

January 2006

# **Annual Audit and Inspection Letter**

**Plymouth City Council**

**Audit 2004-2005**

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## Key messages

### Council performance

- 1 Plymouth City Council has been assessed as a two-star Council under the updated Comprehensive Performance Assessment (CPA) framework, and we concluded that the Council was improving adequately. Under the previous CPA regime, Plymouth was assessed as being a 'weak' council.

### Financial position

- 2 The Council's financial position remains very serious. It faced underlying pressures of £6 million on this year's budget, rising to an estimated £11 million for 2006/07 and up to £34 million by 2008/09. This must be viewed in the context of a General Fund reserve of only £3.3 million.
- 3 However, during the past year Plymouth has strengthened and developed its longer-term financial planning. This has enabled it to:
  - identify the scale of the financial pressures it is facing over the current and the next three financial years;
  - share these with all internal and external stakeholders; and
  - start to proactively address the deficit position.
- 4 Steps being taken by the Council to address the financial shortfall include:
  - taking action on 18 separate 'workstreams' which will contribute to securing the Council's financial future;
  - a programme of redundancies to reduce costs;
  - capitalisation of some spending with the approval of the ODPM; and
  - obtaining support from the ODPM, particularly to address the Council's capacity issues.
- 5 The projected General Fund overspend for 2005/06 has now been reduced to £1.6 million.

## The accounts

- 6 We issued an unqualified opinion on the Council's accounts for the year ended 31 March 2005 on 31 October 2005.
- 7 Our SAS 610 report drew to members' attention the treatment of LOBO loans which the Council, in common with many other authorities, has taken out as part of its treasury management strategy. We reported that the treatment of interest payable in the accounts did not comply with CIPFA's Statement of Recommended Practice. The amount that was undercharged, £1.8 million, was not material.

## Other accounts and governance issues

- 8 The Council's overall governance arrangements are adequate, although our Use of Resources assessment and the Council's own Statement on Internal Control (SIC) identified a number of areas of weakness or risk. The Council has plans in place to address these.

## Direction of Travel statement

- 9 Our 'Direction of Travel statement', published in December 2005, assesses the progress that the Council has made in the last year.
  - Plymouth is making improvements to some priority services, but progress is mixed. Housing, benefits, recycling and planning have improved, and education remains good. However, children's social services are still poor.
  - The Council has started to improve wider community priorities through projects such as accessible play provision for disabled children and work with health bodies to reduce inequality for vulnerable people. It has also taken steps to improve value for money but it is too soon for benefits to have been achieved.
  - The Council has improved its systems for delivering its priorities, including managing performance, buying goods and services, and asset management. It has also improved its approach to preparing future plans. But the Council's ability to deliver its plans is restricted by lack of money, since its spending exceeds income, and detailed plans to rectify this are only at an early stage.
  - Senior managers are severely stretched by the scale of improvements needed and the Council's corporate improvements have not filtered through to some key services. As a result, the Council cannot be sure that it will improve in these areas.

## Action needed by the Council

- 10 The Council needs to continue:
  - focusing efforts on addressing its poor financial outlook;
  - seeking improvements in service management and delivery; and
  - seeking ways to strengthen its capacity, particularly at senior manager level.
- 11 The council published its updated improvement plan addressing these issues in January 2006.

## Performance

### CPA scorecard

- 12 The CPA scorecards and Direction of Travel summary statements for all Unitary and County Councils were published on 15 December 2005.
- 13 Table 1, below, sets out the Council's scores for each of the components that make up the overall CPA rating.

**Table 1 CPA scorecard**

Plymouth is a two-star council

Element	Assessment
Direction of Travel judgement	Improving adequately
Overall	Two stars
<b>Current performance</b>	
Benefits	4 out of 4
Children and young people	2 out of 4
Culture	2 out of 4
Environment	2 out of 4
Housing	3 out of 4
Social care (adults)	2 out of 4
Use of resources	2 out of 4
<b>Corporate assessment/capacity to improve (as assessed in 2004)</b>	2 out of 4

(Note: 1 = lowest, 4 = highest)

- 14 The CPA judgements this year have been made using the revised methodology: *CPA - the harder test*. As the title implies, CPA is now a more stringent test with more emphasis on outcomes for local people and value for money. We have also added a new dimension, a Direction of Travel statement, which assesses how well councils are improving.
- 15 Under the new framework, the City Council has been assessed as improving adequately and its overall CPA category is two stars. The Direction of Travel statement is set out above in this letter's key messages.

## Progress assessment

- 16 Our progress assessment, published in December 2005, sought to measure the impact and sustainability of improvement activity in Plymouth. The review presented an analysis of the Council's progress to date based on:
- the Council's implementation of its improvement and recovery plan;
  - comparison with the baseline position of the Comprehensive Performance Assessment; and
  - review of audited performance indicators, inspection reports and plan assessments.
- 17 We concluded that Plymouth had made progress in priority areas and had addressed many of the weaknesses in the 2004 CPA report. It had worked hard to bring about further improvements to its leadership, corporate management team and the corporate infrastructure and these are now beginning to filter through to better outcomes for citizens in several services.
- 18 However, we noted that:
- the Council's financial position is very serious;
  - its senior managers are overstretched by the scale of the delivery and improvement agenda; and
  - it has been inconsistent in embedding its corporate improvements.
- 19 As a result, the Council cannot be assured of continued progress.
- 20 Nevertheless, the Council has a clear commitment to managing and improving value for money and has introduced a number of good practice methods, although it is too soon for benefits to have been realised.
- 21 Importantly, Plymouth citizens are beginning to experience improved outcomes in some areas:
- housing, recycling and planning performance indicators have improved since the last assessment;
  - the Benefits Fraud Inspectorate score improved from 3 to 4 and the quality of education provision has remained good;
  - the Council has also prepared plans to begin to address the need for a new waste disposal facility, although this remains a risk as the Council is facing an extremely challenging deadline;
  - social services for children have not improved and, although there has been some improvement in services for adults, there is more work to do; and
  - relative lack of progress is also apparent in some crime indicators and user satisfaction.
- 22 We remain committed to working in partnership with other regulators and the ODPM in helping Plymouth to maintain its improvement.

## Other performance work

### Overview and scrutiny review

- 23 Our review of Overview and Scrutiny was reported in July 2005.
- 24 We concluded that Plymouth's overview and scrutiny arrangements had matured greatly over the past 18 months. Like other councils, though, Plymouth had more work to do in ensuring its overview and scrutiny function was a fully effective part of its monitoring framework.
- 25 In its striving to improve, we concluded that the Council was trying to do too much at once and needed to focus in the short-term on four key challenges:
- integrating the overview and scrutiny function into the daily workings of the Council and linking it more firmly with other parts of the performance management framework (such as Cabinet);
  - adopting a more flexible structure for overview and scrutiny that allows it to consider both high-level, strategic issues and local-level, detailed topics in appropriate ways – any new structure should be developed with, and tailored to the Council;
  - scaling down and targeting the overview and scrutiny work programme, applying a more robust selection criteria that emphasises topics of strategic importance and assigns priorities; and
  - further developing the monitoring role of overview and scrutiny so that it is better able to challenge key corporate and service performance as well as monitor its own impact.
- 26 An action plan has been agreed to address these issues.

### Management of human resources

- 27 Our review, finalised in July 2005, considered the quality and appropriateness of the Council's Human Resources organisational arrangements and a range of current HR policies, procedures and practices. We also reviewed how effectively these are being used by the Council to deliver its objectives and improve its capacity for the future.
- 28 We concluded that Plymouth's HR arrangements generally accorded with best practice and met relevant statutory requirements and guidelines. A review by Deloitte also tested the implementation of key policies with stakeholders to identify levers and barriers and the Council has taken forward the key recommendations from this.
- 29 The Council has developed an effective People Strategy, although action plans and monitoring systems were not yet robust. Our analysis of the Council's People Strategy shows that it referenced the main factors which are critical to the successful management of people. However, we noted that the strategy could be more progressive and positive in its approach and there were several areas requiring further development.

- 30 Our work also focused on three key strands of HR in greater detail:
- HR strategy;
  - sickness absence; and
  - recruitment and retention.
- 31 Our recommendations have been taken on board by the Council and have been reported to a recent meeting of the monitoring board.

### **Performance management**

- 32 The aims of this review, carried out in October 2005, were:
- to provide assurance that recommendations on performance management made in our report from May 2004 were being addressed;
  - to support the Council in focusing on improving the way in which performance is managed;
  - to review in more detail two aspects of performance management arrangements:
    - use of QPR for performance monitoring; and
    - development of a new service planning framework.
- 33 Our main conclusion was that Plymouth was making good progress in improving its performance management. In particular, the Council is taking a more practical approach, including:
- investing in the right building blocks;
  - receiving full support from senior managers and councillors for improvements to the performance management framework;
  - improving reporting performance to councillors;
  - learning from experience by improving training, developing the way it uses benchmarking, and learning from other councils;
  - steadily improving the way in which it gathers and reports performance information using the QPR system;
  - making good progress with its new service planning framework by focusing on the right issues and carrying out a successful pilot; and
  - building support and ownership of the service planning process by involving staff and partners.

- 34 However, we also identified room for improvement. In particular, more work is needed to be done to improve prioritisation, improve the consistency and impact of staff appraisals, improve communication, and manage key risks to the service planning project. The greatest weaknesses were identified as:
- the lack of clarity and relative priority of some corporate and community priorities;
  - an inconsistent use of staff appraisals, as a result of the restructures taking place across council departments;
  - patchy staff communication and an underdeveloped council Intranet;
  - risks to the success of the service planning, including the timing and integration with other key corporate plans, gaining full support from middle managers, and maintaining staff morale;
  - inconsistent service standards, many of which do not reflect corporate standard; and
  - underdeveloped management of the performance of partnerships.
- 35 An action plan has been agreed to address these issues and has been substantially implemented.

### **Procurement**

- 36 This review, reported in January 2006, covered:
- corporate arrangements for procurement;
  - procurement policies and procedures;
  - managing procurement processes;
  - partnering, collaboration, and support for the local economy;
  - e-procurement; and
  - skills and training.
- 37 We concluded that the Council had significantly strengthened its corporate arrangements for procurement, although there was scope for further strengthening in some areas, including governance arrangements and completion of the procurement manual.
- 38 An action plan has been agreed to address our recommendations during 2006/07.

### **Partnership working progress report**

- 39 This report, reported in January 2006, assessed the progress the Council, working with other partners in Plymouth 2020 Partnership (P2020), has made on our recommendations during 2005. It concluded that most of our recommendations had been progressed but that implementation continues in 2006.

**40** Achievements to date include:

- the Council has continued to strengthen its leadership through P2020, with the Leader and Chief Executive playing an active part in changes agreed by the partnership;
- the Board and executive are operating more effectively than at the time of our previous review;
- staffing of the partnership office has been increased, and the Council now provides more effective oversight;
- the partnership has agreed a revised structure that has clearer roles and responsibilities; and
- the City Strategy has been revised in outline, though not in detail, with the Chief Executive leading a reformulation to a simpler and clearer set of joint goals under just four headings of 'healthy, wealthy, safe (and strong) and wise'.

**41** We will continue to monitor progress in 2006.

## **BVPP and performance information**

**42** We reported that the audit of the best value performance plan (BVPP) was complete in December 2005 and that there were no matters requiring report.

**43** The results of our performance information (PI) audit were also satisfactory. Our interim review helped this process and changes in PIs identified as necessary by the audit have been effected.

## **Other Audit Commission inspections**

### **Repairs and maintenance re-inspection**

**44** Plymouth was assessed as providing a 'fair' one-star service (on a scale of zero to three stars) that has excellent prospects for improvement. The inspection found that homes are maintained to a reasonable standard. General repairs are completed much sooner than before and most are done with minimal disturbance to tenants. Larger works are completed on time and tenants are given choice about the works and materials used.

45 In addition:

- appointments are available for tenants when they report repairs;
- most repairs are completed on time and in one visit, reducing disturbance to tenants;
- tenants have a wide choice in the completion of planned maintenance works and there is increasing tenant participation in how services are delivered;
- repairs to empty homes still take too long - at over 50 days;
- services are not consistently provided in a way that meets the diverse needs of tenants; and
- limited progress has been made to improve and demonstrate that services represent value for money.

46 The inspection recommendations included:

- consult tenants more widely on changes to services - to ensure they meet their needs - and undertake more comprehensive satisfaction monitoring;
- establish a long-term capital programme, for at least a three to five-year period, that is published and achieves the decent homes standard; and
- analyse and assess value for money for all aspects of the repairs and maintenance service and ensure that the most appropriate procurement methods are utilised to achieve value for money.

## Working with other inspectorates and regulators

47 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. These include:

- Ofsted;
- Commission for Social Care Inspection (CSCI);
- DfES;
- Government Office for the South West (GOSW); and
- the ODPM appointed lead official.

48 We share information and seek to provide 'joined up' regulation to the Council in order to ensure that there is no duplication in the work that is undertaken. We also participate in meetings of the Plymouth monitoring board.

49 During the last year, the Council has received the following assessments from other inspectorates.

### **CSCI - Children's inspection**

- 50 In November 2005, CSCI reported its inspection of Plymouth's children's services which was carried out in June 2005. The inspection found there had been a considerable amount of hard work and commitment by staff, and there had been progress in some respects since the previous inspection in July 2004.
- 51 However, the report said there had been insufficient improvement in frontline services to make the needed significant impact on service quality and child protection. As a result the inspectors' conclusion was the same as it was for the previous year's inspection:
- services for children and their families were 'not serving people well'; and
  - the capacity for improvement remained 'uncertain'.

### **CSCI - Adult and children's services**

- 52 In December 2005, CSCI produced its performance ratings for Plymouth social services, based upon the children's inspection and its performance review of adult services. The outcomes were:
- social care services for children were not serving people well and the capacity for improvement was uncertain;
  - social care services for adults were serving some people well with promising capacity for improvement; and
  - the overall social care star rating was zero stars.

### **CSCI and Ofsted - APA of children's services**

- 53 The annual performance assessment of Plymouth's education and children's social care services by Ofsted and CSCI was also published in December 2005. This concluded that outcomes in each of the key elements being assessed were as follows.

**Table 2 Annual performance assessment of council children's services**

Outcomes for key elements

<b>Key element</b>	<b>Plymouth outcome</b>
How far do local services contribute to improving children and young people's health?	Adequate
How far do local services contribute to children and young people staying safe?	Unsatisfactory
How far do local services contribute to children and young people enjoying and achieving?	Good
How far do local services enable children and young people to make a positive contribution?	Satisfactory
How far are local services contributing to the economic well-being of children and young people?	Adequate

- 54 CSCI and OFSTED assessments produce service scores which have fed into this year's CPA assessment for the Council.
- 55 While the Council faced a challenging year in its social services, it is now accelerating the transition to a new joint Children's Department, headed by the Director of Education. It is also anticipated that the council will receive significant support via CSCI and DfES in 2006 with the aim of helping it to show improvement.
- 56 However, the timescales are very tight to show the required improvements by September 2006 because implementation will take time to embed. Both CSCI and DfES have recognised this.

## Accounts and governance

We issued an unqualified audit opinion on the Council's financial statements for 2004/05 on 31 October 2005.

The Council's financial position remains very serious. However, it has strengthened and developed its longer-term financial planning and is now addressing pressures over the medium term rather than purely on an annual budget basis.

The Council's overall governance arrangements are adequate, although our Use of Resources assessment and the Council's own Statement on Internal Control (SIC) identified a number of areas of weakness or risk. The Council has plans in place to address these.

### Audit of 2004/05 accounts

- 57 The published accounts are an essential means by which the Council reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources.
- 58 The achievement of finance staff in meeting the earlier deadline of 31 July for producing the accounts is commended. However, the deadline for 2005/06 is being brought forward by another month, representing a challenging timetable for the Council, and requiring early planning. This will be particularly challenging for Plymouth, where a significant number of staff who are involved in accounts preparation are due to leave as part of the redundancy programme.
- 59 We gave an unqualified opinion on the 2004/05 accounts on 31 October 2005.

### Matters arising from the final accounts audit

- 60 We are required by Statement on Auditing Standard (SAS) 610 to report to members certain issues arising from the accounts audit. We reported to members the following:

*'Interest on Lender's Option Borrower's Option (LOBO) loans is declared in the accounts in the year which it is paid. CIPFA's Statement of Recommended Practice (SORP) states that the interest should be accrued and accounted for in the accounts on a basis which reflects the overall economic effect of the borrowings. This requires the interest to be modelled to reflect the average interest rate across the term of the loan. Applying this policy, the cumulative undercharge in Plymouth's accounts from 2001/02 is estimated to be £1.757 million at 31 March 2005 (based on a residual loan life of ten years).'*

- 61 The amount is not material.

- 62 Our audit also identified a number of issues which were amended in the accounts but which are not significant enough to draw to the attention of Members.

## Financial standing

- 63 The Council's financial position remains very serious. However, it is now starting to address pressures over the medium term rather than purely on an annual budget basis.
- 64 During the past year the Council has strengthened and developed its longer-term financial planning. In particular it has:
- identified the scale of the financial pressures it is facing over the current and the next three financial years;
  - shared these with all internal and external stakeholders; and
  - started to proactively address the deficit position.
- 65 Plymouth has faced underlying pressures of £6 million on this year's budget, rising to an estimated £11 million for 2006/07 and up to £34 million by 2008/09. This must be viewed in the context of a General Fund reserve of only £3.3 million.
- 66 Steps being taken to address the financial shortfall include:
- taking action on 18 separate 'workstreams' which will contribute to securing the Council's financial future;
  - working closely with ODPM to gain approval for capitalisation of redundancy costs in 2005/06. A significant programme of voluntary redundancies has now been completed and further requests for capitalisation have been made to ODPM for the period 2005/06 to 2008/09; and
  - working closely with ODPM/DfES to address the capacity pressures the Council is facing via staff or resources assistance.
- 67 The projected General Fund overspend for 2005/06 has now been reduced to £1.6 million. The budget for 2006/07 will be presented to Cabinet on 21 February 2006.

## General fund spending and balances

### General fund outturn 2004/05

- 68 The outturn for the year was £269.0 million, which represents an increase of £2.4 million compared with the original approved budget of £266.6 million. The Council approved a £2.3 million transfer from the working balance to support the 2004/05 outturn per the original budget, and £2.5 million additional monies to fund the overspend. As a result the working balance position has deteriorated from £7 million at 1 April 2004 to £3.3 million at the end of the year.

**General fund budget 2005/06**

- 69 A budget of £278.9 million was approved for 2005/06, which included efficiency savings of £1.6 million, a capitalisation direction of £1 million and other capitalisation measures of £1.3 million. Additionally, £0.6 million was transferred to the working balance from earmarked reserves. As a result, a working balance of £3.3 million was achieved.
- 70 A report to Cabinet in October 2005 highlighted projected budget pressures for the year of £6.2 million after four months of the year. This had been reduced by agreed management actions to £3.9 million, an amount that could not be financed from the working balance.
- 71 Subsequent monitoring reports have reflected the efforts of management to reduce the budget pressures and the report to Cabinet on 24 January 2006 shows a projected deficit of £1.7 million. This position would still leave the working balance significantly less than the £3 million set by the Council.
- 72 Measures being taken to address the position have been outlined above.

**General fund outlook**

- 73 The Medium-term Financial Forecast (MTFF) was updated in June 2005 and the latest progress was reported to the Cabinet in November 2005.
- 74 Significant deficits are predicted for the next three years, increasing annually from £11 million in 2006/07 to £34 million in 2008/09. There are significant pressures on the general fund that must be addressed. Plans to tackle these deficits are at an advanced stage, however, and will be presented to Council on 21 February 2006.

**Schools PFI**

- 75 During the year, we have monitored progress with the Council's schools PFI project. The minimum annual contribution that the Council was required to make from its own resources was £3.1 million under the original scheme. In last year's letter, we highlighted our concerns about the affordability of the scheme over the medium and long-term.
- 76 In a report to the Cabinet in December 2005, the maximum affordable annual contribution was said to be £0.5 million per annum. As part of the council's approach to addressing longer-term financial pressures, an application to re-scope the project has been submitted and a decision is awaited from the Department for Education and Skills.

**Housing revenue account (HRA)****HRA outturn 2004/05**

- 77 The outturn for the year reported a £0.14 million surplus, which represents a decrease of £0.9 million from the budget. The working balance has increased from £1.57 million at April 2004 to £1.71 million at the year-end.

### **HRA budget 2005/06**

- 78 A budget was approved which estimated a surplus of £0.6 million for the year. A report to Cabinet in October 2005 highlighted a projected deficit of £2.8 million, caused by a projected deficit on the building account. The report confirmed that an action plan had been put in place to address the deficit.
- 79 The report to Cabinet on 24 January 2006 shows a reduced projected overspend of £0.4 million, largely due to a lower recharge being predicted from the building account. This would reduce the working balance to £1.3 million.

### **HRA outlook**

- 80 The HRA budget report to Cabinet on 18 January 2005 included planned surpluses in excess of £1 million for the next two years. The projected balance is expected to increase from £1.6 million at 31 March 2005 to £3.9 million at 31 March 2008.
- 81 A stock options exercise has recently been carried out. In June 2005, the 'Mixed Options' was approved by the Council as the best way forward in this area.

### **Capital expenditure**

- 82 One of the Council's 18 workstreams is a review of the capital programme which was completed, reported through Cabinet and scrutinised in September 2005. The Council now has a realistic capital programme for the period 2005/06 to 2007/08 which is affordable and based on a realistic assessment of achievable capital receipts over the period.
- 83 The latest budget monitoring report highlights a risk over the achievement of capital receipts for 2005/06 financial year but also indicates potential slippage in the programme. In the event that not all the required capital receipts are received in the financial year the Council has indicated it would take unsupported borrowing until such time as the capital receipts are achieved.

### **Capital outturn 2004/05**

- 84 Actual expenditure for 2004/05 was £59 million against an original approved budget of £61.9 million and a revised budget of £75.6 million. With a history of slippage against capital schemes, it was recognised corporately that the revised budget was not achievable and an estimate of £60 million was used for monitoring and forward planning. The areas of slippage were reported to Cabinet in June 2005.

### **Capital budget 2005/06 and outlook**

- 85 The original 2005/06 capital programme was set at £71.1 million and subsequently revised to £76.7 million in September 2005. The forecast outturn is £72.2 million as at 30 November. After eight months of the year, only 49 per cent of the revised programme had been spent.

- 86 Capital receipts of £13.2 million are required to finance the capital programme, but only £11.5 million of receipts are currently anticipated. Although the report to Cabinet in January 2006 states that £2 million slippage was built into the original programme, actual receipts to the end of November were only £2.5 million. If there is a shortfall it will be met by unsupported borrowing.

## **Income collection and arrears**

### **Council tax, national non-domestic rates and community charge**

- 87 The Council tax collection rate increased from 94 per cent in 2003/04 to 95.1 per cent in 2004/05. This is an improvement, although still below the unitary council average of 95.8 per cent and the government upper quartile target of 97.3 per cent. Year-end arrears fell from £15.8 million to £14.7 million after write-offs during the year of £0.8 million.
- 88 The national non-domestic rates (NNDR) collection rate fell from 98.99 per cent in 2003/04 to 97.1 per cent in 2004/05. This is below the unitary council average of 98.16 per cent and the government upper quartile target of 99.06 per cent. The collection rate fell because less recovery work took place during the conversion to a new system. Year-end arrears increased from £1.9 million to £2.9 million after write-offs in the year of £0.1 million.
- 89 Community charge gross arrears at 31 March 2005 were £0.63 million, unchanged from 2003/04.

### **Housing rents and sundry debtors**

- 90 The collection rate for housing rents has changed marginally from 96.54 in 2003/04 to 96.58 in 2004/05. This is below the unitary council average of 97.02 per cent and the government upper quartile target of 97.59 per cent. Year-end gross arrears have fallen from £5.2 million to £5.0 million (4 per cent). The bad debt provision increased slightly from £3.3 million to £3.5 million.

## **Use of resources judgements**

- 91 The use of resources judgements, reported in November 2005, are a new assessment which focuses on financial management but links to the strategic management of the Authority. It looks at how the financial management is integrated with strategy and corporate management, supports council priorities and delivers value for money. It will be carried out annually, as part of each council's external audit. For single tier and county councils, the use of resources assessment forms part of the CPA framework.

- 92 For the purposes of the CPA we have assessed the Council’s arrangements for use of resources in five areas.

**Table 3 Use of resources summary scores**

Plymouth scores 2 overall

Element	Assessment
Financial reporting	2 out of 4
Financial management	1 out of 4
Financial standing	1 out of 4
Internal control	2 out of 4
Value for money	2 out of 4
Overall	2 out of 4

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

- 93 In reaching these judgements, we have drawn on our regularity audit work and supplemented this with a review against specified key lines of enquiry for each of the five elements covered by the assessment.
- 94 Overall, the Council has been rated at level 2 which means that it meets minimum requirements and is performing adequately. However, within this overall picture our concerns about the Council's financial standing and ability to deliver services within its available resources remain.

95 Our detailed findings are summarised below.

#### **Table 4 Use of resources main findings**

Overall, Plymouth is performing adequately but concerns remain about its financial position

<b>Assessment criteria</b>	<b>Findings</b>
Financial reporting	2 out of 4
<p>1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.</p> <p>1.2 The Council promotes external accountability.</p>	<p>The quality of the Council's 2004/05 annual statements approved and submitted for audit met the required standard. The accounts have been produced on time with good supporting working papers.</p> <p>The accounts contained no unadjusted material errors and all but one of the non trifling matters arising were adjusted.</p> <p>Statutory requirements have been met for publishing the accounts, and key documents (agenda, minutes and accounts) are all available on the web.</p> <p>There is some scope for extending accountability.</p>
Financial management	1 out of 4
<p>2.1 The Council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities.</p> <p>2.2 The Council manages performance against budgets.</p> <p>2.3 The Council manages its asset base.</p>	<p>Financial management arrangements have been strengthened during the past year but, overall, fall below minimum requirements.</p> <p>The Council now has a three year MTFP. However, this shows a substantial and growing gap in the coming years between resources and needs, which has yet to be addressed. As it stands it is not, therefore, soundly based, nor is it capable of delivering the Council's strategic priorities.</p> <p>Budget-setting arrangements are now more robust. However, monitoring and control during the first seven months has not been effective. In addition the budget included significant unidentified savings for 2005/06.</p> <p>The Council has greatly strengthened its asset base management but this is still work in progress.</p>

Assessment criteria	Findings
Financial standing	1 out of 4
3.1 The Council manages its spending within the available resources.	<p>The Council is not managing its spending within the available resources.</p> <p>As noted above, significant work has been done to strengthen this area. However, as indicated, monitoring and control during the first seven months has not been effective, and the agreed budget included significant unidentified savings.</p>
Internal control	2 out of 4
<p>4.1 The Council manages its significant business risks.</p> <p>4.2 The Council has arrangements in place to maintain a sound system of internal control.</p> <p>4.3 The Council has arrangements in place designed to promote and ensure probity and propriety in the conduct of its business.</p>	<p>Risk management arrangements are in place but reporting arrangements to members should be strengthened and continuing effort is needed to embed risk management in corporate business processes and at all levels of the Authority.</p> <p>The internal control framework is generally adequate but a more pro-active approach is desirable.</p> <p>The framework for standards and probity is generally adequate but should be strengthened.</p>
Value for money	2 out of 4
5.1 The Council currently achieves good value for money.	<p>The Council meets the standard required for achieving value for money. This is because:</p> <ul style="list-style-type: none"> <li>• it has an overall understanding of how costs and performance compare with other authorities, and in some services has undertaken detailed benchmarking;</li> <li>• total expenditure is just below average compared to statistical nearest neighbours, and the level of council tax is at the lower quartile;</li> <li>• there is evidence that some major services, eg education, combine good results with relatively low spending; but others, eg social services, have high costs but continuing quality problems;</li> <li>• the Council is taking steps to address the main areas where value for money appears poor; and</li> <li>• while capital spending has been poorly controlled in the past, a revised approach has now been agreed.</li> </ul>

Assessment criteria	Findings
5.2 The Council manages and improves value for money.	<p>The Council meets the standard required for managing and improving value for money. This is because:</p> <ul style="list-style-type: none"> <li>• there is strong corporate leadership in improving efficiency;</li> <li>• a number of good practice initiatives are now in place to help deliver VFM; and</li> <li>• procurement arrangements have been greatly improved but are a work in progress.</li> </ul> <p>However, many of these initiatives are very new and outputs are not yet apparent in many cases.</p> <p>In addition, the Council's investment in social services has so far failed to deliver as planned, and further investment is now being sought.</p>

- 96 Our report also highlighted the opportunities to improve that exist for Plymouth.
- 97 As indicated above, our use of resources judgements draw heavily upon our 'financial aspects of corporate governance' work. The following sections summarise briefly these conclusions under the relevant code of practice headings.

## Systems of internal financial control

- 98 We have not identified any significant weaknesses in the overall control framework that are not reflected in our Use of Resources assessment or included in the Council's own Statement on Internal Control (SIC).
- 99 The key issues which the Council highlighted in its SIC included:
- financial management - developing longer-term planning and addressing budget pressures;
  - asset management - strengthening management systems;
  - Management of waste - addressing the issue of future disposal;
  - employees - addressing the single status/equal pay issue and developing workforce planning;
  - business continuity - strengthening arrangements;
  - new IT systems - project management; and
  - partnerships - improve management arrangements.
- 100 These are published in full with the 2004/05 accounts.

## **Standards of financial conduct and the prevention and detection of fraud and corruption**

- 101 We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption. Detailed testing of the arrangements is undertaken by Internal Audit.

### **Internal Audit**

- 102 Internal Audit has progressively strengthened its approach in recent years. However, planned redundancies mean that it will be re-organised and a great deal of audit experience will be lost. The Council will need to ensure that its effectiveness is not adversely affected.

## **Legality of transactions**

- 103 We have not identified any significant weaknesses in the framework established by the Council for ensuring the legality of its significant financial transactions. The monitoring officer has not brought any matters to our attention during the year.

### **Electors questions**

- 104 We have during the year received questions from electors on several areas of the Council's activities. Some of these have been dealt with. Others have been referred to the Council to obtain information and comments. We aim to deal the outstanding queries expeditiously when the Council responds.

## Other work

### Grant claims

- 105** In accordance with Strategic Regulation, the Audit Commission has continued with a more risk-based approach to the certification of grant claims. We have reduced our audit of these claims but our ability to reduce further depends on the adequacy of the Council's control environment in relation to claims.
- 106** However, arrangements for managing and quality assuring grant claims submitted for audit continue to be poor at Plymouth. As a result, we have been unable to significantly reduce the overall level of work carried out in 2005.
- 107** Although the Council has made efforts corporately in this area, the problems encountered with many 2004/05 grant claims indicate that our recommendations have yet to be implemented across the Authority. Particular problems have been found with long-running 'project' type claims.
- 108** The additional time taken to audit claims poorly prepared and supported is reflected in audit fees, and thus improvements to this area will help keep the fees to an acceptable level.
- 109** The Council should ensure that grant claims are properly prepared, fully supported, and that appropriate controls are in place and operating across the Authority.

### National Fraud Initiative

- 110** In 2004/05, the Council took part in the Audit Commission's National Fraud Initiative (NFI 2004/05). The NFI, which is undertaken every two years, aims to help identify and reduce fraud by bringing together data from NHS bodies, local authorities and government departments and other agencies, to detect a wide range of frauds against the public sector. These include housing benefit, occupational pension, tenancy, and payroll frauds.
- 111** Where little or no such fraud is identified then the Authority can gain assurance about internal arrangements for preventing and detecting fraud. In addition to this, an organisation's participation in the NFI publicly demonstrates its commitment to tackling this issue.
- 112** Total savings from the 2002/03 exercise exceeded £83 million nationally.
- 113** At Plymouth, the savings identified to date from NFI 2004/05 are £0.159 million.

## Looking forwards

### Future audit and inspection work

- 114** We have an agreed plan for 2005/06 and we have reported in this letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2005/06 accounts, will be reported in next year's Annual Letter. Our planned work, together with that of other inspectorates, is included on both the Audit Commission and LSIF (Local Services Inspectorates Forum) websites.
- 115** We have sought to ensure, wherever possible, that our work relates to the improvement priorities of the Council. We will continue with this approach when planning our programme of work for 2006/07.
- 116** The Council will be subject to a Joint Area Review later in 2006. We will seek to develop an agreed programme for the remainder of our work, focusing on your improvement priorities, by 31 March 2006. We will continue to work with other inspectorates and regulators to develop a co-ordinated approach to regulation.

### Revision to the Code of Audit Practice

- 117** The statutory requirements governing our audit work, are contained in:
- the Audit Commission Act 1998; and
  - the Code of Audit Practice (the Code).
- 118** The Code has been revised with effect from 1 April 2005. Further details are included in our Audit Plan which was approved by the Audit Committee in July 2005. The key changes include:
- the requirement to draw a positive conclusion regarding the Council's arrangements for ensuring value for money in its use of resources; and
  - a clearer focus on overall financial and performance management arrangements.

## Closing remarks

- 119 This letter has been discussed and agreed with Officers. A copy of the letter will be presented to Members in March 2006.
- 120 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

- 121 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.

Peter Lawrence  
District Auditor and Relationship Manager  
January 2006

# Appendix 1 – Background to this letter

## The purpose of this letter

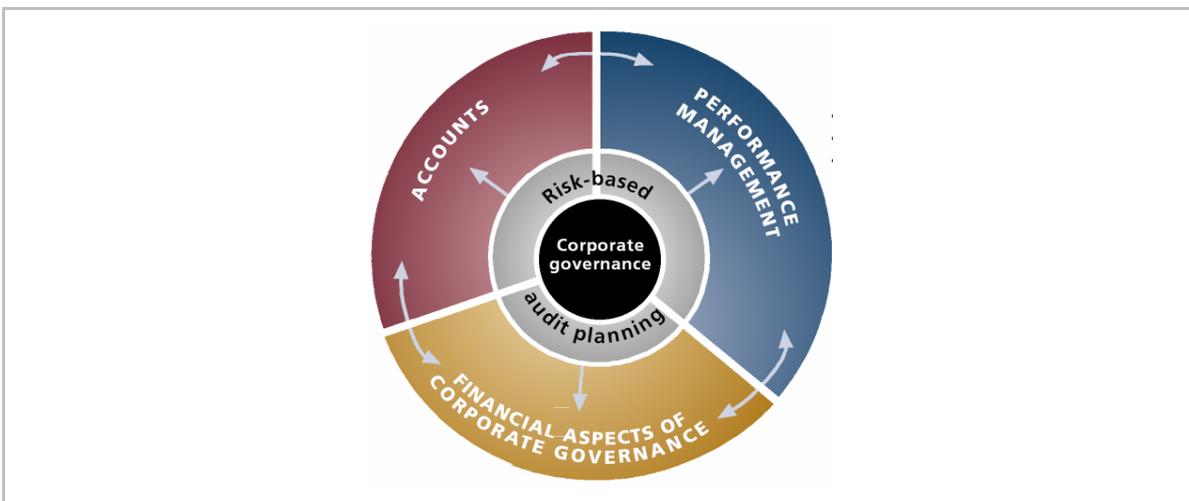
- 1 This is our Audit and Inspection ‘Annual Letter’ for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council’s Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections of the Council.
- 2 We have issued separate reports during the year setting out the findings and conclusions from the specific elements of our programme. These reports are listed at Appendix 2 for information.
- 3 The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.
- 4 Appendix 3 provides information about the fee charged for our audit and inspections.

## Audit objectives

- 5 Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.
- 6 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Figure 1.

**Figure 1 Code of Audit Practice**

Code of practice responsibilities



- 7 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as shown below.

### **Accounts**

- Opinion.

### **Financial aspects of corporate governance**

- Financial standing.
- Systems of internal financial control.
- Standards of financial conduct and the prevention and detection of fraud and corruption.
- Legality of transactions.

### **Performance management**

- Use of resources.
- Performance information.
- Best value performance plan.

## Appendix 2 – Audit outputs

**Table 5**

<b>Output</b>	<b>Date issued</b>
Audit Plan 2005/06	March 2005
Planning Schools Places	March 2005
Financial Aspects of Corporate Governance 2003/04 - agreed action plan	July 2005
Core Process Review 2003/04 - agreed action plan	July 2005
Financial Statements 2003/04 - agreed action plan	July 2005
Best Value Performance Indicators Interim Report	July 2005
Overview and Scrutiny Review	July 2005
Management of Human Resources	July 2005
Report on the 2004/05 Financial Statements to Those Charged with Governance (SAS 610)	October 2005
Opinion on Financial Statements	October 2005
Performance Management	October 2005
Final Accounts Memorandum (draft)	December 2005
Use of Resources	November 2005
Best Value Performance Plan and Performance Indicators Audit (draft)	December 2005
Report on the Best Value Performance Plan	December 2005
Progress Assessment	December 2005
Direction of Travel Assessment and CPA Refresh	December 2005
Procurement (draft)	January 2006
Use of Resources - VFM	January 2006
Progress in Partnership Working Through Plymouth 2020 (draft)	January 2006
Other Regularity Reporting Issues (draft)	January 2006
Annual Audit and Inspection Letter	January 2006

## Appendix 3 – Audit fee

- 1 The planned fee for the 2004/05 audit was £433,000. This was set out in the audit plan that was agreed at the start of the audit and there were no circumstances that required any variations to this fee during the year.