

Annual Audit and Inspection Letter

May 2008



Annual Audit and Inspection Letter

Eastleigh Borough Council

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

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

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

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

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

Status of our reports

This report provides an overall summary of the Audit Commission's assessment of the Council, drawing on audit, inspection and performance assessment work and is prepared by your Relationship Manager.

In this report, the Commission summarises findings and conclusions from the statutory audit, which have previously been reported to you by your appointed auditor. Appointed auditors act separately from the Commission and, in meeting their statutory responsibilities, are required to exercise their professional judgement independently of the Commission (and the audited body). The findings and conclusions therefore remain those of the appointed auditor and should be considered within the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission.

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- 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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Contents

Key messages	4
Action needed by the Council	4
Purpose, responsibilities and scope	5
How is Eastleigh Borough Council performing?	6
The improvement since last year - our Direction of Travel report	6
Service inspections	12
Other performance work	13
The audit of the accounts and value for money	14
Looking ahead	16
Closing remarks	17
Availability of this letter	17

Key messages

- 1 The main messages for the Council included in this report are as follows.
 - Over the past year some key services have improved and progress made on important developments. There remain some areas where improvement has not kept pace, but overall the progress made by the Council has been positive.
 - Above the average number of performance indicators (PIs) improved over the past year when compared to other councils. Recycling continues to be a success story for the Council, while at the same time continuing to reduce the amount of waste collected.
 - Major development projects are progressing well. The new Swan Centre Leisure Scheme is due to be completed by the end of 2008. The obstacles to the development at South Street have been overcome to bring forward the development of 600 homes.
 - Significant efforts have been made by the Finance Team to improve the financial statements. The working papers and draft accounts were of a good standard, although some minor disclosure and rounding discrepancies were identified which were adjusted by management.
 - There was a significant under spend against the 2006/07 budget caused by a number of different variations, some of which could have been predicted. Officers are reviewing arrangements to ensure this does not occur in future years.

Action needed by the Council

- Continue to improve the Council's response to equality and diversity issues by making progress towards improving its rating against the Equality Standard for Local Government.
- Improve areas where performance is mixed, such as the use of temporary housing accommodation.
- Improve the use and understanding of the Council's performance management systems.
- Manage budget position effectively to ensure that large under spend is reduced.
- Ensure that the building control chargeable work manages to break even over a rolling three-year period.

Purpose, responsibilities and scope

- 2 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the assessment of the Council's Direction of Travel in improving services since the last Annual Audit and Inspection Letter, and the results of the Use of Resources assessment in 2007 and conclusions from the audit of the Council for 2006/07.
- 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.
- 5 Your appointed auditor, PriceWaterhouseCoopers LLD, is 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, they 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 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 Eastleigh Borough Council performing?

The improvement since last year - our Direction of Travel report

Overview

- 8 Eastleigh Borough Council is making steady progress to improve the services it delivers to its community.
- 9 Between 2005/06 and 2006/07 the Council improved 63 per cent of the Audit Commission's basket of performance indicators (PIs) linked to government priorities. This is better than the average for district councils of between 56.9 per cent and 59.1 per cent. It builds upon the improvements made over the previous three years. The Council also has 45 per cent of its PIs in the best performing 25 per cent of similar councils, compared to the district average of 33 per cent.
- 10 Overall the past year has been positive for the Council in terms of improvements made to services as well as progress on a number of longstanding projects. Recycling continues to be extended to collect more material for recycling. The formation of the unit to deliver the grounds maintenance and street care services has had a positive impact. The housing benefits service improved as well, although the use of temporary housing accommodation remains high. The obstacles to developing the South Street housing site that will provide 600 homes have been overcome. The new Swan Centre Leisure Scheme is under construction and due for completion at the end of 2008.

What evidence is there of the Council improving outcomes?

- 11 The following commentary reviews performance in areas the Council has identified as priorities, as well as wider community impact, customer focus and value for money.

Promoting a quality environment

- 12 Last year we reported that progress had been made in promoting a quality environment, in particular in recycling. At that time options were being considered for extending the kitchen waste recycling.

- 13 Recycling remains a success story for the Council. The combined recycling and composting rate of 37.6 per cent in 2006/07 places the Council in the best performing 25 per cent of its waste group. It strives still to improve: the rate had already increased to 40 per cent mid way through 2007/08, although the Council is not yet meeting its own ambitious target of 41.5 per cent. To improve the service the Council is extending the recycling scheme to collect glass and the kitchen waste pilot to serve the whole of the Borough by 2009. It also has been awarded the Valpak award for the innovative work done to raise awareness of recycling in Pilands Wood, an area where this was low. This resulted in a 95 per cent increase in awareness. However delays have been experienced in continuing the collection of waste electronic and electrical equipment due to the lack of funds until later in 2008. Also it has been unable to roll out the street waste bins due to the costs involved and Railtrack not allowing the bins near stations.
- 14 Importantly, the Council continues to perform well in minimising the amount of waste collected. In 2006/07 the amount collected decreased from the previous year and is in line with the top performing 25 per cent. However, at £50.01 per household, the cost of waste collection is above the average of £48.80 for single tier and district councils.
- 15 Streetscene services have improved. This is as a consequence of the merging of the two previously independent units responsible for grounds maintenance and street care into one in-house unit. The residents' response has been positive. There are fewer complaints and the Viewpoint surveys are showing improvement in satisfaction as well. All the cleanliness indicators were comparable with the best performing 25 per cent of authorities in 2006/07 having all improved in the past year.

Helping those in need

- 16 Last year we reported that the Council was successful in the delivery of affordable housing. In 2006/07 202 affordable homes were built, which exceeded the target of 150. At 37.5 per cent it almost doubled its target figure for the proportion of affordable homes achieved on new residential sites. This demonstrates that the Council is active in supporting the provision of affordable homes in the area.
- 17 The Council has had mixed success in reducing the use of temporary accommodation. The use of bed and breakfast accommodation (B&B) has decreased. The average time stayed in B&B dropped in 2006/07 to two weeks from the previous year's 3.6 weeks. Homelessness acceptances have fallen to 57 from 70 the previous year. However, the use of hostel accommodation did not change in 2006/07 from the previous year, remaining at 24 weeks duration and continues at this level into the current financial year. This is in line with the worst performing 25 per cent – the median for length of stay is five weeks. However, the Council is taking action to meet the government target of halving the number of households using such accommodation by 2010.

8 Annual Audit and Inspection Letter | How is Eastleigh Borough Council performing?

- 18 Last year we commented on the fact that the target for bringing empty property back into use had not been met. In 2006/07 the number of non local authority homes brought back into use improved markedly to 89 from zero the previous year. However, to date, performance is slightly behind target for 2007/08. At the same time the percentage of private sector homes that had remained vacant for more than six months dropped.
- 19 The housing benefits service is improving. The average time to process new claims has decreased from 31 to 28 days and accuracy is good at 98 per cent. In 2006/07 the time taken to process change of circumstances at 7 days is comparable with the best performing 25 per cent. Overpayments recovered as a percentage of the total housing benefit debt also improved, and is comparable with the best performers. Unaudited figures for 2007/08 show that benefits processing times and accuracy are continuing to improve. This has a positive impact for those people dependent on this service.
- 20 Last year we reported that the Council needed to improve the framework and tools for ensuring equality of access to services and accelerate progress on the Local Government Equality Standard. The Council attained Level 2 of the standard at the end of 2006/07, but is unlikely to meet its target of reaching Level 3 by March 2008. This timing reflects the Council's wish to ensure that the processes to support Level 3 are not unnecessarily complicated and build on what is already in place. Equality impact assessments are being rolled out though, following the housing pilot. The Council is also looking to understand its relatively poor performance in the recruitment PIs related to the BME population and women in senior positions. The Council recognises the importance of addressing these issues and is committed to doing so in a structured way, which is important if the response to diversity issues is to be meaningful.
- 21 The Council is improving access to its services. The key achievement is the customer service centre, covering direct services, which went live in April 2007. This is intended to make contacting the Council easier and to deliver quicker responses to enquiries. The benefits were felt almost immediately when the centre was able to cope with double the normal number of calls that arose when strike action was taken by refuse staff. A strategy is being developed to include coverage of other departments. This is important if the community is to have improved access to services.

Encouraging healthy lifestyles

- 22** The Council is making good progress to encourage healthy lifestyles. A number of initiatives are making a difference to the health of the community. All schools are engaged with the Enhanced Healthy Schools Scheme, and the RUBothered youth drugs and alcohol referral scheme exceeded targets. The Fleming Park programme for teenagers has been extended to include Friday evening gym sessions, and the return to sport sessions for adults are being organised at The Hub and include sessions for tennis, badminton and fitness. A healthy walks programme was introduced last year as part of the tackling obesity initiative and the Lifestyle Change Course is being rolled out again in 2007/08 to provide one to one support on exercise and healthy eating. To encourage healthy eating a Cook and Eat project was supported in Norwood school from which a pack has been developed to facilitate other schools to participate. Much of this is being achieved through partnership working with the Primary Care Trust and County Council.
- 23** As well as these initiatives, the Council is providing facilities that support the drive for healthier living. The Pavilion in the Park project is the £2.5 million community building just completed to replace the Nightingale Centre at Fleming Park. It provides facilities for sport as well as accommodation for local community groups. New and improved play areas continue to be provided.

Enabling prosperous and safe communities

- 24** The Council is making good progress to deliver the actions that support this priority. However one area causes concern: the Government target of a 15 per cent crime reduction by 2008 will not be achieved. There has been an increase in some crime such as violence against the person, robberies, and vehicle crime, but a decrease in domestic burglaries and sexual crimes in 2006/07.
- 25** The Council is taking positive action to address the crime issues in the Borough. These include the installation of the Botley CCTV system in January 2008, which was funded through the local area committee set up by the Council in partnership with the police and the local store. A range of initiatives are pursued as well, such as funding the maintenance of overgrown gardens that the resident is unable to maintain on their own, to make them less of a signpost for thieves targeting the more vulnerable members of the community. This demonstrates that the Council is committed to improving safety in the area.
- 26** Support for businesses is good. This includes the extension of the Southern Entrepreneurs scheme which is going well with 199 joined so far against the 300 target, Meet the Buyer event and training events for local companies to find new opportunities and complete tender documentation. A new business grant scheme was launched in March 2007 designed to help small companies expand. It supports the costs towards staff training, marketing, purchase of equipment, moving to new premises and employing additional staff. These initiatives are important if the Council is to provide tangible support to the local economy.

- 27 Good progress is being made to improve the retail and leisure offer in the Borough. The Swan Centre Leisure Scheme will provide a cinema and other leisure and retail facilities and a development brief for the improvement of the Chandlers Ford shopping area is out for consultation. These schemes are important if the Council is to promote significant improvement to the prosperity of the area.
- 28 Although the Chickenhall Lane development is falling slightly behind schedule, there has been progress. Partner organisations are being brought together and work with the County Council to address the transport aspects is progressing well. These are important projects that underpin the Council's work to address both the housing and economic issues facing the area.

Promoting sustainability through our planning

- 29 In March 2007 the Council demonstrated its strong commitment to addressing climate change issues. It committed itself to becoming carbon neutral in its own business activities by 2012 as well highlighting its support to achieve the Government target for residential development by 2016. Already the Council is promoting initiatives to address climate change issues. These include using the Green Energy Reserve Fund to pay planning application fees for retrofit of renewable energy technologies. The Heating and Power plant at Fleming Park is providing heat and power for itself and the Council offices. Another initiative is the Green Homes Welcome Pack distributed by local estate agents introduced in June 2007. These help demonstrate that the Council is adopting a broad range of initiatives to support its aim of improving its response to climate change issues.
- 30 Support for transport initiatives is good. The coverage of school travel plans is at 93 per cent. It is anticipated that in 2007/08 all schools in the area will have one, bar possibly one, where work has just started. The Walking Bug Club school initiative was extended in January 2007 with additional schools joining in September. Progress has also been made to support the use of public transport through the production of travel to hospital booklets.
- 31 The time taken to process planning applications shows a mixed picture in terms of improvement and sustaining performance. The speed of processing 'minor' and 'other' planning applications, although above average, slowed down in 2006/07. However, unaudited figures for 2007/8 up to September 2007 show some improvement. Speed of processing 'major' applications improved in 2006/07 and remained in the best performing 25 per cent, although figures to September 2007 suggest that this is slowing down slightly and is below the Council's target.

Providing good value for money.

- 32 The Council is providing good value for money. It scored a three overall in this aspect of its Use of Resources assessment. Where there are high cost services the external auditors are satisfied that the Council is aware of these and understands the reasons. In April 2007 the Council's auditors judged the framework for achieving value for money was undeveloped, since there was little information on unit costs and other efficiency and value for money indicators at individual service level. Since then, the Council has increased its focus on value for money and further improvements are planned to enable it to better manage this aspect.
- 33 The Council has performed well in meeting its Gershon targets for savings. The way that these savings have been achieved has often not been in accordance with the plans being followed though, but it demonstrates that the Council is proactive in seeking savings and improvements in how it delivers value for money.

How much progress is being made to implement improvement plans to sustain improvement?

- 34 The Council is making good progress against its improvement plan actions. This is shown in the strategic priorities monitoring report which shows that the overwhelming majority of actions are being implemented on time and to target. In areas where this is not the case, an explanation is provided together with what action is being taken to remedy the position. This structured approach helps ensure that improvement is delivered.
- 35 Supporting improvement planning is a strong planning framework that brings forward new schemes and initiatives for funding in a structured way. This is illustrated by the speech of the Leader to Council in February 2007 that lists a number of initiatives to be funded by the capital programme having been developed over a period of years, such as the 'Pavilion in the Park'. Also when committing itself to new policy areas such as to becoming carbon neutral, mechanisms are put in place that support implementation. In this case a Climate Change Board chaired by the Leader has been established to drive forward projects including the review of the Climate Change Strategy and action plan, and development of the local Climate Change Compensation Fund. This is underpinned by improvement to the Council's project management approach and the introduction of a comprehensive project register. Currently the Council is in the process of reviewing its corporate priorities to identify the specific outcomes that it wants to achieve. This provides the overall strategic framework within which the improvement proceeds and, together with the planning framework, enhances the Council's ability to deliver its improvement plans.
- 36 Scrutiny is being used constructively to promote improvement. Following a review, the function is being strengthened in order to work more closely with the cabinet, to be involved more in policy development and be more discerning on what areas are scrutinised. This strengthens the Council's effectiveness as there is greater challenge on achieving priorities.

- 37 Progress to embed the performance management system has been slower than anticipated. The electronic system is, according to the Council's auditors, still in development. Importantly, the cultural changes needed to support improved performance management have not yet been fully embraced by all. This is important to get right if the Council is to work in a timely way to address any performance issues arising.
- 38 Good progress is being made to synchronise the receipt of financial and performance information. The management team now considers the financial and performance reports at the same meeting and the next stage is to combine the reports in order to highlight the relationship more strongly. This demonstrates that the Council is committed to achieving value for money. However, in 2006/07 there was a large under spend in the budget which had not been forecast. This means that the Council, despite its reporting mechanisms, is not necessarily able to ensure that the resources available to it are being fully used.
- 39 The Council's collection and use of data was scored a 2 overall by its auditors, meaning that it is delivering adequate performance. Some improvement had been noted since the previous year, but gaps remain in how the Council ensures that data quality is monitored formally. Potentially this undermines the confidence that the Council can have in the quality of the data used in its performance reporting. A data policy is being produced and was agreed by the management team in January 2008.
- 40 The Council is improving its capacity to deliver its plans. Partly this is a consequence of improvements to the processes underpinning delivery of action as described above. Importantly it is also because of the changes to the business unit structures which have provided improved support to areas such as IT. This means that the staff are better placed to focus their efforts to supporting the Council's priorities.
- 41 Financial capacity is sufficient for the Council to deliver its plans in the short-term. It has a balanced budget and appropriate level of reserves. The Council is facing a challenge in the future with regard to the availability of funds. However, it is taking advantage of opportunities to attract finance such as through the receipt of funds from the South Street development which also will provide additional revenue. Through the Efficiency Programme, savings as well as efficiencies are being achieved. The first phase has been completed and found £240,000 worth of savings as well as better ways of working. Also, an improved approach to procurement is bringing benefits. For instance investigating shared services and having a dedicated procurement officer shared with Winchester City Council. This helps the Council prepare for future funding gaps as well as enhance capacity to meet its priorities.

Service inspections

- 42 No service inspections were carried out in 2006/07.

Other performance work

- 43** The Hampshire Local Area Agreement (LAA) is progressing well with good engagement and cooperation from all partners, including District Councils. The LAA runs from April 2006 to March 2009. The original agreement and action plan was signed in February 2006 and the outcomes, indicators and targets have been updated for 2007/08. The LAA helps focus the attention of partners on eight priority outcomes and four Flagship initiatives drawn from the Hampshire Sustainable Community Strategy and the eleven District Sustainable Community Strategies.
- 44** Hampshire Partners are setting up a Hampshire Senate. This will bring together and streamline LAA and Hampshire Strategic Partnership (HSP) governance and is intended to improve leadership and accountability. The HSP with partners is currently refreshing its Sustainable Community Strategy – ‘Shaping our future together’ 2007-2017 to be signed off by June 2008. District Councils are engaged and contributing effectively to this.

The audit of the accounts and value for money

- 45 Your appointed auditors, PWC, have reported separately to Resource Scrutiny Panel on the issues arising from our 2006/07 audit and have issued:
- an audit report, providing an unqualified opinion on your accounts and a conclusion on your vfm arrangements to say that these arrangements are adequate on 21 September 2007.

Use of Resources

- 46 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).
- 47 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in these five areas as follows.

Table 1

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

(Note: 1 = lowest, 4 = highest)

The key issues arising from the audit

- 48** In 2006/07, the Council's General Fund balance increased by £416,000 to £2.7 million and the net operating expenditure was £17.3 million. The increase to the general fund of £416,000 was compared to a revised budget of a decrease in the general fund balance of £790,000. The difference of a £1.2 million underspend was due to a large number of small unrelated variances across a number of departments not being accurately forecast. Of the £1.2 million underspend, a total of £554,000 was identified as budget management items, the balance of £646,000 was not forecast as part of the December monitoring process. These variations are being reviewed by management to ensure that future budget forecasts are more accurately determined in 2007/08.
- 49** In December 2007, the Council scored 3 for each of the five use of resources elements which is a good achievement. The Council is continually looking at ways of further improving its risk management and value for money arrangements.

Looking ahead

- 50 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.
- 51 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.
- 52 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

- 53 This letter has been discussed and agreed with Bernie Topham. A copy of the letter will be presented at the Audit and Risk Management Committee on 24 June 2008. Copies need to be provided all Council members.
- 54 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Council during the year.

Table 2 Reports issued

Report	Date of issue
Audit and inspection plan	March 2006
Interim audit report	31st May 2007
Opinion on financial statements	21st September 2007
Value for money conclusion	21st September 2007
Annual audit and inspection letter	March 2008

- 55 The Council has taken a positive and constructive approach to audit and inspection work, and I wish to thank the Council's staff for their support and cooperation during the audit.

Availability of this letter

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

Linda Krywald
Relationship Manager

March 2008