overall	Improving strongly
Current performance	out of 4
Children and young people	out of 4
Social care (adults)	out of 4

Element	Assessment
Use of resources	4 out of 4
Housing	out of 4
Environment	out of 4
Culture	out of 4
Benefits	out of 4
Fire (relevant County Councils only)	out of 4
Corporate assessment/capacity to improve	4 out of 4

(Note: 1 = lowest, 4 = highest)

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

- 9 The Council has delivered significant improvement in key priorities such as adult social care and crime rates, as well as achieving the lowest fear of crime in London. Educational attainment and services for children and young people are excellent.
- 10 The Council has a strong track record of improvement with 82 per cent of performance indicators improving, which is well above the national average. It is ambitious and sets challenging targets, responding well to the diverse needs of its communities.
- 11 The Council provides strong community leadership and works well in partnership to achieve clear outcomes. For example, improving overall housing conditions, meeting the decent homes standard ahead of target; and successfully tackling drugs misuse, with the elimination of 90 crack houses.
- 12 The Council provides strong political and managerial leadership with a clear focus on performance management. The Council makes excellent use of its resources and provides good value for money. The Council continues to focus on improving its approach to workforce planning.
- 13 The Council is well placed to continue to deliver improvements to services for local people.

## Corporate Assessment

- 14 The following is an abridged version of the executive summary from the Corporate Assessment report, dated December 2006.

- 15 The Council is performing strongly and well above minimum requirements. Many aspects of the Council's work are outstanding. The Council is ambitious and sets itself and its partners challenging priorities which are appropriate for the borough, respond well to its needs and can be realistically achieved in the light of the Council's financial standing and capacity to deliver. The Council is clear about what it wants to achieve. It is a pro-active and imaginative partner and brings strong but well judged leadership to partnership working across a wide range of initiatives in the borough. The voluntary and community sector value the contribution of the Council to their work and many sections of the community identify convincingly with the priorities of the Council and acknowledge the outcomes. Residents value, in particular, the partnership work to reduce crime and the fear of crime and the quality of waste management services which provide two refuse and recycling collections each week. The Council has achieved commendable outcomes in such areas.
- 16 There is an excellent culture of consultation throughout the Council, which is shared by partners. The 'Statement of Principles and Guidelines for Consulting the Public' promotes best practice standards for staff and partners undertaking consultation. An imaginative range of strategies is deployed to capture the views of the community. The Council has reached the advanced level of the Hear by Right standard which is now being extended to younger children. The results of consultation are shared widely, for example, via the Vital Messages database available on line to partners and the public. The quality and scope of the Council's consultation is outstanding.
- 17 Priorities respond well to national and local needs. Decisions on changes in priorities and specific savings and growth proposals are facilitated by the 'Imperatives and Opportunities' programme, part of the robust annual business and financial planning cycle. The Cabinet Business Plan 2006/07 to 2008/09 articulates the Council's vision and core values and these drive the way in which the Council delivers the priorities in the Community Strategy. The thread between the Community Strategy, service plans and the delivery of outcomes is strong.
- 18 The Council has the capacity to deliver its ambitions and priorities and partnership working is used effectively to further build capacity. The Council has agreed protocols to ensure effective joint working including compacts with the voluntary and community sectors and with black and minority ethnic (BME) communities. The Council knows how well it is performing. It has well-established performance management systems and processes and has a powerful, performance driven culture. The Audit Commission's un-audited performance data for 2005/06 shows the Council continues to perform strongly, with 76 per cent of performance indicators improving.

- 19 The Council provides outstanding community leadership which is making a difference. Evidence for this includes the Council's strong contribution to promoting good community relations which were shown to be resilient in the response to the terrorist attack on London of 7 July, 2005; the impact of the Safer and Surer board on the levels of crime and the fear of crime; representations on the London Plan; securing a jobcentre plus in the north of the borough and securing from Transport for London hard won concessions for certain residents from the forthcoming congestion charge. The Council has demonstrated community leadership in its support of Notting Hill Carnival as an important part of the cultural life in Kensington and Chelsea and this is highly valued by the carnival organisation and the community.
- 20 The Council's political and managerial leadership is excellent. There is a clearly evident culture of great civic pride in which councillors are committed to public service. Councillors and officers are of high calibre and senior managers share their tasks with good middle management and front line staff.
- 21 The Council performs strongly in user focus and diversity. There are good examples of where consultation has informed policy, for example, in the composition of the Community Strategy and the Play Strategy. The Kensington and Chelsea Partnership also fully embrace the consultation ethos. Responsibility for implementing the Council's Equality Scheme starts with a cabinet member and the chief executive, to demonstrate commitment. Members of minority groups feel consultation and engagement is meaningful and BME groups are positive about the Council's approach to diversity. There are practical initiatives to support BME workers and new arrivals in the borough with language and cultural issues, such as a non-language DVD providing guidance on health and safety for workers in the food and restaurant business. There is tailored service delivery for some hard to reach communities which has developed as a result of consultation.
- 22 The Council performs well in providing value for money. There is a culture of value for money throughout the organisation with strong leadership from councillors, senior officers and the overview and scrutiny function. The Council demonstrably strives for further improvement and is performing well on the efficiency agenda where it has exceeded targets. The Council has action in place to tackle the high cost of some services.
- 23 The Council is performing well in the achievement of its priorities, both national and local. There is real impact resulting from the priorities for children and young people-who are achieving some of the best results in the country, with further improvements at all key stages in summer 2006-sustainable communities, community safety, health inequalities and older people. In many cases outcomes are outstanding. All these outcomes, which are important to local people, demonstrate the strengths of the Council's capacity to turn its ambition into achievement, through the robust delivery of priorities.
- 24 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.

- 25 The Commission for Social Care Inspection assessed the Council's Adults Services as 'serving most adults well' with 'excellent capacity to improve' in 2006. This is a rating of 3 stars overall.
- 26 The Joint Area Review undertaken in October 2006 assessed the Council as achieving excellent outcomes across each of the five Every Child Matters outcomes: be healthy; stay safe; enjoy and achieve; make a positive contribution; and achieve economic wellbeing. This is a top rating of 4 overall.
- 27 BFI have scored the Council as 4 for CPA purposes – details are as follows.

**Figure 1.1: Performance Standards theme scores**

Theme	2005	2006	Change
Claims administration	4	4	=
Security	4	4	=
User focus	4	4	=
Resource management	4	4	=
Overall score	4	4	=

Source: BFI analysis



## Financial management and value for money

- 28 Your appointed auditor has reported separately to the Audit Committee on the issues arising from the 2005/06 audit and has provided:
- an ISA 260 Report to Those Charged with Governance, setting out the key relevant findings from our work;
  - an unqualified opinion on your accounts;
  - a conclusion on your value for money arrangements to say that these arrangements are adequate; and
  - a report on the Best Value Performance Plan confirming that the Plan has been audited.
- 29 In addition the Audit and Inspection Plan for the year identified a small number of developments at the Royal Borough which we felt it was important were reviewed from an audit perspective. Although these items do not have a direct impact on the 2005/06 financial statements, they relate to important current and future organisational developments for the Royal Borough which we felt it would be helpful to review at this stage:
- Establishment of a Trading Company to tender for the Ellesmere Management Contract - Section 95 of the Local Government Act 2003 granted local authorities achieving 'excellent', 'good' or 'fair' Comprehensive Performance Assessment (CPA) ratings a new primary power to trade in their function related activities. The Royal Borough established a trading company, Chelsea Care Limited, to bid for the Ellesmere Residential and Day Care Centre management contract, which although ultimately unsuccessful in terms of winning the contract was new territory for a local authority. We reviewed the proposals and communicated our comments and suggestions in a letter to the Town Clerk and Chief Executive.
  - The Royal Borough has been invited to be joint sponsor of the proposed Chelsea Academy and is expected to contribute £2 million to the funding of the Academy, although the timing and detail of this payment are still to be finalised. As part of securing the site for the Academy the Royal Borough needed to relocate the Thomas Heatherley Educational Trust, which held a freehold interest on the proposed site, to a new building on another plot of land it owns nearby. We understand that the Royal Borough reached a decision that the cost of the initial development proposed was in fact not a fair and prudent use of resources and that a Compulsory Purchase Order was considered and made as an alternative approach to assist developments and move the project forward. Following further negotiations the Council has now acquired the freehold and entered into an agreement for Heatherley to relocate.

- 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. We will continue to monitor developments as the scheme progresses.
  - 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).
- 30** For the purposes of the CPA your auditor has assessed the Council's arrangements for use of resources in these five areas as follows.

**Table 3**

<b>Element</b>	<b>Assessment</b>
Financial reporting	3 out of 4
Financial management	3 out of 4
Financial standing	4 out of 4
Internal control	4 out of 4
Value for money	3 out of 4
Overall assessment of the Audit Commission	4 out of 4

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

- 31** The key issues arising from the audit, as reflected in the above judgements where appropriate, are as follows.

### **1. Financial Reporting**

- 32** The scrutiny that Members applied to the financial accounting and reporting arrangement has been strengthened considerably by the creation of an Audit Committee as a new committee of the Council. The two external members of the Committee bring with them a good mix of public and private sector experience and financial and governance knowledge. This has given the Council a robust platform to scrutinise a range of governance and audit issues.

- 33 Although improvements have been made during 2006, the Council's Accounts payable system could not be exactly reconciled in detail to the general ledger at the year end, resulting in an internal control weakness. The Council's external reporting of its financial performance is good and has been assessed as representing notable practice in local government.

## 2. Financial Management

- 34 The Council has maintained a score of '4' in the area of its medium term financial strategy (MTFS) and improved its score to a '4' in the area of asset management.
- 35 The Council has once again enhanced its arrangements for the production and implementation of its MTFS, with its imperatives and opportunities based approach representing notable practice in this area.
- 36 Budget monitoring has been improved, although the Council did report a 4 per cent underspend against its net budget, continuing the trend from recent years. This performance is driven by the Council over achieving its income targets for the year, primarily around car parking income.
- 37 The Council's management of its asset base is in line with best practice in local government and its arrangements have been put forward as examples of notable practice, in particular the 20 year strategic framework for operational property.

## 3. Financial Standing

- 38 The Council has a strong financial position and is effectively managing its long term financial position with reserves. Threats to the Council's long term financial position such as the extension of the Congestion Charging Zone are taken into account in budget setting. The Council maintains a healthy General Fund balance and significant earmarked reserves which are projected over a three year period within the Council's medium term financial plans. These are intended to be used over a number of years to support capital expenditure and policy decisions in the light of potentially reducing FSS allocations for the Royal Borough.

## 4. Internal Control

- 39 The Council has continued to strengthen its arrangements in this area, with the introduction of an Audit Committee with two external members, the continued development of the medium term financial planning process, as well as the introduction of a Fraud and Corruption forum for all staff involved in fraud and corruption related activities across the Council.
- 40 The Council has also continued the effective development of its risk management processes, including a focus on the positive aspects of risk.

## 5. Value for Money

- 41 The Council continues to demonstrate good value for money scoring 3 out of 4. As last year the Royal Borough continues to be an authority with relatively high costs but delivers high quality services and excellent outcomes. Comparative costs remain largely the same as shown in the Audit Commission VFM Profiles for 2004/05. The Council has begun to take some action to address the few service areas where high costs were not yet commensurate with performance (namely libraries, environmental health and housing). However the actions taken to date have yet to have an impact on costs or performance sufficient to move the Council's comparative position in the VFM profiles.
- 42 The Council demonstrated some significant improvement in how it manages and improves value for money. In particular the Council has made significant progress in strengthening its corporate procurement function, implementing the key actions from its procurement review and achieving some significant savings through procurement activities. We also identified a number of areas of good practice in relation the Council's mechanisms for monitoring and improving VFM:
- The Royal Borough of Kensington and Chelsea has robust budget setting and business planning processes with built in challenge of costs and quality at a number of stages. There is regular and robust challenge of costs and performance from senior management and members. The Council has made explicit in its corporate aims its commitment to improving value for money and objectives relating to the achievement of value for money are included in individual performance appraisals for senior officers.
  - The Council's programme of Royal Borough reviews has a clear focus and track record in achieving service improvement and significant efficiency gains. There is a well established mechanism for monitoring progress (six monthly) and reporting the savings delivered by these reviews (approximately £6 million in the past three years).
  - Council has a robust strategy in place for achieving its Gershon efficiency targets and is already well ahead of target. Monitoring of the efficiency plan is integrated into the Council's existing performance management framework.
  - Member involvement in driving value for money through the organisation is well demonstrated in the establishment of a series of 3 E's overview and scrutiny sub groups. These were established at member request and focus on gaining a greater understanding and challenging, where appropriate, some of the Council's high cost services.

## Conclusion

- 43 This letter has been discussed and agreed with the Chief Executive. A copy of the letter will be presented at the cabinet on 22 February 2007.
- 44 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

- 45 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.

Name *[do not sign]*

Relationship Manager

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