

Audit and Inspection Annual Letter 2003

Brighton & Hove City Council

INSIDE THIS LETTER

PAGE 2

- Key messages
- The purpose of this Letter
- Background to the audit and inspection programme

PAGES 3-6

- Objectives of audit and inspection
- Council performance
- Financial aspects of corporate governance
- Audit assurance work

PAGES 6-7

- Other work
- *Audit and inspection fees*
- Strategic regulation: future audit and inspection work
- Status of our Audit & Inspection Annual Letter
- Closing remarks

PAGES 8-11

Appendix 1

- Reports issued during 2003

Appendix 2

- Auditor's Statutory Report on the Best Value Performance Plan

Reference:	RGBR00615AAL03W FINAL
Authors:	District Auditor, Audit Manager
Date:	December 2003

Key messages

Brighton & Hove City Council has made improvements in some key services over the last year. However, a change in the basket of performance indicators used to judge performance in community housing, means that our overall assessment of the council has changed from the 'good' rating given in 2002 to a 'fair' rating in 2003.

The council has put in place plans to improve further the way it works and serves local people and to address the issues which resulted in a change to the overall score.

Improvement in most of the council's priority areas is good, most notably in educational achievement and environmental services. The council is actively tackling the areas most in need of improvement, for example, Social Care, where improvements in delayed discharges and other Adult Social Care services is being reported.

The council works well with partners to shape and deliver national and local priorities. There are close links between the priorities in the Council's Best Value Performance Plan (BVPP) and those of the 2020 Community partnership, both of which are robust documents. The BVPP, the Corporate Plan for the period 2003 to 2007 and the medium term financial strategy have been brought together in a single plan known as 'the Delivery Plan'. The 'Plan' is based on extensive community consultation and takes a cross-cutting approach to service development, incorporating performance milestones against the targets specified. A Local Public Service Agreement was finalised in October 2003, demonstrating the council's willingness to agree challenging targets for improvement.

Internal systems are improving, particularly performance management, with updates on performance available each month to all councillors and staff on the intranet. The traffic light warning system is working well and has highlighted some performance issues that the council is dealing with.

The council needs to focus on areas where performance is out of line with expectations, particularly in the Housing Benefits service, where most of the Best Value Performance Indicators reported for 2002/03 deteriorated and in children's social care, where performance is variable. The council needs to continue to build its capacity to deliver improvements in key services.

The council managed its finances prudently in the year, meeting the savings targets set and an underspend of £1.4 million was reported as at 31 March 2003. The level of the council's general reserves has been increased in line with its financial strategy and arrangements for monitoring the overall financial position have been strengthened, with a renewed focus on the budgets most important to the financial health of the council.

The financial outlook does, however, remain uncertain and the council recognises that this significant challenge will need to be addressed.

Systems of Internal Financial Control are generally operating effectively and have continued to be updated in the light of new and emerging guidance.

New ways of working have been established following the 2003 local elections where a position of 'no overall control' was returned for the council. Structures and processes have been reviewed and updated and a minority administration established.

The council's arrangements for preparing and publishing the annual accounts have continued to improve and we gave an unqualified opinion on the 2002/03 financial statements on 6 November 2003. We also reported the main issues arising from our audit in a report to the Policy and Resources Committee on that date.

The council is well placed to meet the earlier deadlines for publication expected by the Government from 2003/04 onwards.

The 2003/04 Best Value Performance Plan complies with the relevant statutory guidance and we gave an unqualified opinion accordingly. Arrangements for preparing and publishing specified performance information remain effective and underpin the overall approach to performance management.

The Joint Waste Management PFI, which is being undertaken in partnership with East Sussex County Council, was finalised and the contract signed with the private contractor on 31 March 2003 in line with the project plan. The achievement of the overall timetable and the smooth transfer of certain responsibilities to the private contractor as planned is commendable.

The purpose of this letter

This is our first joint audit and inspection 'annual letter' for members which incorporates our annual audit letter, and is presented by the council's Relationship Manager and District Auditor. The Relationship Manager is the Commission's primary point of contact with the council and is also the interface between the Commission and other inspectorates, Government Office and other key stakeholders.

The letter summarises the conclusions and significant issues arising from our 2002/03 audit and inspection programme and comments on other current issues.

We have issued separate reports during the year having completed specific aspects of our programme. These reports are listed at Appendix 1 for information.

Auditor's responsibilities are summarised in the Audit Commission's statement of key responsibilities of auditors. The responsibilities of Audit Commission inspectors are detailed in section 10 of the Local Government Act 1999. What we say in this letter should be viewed in the context of that more formal background.

Background to the audit and inspection programme

We liaised with other regulators in preparing our plans for the audit and inspection of the council and discussed these with the council's senior management. Our programme of work is designed to assist the council in achieving the improvement plan prepared following the CPA completed in 2002. The council's improvement plan was agreed at a meeting of the Policy and Resources Committee in March 2003.

In 2002/03 the council continued to face some significant challenges to stabilise the medium term financial position and to secure further improvements in service delivery. The council also had to deal with the aftermath of the local elections held in May 2003, updating political structures and processes, in the light of the position of 'no overall control' which was returned.

The council published a Community Strategy for the City which aims to make Brighton & Hove a 'City of Opportunity' by the year 2020. The Strategy is underpinned by detailed delivery plans, aligned to the council's eight priority areas, and designed to deliver the overall vision for the City.

Work that we completed in the following areas was undertaken to assist the council in delivering its priorities:

- Managing sickness absence
- Joint Waste management PFI
- Budget Management
- Special Education Needs
- Review of Local Public Service Agreement.

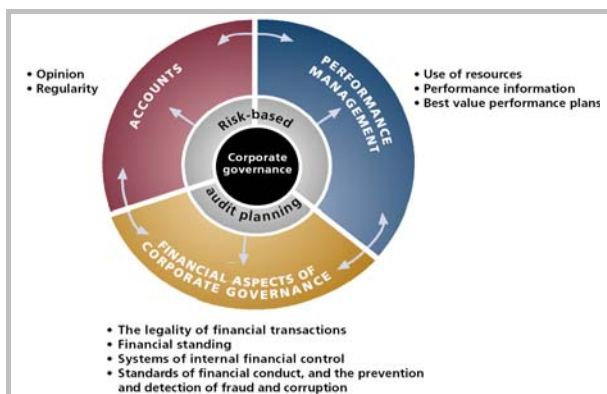
Objectives of audit and inspection

Audit

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 the audit, focusing on your significant financial and operational risks that are relevant to our audit responsibilities.

Central to the 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 at Exhibit 1.

EXHIBIT 1 CODE OF AUDIT PRACTICE



Inspection

Inspection work is based around section 10 of the Local Government Act 1999, which requires us to carry out inspections and deliver reports that will:

- enable the Council and the public to judge whether best value is being delivered
- enable the Council to assess how well it is doing
- enable the Government to assess how well its policies are being implemented
- identify failing services where remedial action may be necessary.

Council performance

The council has made improvements in some key services over the last year. However, a change in the basket of performance indicators used to judge performance in community housing, means that our overall assessment of the council has changed from the 'good' rating given in 2002 to a 'fair' rating in 2003.

CPA Scorecard

The CPA scorecard was published on the Audit Commission's website on 18 December 2003.

CPA Improvement Report

We assessed the improvements made by the council in its priority areas following the first CPA completed in 2002.

Priorities

The council identified eight improvement priority areas in 2002 derived from a consideration of national and local priorities, wide consultation with local people, current performance against the 'best' and recommendations from all regulators. Improvement priorities as stated in the published Performance Plan are:

- The Environment
- Children's social care and family support
- Adult social care
- Education – improving educational achievement for all young people and adults
- Development control – improving the quality and timeliness of service
- Housing
- Customer service/e government
- Corporate planning.

Within each of these priorities, the council has highlighted where it is devoting its efforts and has set specific targets for improvement.

Future plans and ambition

A recurring theme of last year's CPA assessment at Brighton & Hove was the lack of a medium to long term planning horizon to ensure that the council's vision would be realised. This has been addressed over the last year. Following extensive community consultation the council prepared a strategic corporate plan covering the period 2003-2007 and this is due to be agreed by members in February 2004. It sets out the future direction, identifying key deliverables under four cross-cutting themes.

There is a clear link between the Community Strategy, the council's corporate plan and underlying council strategies.

Brighton & Hove is an ambitious council and seeks to be at the forefront of new government initiatives. For example, its application to set up a Children's Trust was successful and it is currently acting as a pathfinder for 'extended' schools, and the government's new housing benefit regime. More recently, it has been shortlisted for beacon status for its Early Years services and its work on sustainable transport. A local PSA with 'stretch' targets was signed in October 2003.

Focus

The council remains well focused, following last year's CPA, with evidence of further improvement. It has achieved this against a background of 'no overall control' following the 2003 local elections. The council is dealing with some sensitive and complex issues around performance in schools and is consulting on the future of the COMART school, remaining focussed on the need to improve performance.

The council also dealt successfully with the transfer of the waste collection service to its direct control after the external contractor withdrew from the contract in 2001. Its arrangements have bedded in and performance is improving, although the cost of the service remains high.

Capacity

The council continues to build upon its existing capacity, both corporately and within services. The introduction of departmental development plans, team plans and the medium term financial strategy should all help to improve the efficient allocations of resources. A new project management guide has been published and this is supported by a programme of training for officers.

The council has introduced a human resources strategy and a staff performance and development system to help address management capacity. Staff sickness rates continue to be high compared with other authorities and our work showed that a more proactive approach to managing sickness absences is needed. The council is acting on our recommendations.

The e-government programme board is also building the council's capacity through the effective use of information systems, with priority being given to electronic document management, geographical information system, e-forms and mobile working.

The council is involved with a large number and variety of partnerships which provides it with considerable scope for achieving local priorities. However, we found from a review of partnerships that not all have clear links and accountabilities to the 2020 Community Partnership and the full resource implications of officer involvement in the partnerships has not been consistently assessed. Officers have confirmed that this is now being addressed.

The council has been extremely successful in attracting significant amounts of capital investment from external sources. In particular for:

- the joint waste management PFI contract awarded to an external contractor in partnership with East Sussex County Council
- a new central library and the redevelopment of the Jubilee Site being completed under a PFI
- the restoration of the West Pier.

There is also evidence of capacity building at the service level. For example:

- in social services, the creation of a children's, families and schools' directorate with all key posts filled
- investment in intermediate care beds and intermediate day services to support people
- the creation of pooled budgets with the NHS across a range of services
- within the independent sector, the opening of new residential and nursing homes and the introduction of new commissioning strategies for residential placements.

In the Environment department:

- the waste collection service is being delivered under an innovative arrangement with the Trade Union
- there was a successful transfer of certain operations to the external contractor as planned for waste disposal.

Building capacity must however remain a priority. Within social services, there are some concerns about capacity, including:

- an increasing number of looked after children and the need to increase the amount of in house fostering
- the lack of an effective family support service and a relatively inexperienced work force, with a vacancy rate in excess of 25%
- the potential impact on family support with the major changes proposed to the use of Family Centres
- the overspend on the Learning Disability section 31 pooled budget.

In addition, the financial outlook remains challenging and is likely to be one of the council's most significant capacity issues in the future.

Performance management

Last year's CPA recognised that the council knew that it needed to improve performance. The council has responded well. A corporate performance team now provides monthly data on service performance on a section of the intranet called "Performance Zone". This is fully accessible to staff and councillors, and uses the traffic light system that highlights performance easily. This allows the executive councillor for performance and finance to focus on areas needing attention, and this is cascaded through corporate and departmental action. Routinely, the corporate and departmental management teams allocate time each month to learn lessons from high and low performing services, and these reports are also considered by overview and scrutiny committees as well as political groups. Examples of the success of this system are the improvement in development control service from one of the worst in the country to above average performance and a steady reduction in the number of delayed discharges.

In addition, a new database has been launched that allows teams to track progress against targets at directorate and team level with the ability given to teams to vire resources to tackle low-performing areas. This system is being underpinned by "Planning for Performance", a training and resources pack supported by training, that explains how to deal effectively with performance.

The council has also taken steps to integrate performance arrangements with the NHS, with a finance team being established in partnership with the NHS Trust to manage pooled budgets.

Investment

The council has put in place a number of building blocks to support service improvement.

As well as the process improvements described above, significant funds were made available corporately to deal with identified acute service pressures. In total, over £18 million was included in the 2003/04 budget, including £4.4 million to meet the Minimum Schools Budget Requirement, £2.4 million for pressures in the Learning Disability Service and £2 million for child agency placements. The achievement of the Local Public Service Agreement continues to be supported through the Strategic Priorities Fund, where £0.75 million has been invested over the last three years.

Achievement

Improvement in service delivery in Brighton & Hove is broadly positive. Analysis of the most recent performance indicator (PI) data indicates that since 2001/02, across all groups, of those indicators that can be compared year on year, 65% have improved compared with 35% that have not.

The trend is most positive in education, where performance is rated as 'upper two stars' by the DfES. Performance in libraries and leisure and housing is also improving. On the other hand, housing benefit and social care continue to lag behind an overall improving picture.

Key achievements in Education include:

- no schools currently subject to special measures
- the percentage of 15 year olds achieving 5+ GCSEs has improved
- the percentage of pupil absences is dropping in both primary and secondary schools

BUT:

- whilst improving, the majority of the key indicators remain mainly in the second worst quartile and targets for the year agreed with DfES were largely not met. The latter is a feature in common to many authorities.

Key achievements in Social Care include:

- an inspection of child protection services judged some children to be well served with uncertain prospects for improvement
- the proportion of children looked after in foster placements or placed for adoption remain high and for young children have increased
- the Victoria Climbié inquiry audit concluded that some children were being well served, with promising prospects for improvement
- an inspection of adult social care judged the council's capacity for improvement to be promising, which is an improvement on the judgement of uncertain which was made in 2002
- whilst remaining high, the number of supported residents over 65 years of age are falling, with more older people being helped at home

- the number of delayed transfers has steadily declined
- the council is redesigning its four resource centres to provide rehabilitation following a hospital stay

BUT:

- Children's social care services generally did not improve in 2002/03.

Key achievements in other services include:

- percentage of waste recycled or composted is improving and kerbside collections are increasing
- amount of waste collected is in the best quartile
- number of road casualties is decreasing
- reduction in incidents of violent crime in a public place

BUT:

- 50% of the council's housing stock does not meet the decent homes standards
- Housing benefits delivery is declining, with most of the Best Value Performance Indicators reported for 2002/03 showing no improvement. The level of performance for processing new claims, renewal claims, reported changes of circumstances and the accuracy of benefit assessments had all deteriorated in 2002/03.

The council needs to continue its focus on improving poorly performing services, particularly children's social care and in housing benefits, where the council is a 'pathfinder' authority.

Other performance work

Joint Waste Management PFI

A joint waste management PFI is being undertaken in partnership with East Sussex County Council. The contract was signed on 31 March 2003 in line with the project plan and is a considerable achievement for the council.

Our detailed work in 2002/03 involved reviewing the accounting treatment proposed by the council for the contract. We wrote to the Chief Financial Officer in March 2003 confirming that we are not minded to challenge the (off-balance sheet) treatment proposed.

Certain responsibilities for waste disposal have now been transferred to the external contractor as planned and the new arrangements appear to have been working well in the first six months of the contract.

Other work

Appendix 3 highlights the outcome of other performance audit work completed in the year. Detailed reports have been provided to management in the following areas:

- Local Public Service Agreements
- Management of sickness absence
- Managing partnerships
- Budget Management
- Special Education Needs.

We also completed some follow-up work in the following areas:

- Leaseholder Costs
- Homelessness
- Schools attendance and exclusions.

The results of this work have informed our comments on the CPA Improvement Report. Our main conclusions and the action being taken by the council to implement our recommendations are highlighted at Appendix 2.

Financial aspects of corporate governance

Financial standing

The overall financial position has improved and the council's expenditure plans for 2002/03 were achieved. A challenging budget has been set for 2003/04 and management is reviewing closely the performance of the budgets identified as being critical to the council's financial position.

General fund performance, balances and reserves

The council's 2002/03 net revenue budget amounted to £248.9 million and included a target to achieve savings of £5 million coupled with a planned reduction in the general fund balance of £1.8 million.

Actual expenditure amounted to £247.5 million, an underspend of £1.4 million against budget. Some additional costs were incurred in certain service departments, with the Adult Social Care budget overspending by £1.2 million and the Children's, Families and Schools budget being overspent by £0.8 million. These overspends were offset by achieving more than the planned £5 million savings. The delivery of the 2002/03 budget is a significant achievement.

The improved financial performance allowed the council to make contributions to the working balance and general fund reserves, which now amount to around £8 million in total. The working balance of £6.5 million is above the benchmark level of £6 million determined by Members at the start of the financial year. Further, unallocated balances of £1.5 million are also available.

As at 31 March 2003, the council's overall balances and reserves amounted to £23.2 million, as shown at Exhibit 2.

EXHIBIT 2 BALANCES AND RESERVES

	2001/02	2002/03
Specific reserves		
Capital reserves	9,442	4,313
S106 receipts	2,575	2,656
Central library	304	310
Insurance	5,388	5,593
Other earmarked	220	2,322
Total GF earmarked	17,929	15,194
Working balance	4,484	6,500
Unallocated Reserves	-	1,544
Balances and reserves	22,413	23,238

Source 2002/03 financial statements

The 2003/04 budget amounts to £270.8 million and includes:

- a savings target of £6 million
- the reallocation of £1 million from general reserves to the working balance.

The level of council tax increase was 14.5%. and this is in line with the medium-term financial strategy and the increased budget requirement recommended by officers. Once again, a challenging budget has been set by the council.

Contingency resources included in the 2003/04 budget have been made available to deal with demand-led pressures in the Children's, Families and Schools budget (£1 million) and the Housing and City Support budget (£0.5 million).

However, as at the end of October 2003, officers are estimating that departmental budgets may be overspent by £3.1 million, mainly because of continuing pressures in the Children's, Families and Schools budget (£2.2 million).

In addition, there is considerable pressure on the Section 31 partnership budget with the NHS and an overspend of £1.5 million is being forecast. Whilst further contingency resources may be available to reduce the overspend, the budget does remain a key financial risk for the council.

Underspends of around £1.3 million are however, being projected for the council's centrally managed budgets and may be available to reduce the risk of an overall overspend being reported at the end of the year.

The council will need to monitor closely the achievement of the management action plans now being put in place to deal with the risk of overspending and to achieve a balanced budget overall.

Section 31 pooled budget

The council entered into a pooled budget arrangement with NHS partners on 1 April 2002. The 2002/03 budget amounted to around £67 million (with the council contributing £27.7 million). Members received reports from the CFO on the performance of the budget throughout the year.

As at 31 March 2003, an overspend of around £1 million was reported and additional resources were provided by the NHS Trust to finance the deficit.

The 2003/04 budget also amounts to £67 million and as at the end of September 2003, officers are projecting that an overspend may be incurred. Management action plans have been prepared in full consultation with the council's partners and savings of £1.2 million have been identified. Nevertheless, the situation remains serious and an overspend of £1.5 million is being projected for the year. Whilst some unallocated reserves of £0.4 million may be available to reduce the overspend, the residual amount may have to be carried forward and may have an impact on the council's financial plans for 2004/05.

Management will need to continue to monitor the position closely and work with its partners to reduce the risk of further overspends.

Medium Term Financial Strategy (MTFS)

The council is continuing to refine its financial plans and a major exercise designed to align service and financial planning was completed in October 2003. A MTFS covering the period 2003 to 2007 has been produced, which aligns key financial objectives and indicators with the council's priorities.

The MTFS recognises that the future allocation of funding from central government remains uncertain and aims to build on the strong financial management shown in achieving the 2002/03 budget. In particular, arrangements have been put in place to monitor those budgets which officers have identified as being critical to the overall financial health of the council. Management is also monitoring closely the financial recovery plans drawn up where a risk of incurring an overspend has been highlighted.

The MTFS has highlighted some significant gaps between the expected growth in service budgets and available resources over the period it covers. Members are due to approve the MTFS in February 2004 and should continue to keep the overall financial position and the council's priorities for growth in services under review.

Housing Revenue Account (HRA)

In 2002/03 the council planned to spend £54.8 million on housing services and expected that the working balance would increase by £200,000. In the event, income and expenditure were greater than anticipated and a surplus of £933,000 was reported.

As at 31 March 2003, the working balance was £3.4 million and represents spending of £263 for each of the Council's HRA properties (the 2001/02 equivalent was £191 per property).

The council is planning to spend £55.5 million in 2003/04, with the working balance being increased by a further £148,000 to £3.5 million in line with the overall financial strategy.

As at the end of July 2003, the council is reporting that income and expenditure plans will be met. The position is summarised at Exhibit 3.

EXHIBIT 3 HRA EXPENDITURE AND WORKING BALANCE

	01/02	02/03	03/04*
	£m	£m *	
Expenditure	54.6	55.5	55.5
Working balance	2.5	3.4	3.5
Balance % expenditure	4.6%	6.2%	6.3%
Properties (02/03 est.)	13,098	12,929	12,760
Balance per property	£191	£263	£274

* 2003/04 planned expenditure and projected balances

Capital outturn and future plans

The council's capital expenditure plans in 2002/03 amounted to £39 million which included slippage from previous years of £2.1 million. The programme was reviewed throughout the year and Members agreed a revised budget of £45.9 million. Actual expenditure in the year was £42.6 million and this represented 93% of the revised programme.

The level of slippage reported in 2002/03 (£3.3 million) is only a slight deterioration on the 2001/02 level (£2.1 million) and significantly better than the level reported in 2000/01 (£10 million).

The council's procedures for prioritising and evaluating the capital programme are continuing to operate effectively with the programme being determined on a realistic basis. A target to achieve 95% of the programme in 2003/04 and beyond has been set and officers are monitoring performance and reporting the outcome to Members throughout the year.

The council's future capital spending plans are fully resourced at this time, as shown at Exhibit 4.

EXHIBIT 4 CAPITAL PROGRAMME/RESOURCES

	03/04	04/05	05/06
	£000	£000	£000
Planned Expenditure	51,052	37,094	33,347
Resources			
BCA	14,048	14,426	13,738
SCA	4,388	55	1
Grants	13,735	6,235	4,503
RCCOs	14,176	12,019	12,605
Usable receipts	2,826	2,993	857
Capital reserves	1,353	1,366	1,643
External contributions	34	-	-
Discretionary BCA	492	-	-
Total	51,052	37,094	33,347

The original capital programme agreed by Members for 2003/04 is around £51 million and includes slippage from previous year of £3.3 million. The programme has been revised throughout the year and as at the end of November 2003, amounts to £58.4 million. Officers are projecting that slippage of just £1.1 million may be incurred, less than 2% of the revised programme, which is well within the council's target level.

Systems of internal financial control

The council's systems of internal financial control are generally working well.

The council has established an adequate system of internal financial controls, although difficulties were encountered in maintaining certain subsidiary systems in the Adult Social Services department (CareFirst) and the Children, Families and Schools department (FEAST).

We found that management had established adequate compensating controls to ensure that these systems were fully reconciled with the general ledger.

The quality of Internal Audit work remains high and we have been able to place reliance on the work completed in the year. Some slippage on the planned programme was reported, mainly due to some posts being vacant in the year. The Head of Audit completed a risk assessment of the section's work and plans were amended accordingly.

We also completed a review of the council's tax management arrangements. Whilst we have been able to conclude that arrangements in this area are generally effective, we have highlighted areas where management controls can be strengthened to reduce further the risk of error or misstatement.

Standards of financial conduct & prevention and detection of fraud and corruption

The council's arrangements for preventing and detecting fraud and corruption are effective.

In 2002/03, the Internal Audit section completed a review of Governance arrangements against the 'five dimensions' identified by CiPFA/SOLACE (the five dimensions are Community Focus, Service Delivery Arrangements, Structures and Processes, Risk Management and Internal Control, Standards of Conduct). Internal Auditors made some recommendations to further strengthen arrangements in this area.

The council's risk management arrangements are continuing to underpin its approach to financial management and service planning. The council does need to ensure that risks identified as part of external audit and inspection work are properly considered and included on the new Corporate Risk Register. We have worked closely with officers to assist in developing arrangements in this area and will be following up progress over the next 12 months.

The council has a good track record of developing policies and procedures to promote high standards of conduct and governance and is continuing to take a proactive approach to preventing and detecting fraud and corruption.

Officers recognise that awareness of corporate policies and procedures, particularly on the codes of conduct for officers and members and the council's 'whistleblowing' arrangements needs to be raised. Steps have been taken to address this, through a programme of training for officers and members (as part of their induction to the council), and other media such as the council's intranet.

National Fraud Initiative

The National Fraud Initiative (NFI) is the Audit Commission's data matching exercise. Its main aim is to help identify and reduce housing benefit fraud, occupational pension fraud, tenancy fraud and payroll fraud. The NFI is carried out every two years and data matches were provided to officers in July 2003.

The Housing Benefit Investigation Team is currently reviewing the output from NFI 2002, and from a total of 132 cases highlighted for review, 72 are being investigated in more detail.

Officers are also looking at other data matches provided by the NFI and are working with other authorities to complete investigations into suspected fraud involving payroll and pensions.

The council needs to ensure that sufficient resources are available to complete a thorough review of those cases where the risk of fraud is greatest.

Legality of transactions

Arrangements for ensuring the legality of transactions are continuing to operate effectively.

The council is continuing to develop policies and procedures to implement new legislative requirements in a timely manner and promote awareness of these amongst officers and members. In particular, work has been completed to update arrangements for promoting race equality in the light of the amended Race Relations Act.

The Standards Committee met throughout the year although no significant issues were highlighted for Members' attention. The Committee is continuing to keep the council's constitution and codes of conduct under review.

Audit assurance work

Accounts

The council's arrangements for preparing and publishing the annual accounts have continued to improve and we gave an unqualified opinion on the 2002/03 accounts on 6 November 2003.

Accounts preparation and publication

The council's closedown timetable was met and we commenced work on the statements made available to us on 8 July 2003. The accounts were formally approved on 17 September 2003 by the Policy and Resources Committee, in advance of the statutory deadline of 30 September.

The council has put considerable effort into producing and publishing the annual accounts earlier in the year and further improvements in these arrangements were evident in 2002/03. We worked closely with officers throughout the closedown process and in the lead up to Members' approval of the accounts.

A number of amendments were required to the accounts as a result of our audit work although none of these affected the overall financial position of the council.

Officers are taking steps to improve the arrangements for producing the accounts in the light of the earlier deadlines now expected by central government. In particular, officers are strengthening arrangements for co-ordinating and reviewing information provided by service departments and raising awareness of the requirements of the new accounts and audit regulations and professional standards (as published in Cipfa's Statement of Recommended Practice).

Reporting to the council

There is a new auditing standard which applies to our audit of the accounts - Statement of Auditing Standard (SAS) 610 'Reporting to those charged with governance'. This required us to report issues arising from our audit to members of the Policy and Resources Committee before we gave our audit opinion on your financial statements.

In previous years we have discussed such issues with officers rather than members, but SAS 610 encourages openness and accountability by ensuring that members take responsibility for the council's accounts.

We reported to the Policy and Resources Committee on 22 October 2003. The significant matters were the need to:

- review the accounting treatment used for certain balances and reserves amounting to £2.5m included in a note to the consolidated balance sheet
- adjust the accounts to include overpayments of HRA rent rebate benefit amounting to £2.19m
- reconcile fully the amount of HRA rent rebate benefit held on the housing rent and housing benefit systems

None of these issues affected the overall financial position of the council.

Best value performance plan audit

The 2003/04 Best Value Performance Plan underpins the overall approach to performance management and fully complies with the relevant statutory guidance. Arrangements for producing performance information continue to operate effectively.

Our review of the council's 2003 BVPP was undertaken as part of our 2003/04 audit. We are required to issue our statutory audit opinion and certificate on the BVPP under section 7 of the Local Government Act 1999 by 31 December. Our opinion and certificate on the 2003 BVPP was given on 19 December 2003 and is shown at Appendix 2.

The key issues for Members arising from our work on Best Value are set out below.

Compliance

A summary of the BVPP was provided to the local population at the end of March 2003 and the council met the statutory deadline of 30 June 2003 for publishing the detailed plan.

Our work shows that the plan complies with the legislative and statutory requirements.

The BVPP is continuing to develop and is fully integrated with the new corporate plan and medium term financial strategy.

The council expects the BVPP to remain at the centre of its performance management arrangements and in integrating improvement planning and review into its day to day operations.

Targets have been set and arrangements established to monitor performance through the Management Team, with the regular reporting of key indicators to the Policy and Resources Committee.

The council should evaluate the effectiveness of this revised approach over the next 12 months. In particular, the role of the Scrutiny Committees should be clearly defined as they contribute to the management of performance across the council.

Performance information

Arrangements for producing performance information continue to operate effectively.

The Audit Commission requires auditors to review the accuracy of the Best Value Performance Indicators published in the BVPP. The outcome of our work is included in a national report, with certain indicators being specified by the Commission for inclusion in the Comprehensive Performance Assessment.

Based on our assessment of risk, we tested over 40 indicators. As a result of our work, we placed a reservation on only two indicators (in 2001/02 we placed reservations on five indicators).

We also recommended that a number of indicators should be amended for inclusion in the national report, with the council's records also being adjusted. This arose mainly because estimates were used in compiling some indicators to meet the statutory deadline and because more accurate information became available during the course of our audit.

Overall, the council has shown improvement and is operating effective systems for producing and publishing performance information.

Political arrangements

The local elections in May 2003 were held against a background of an overall reduction in councillors from 78 to 54 following the Government's boundary changes for the City. The result of the 2003 election means that the council is now operating in a position of 'no overall control'.

The council has established a minority administration, with the Policy and Resources Committee consisting of Members from all political groups.

The council also reviewed the establishment of all committees and decided that the administration should not have a majority of representatives on any single committee.

New ways of working with a minority administration have also been established, with officers providing support and briefings to the Chairs Group, which consists of the leaders of all political groups at the council. Over the first six months of the new administration, the arrangements do appear to be working well although the council may wish to consider completing a more formal review over the next 12 months, seeking views from all Members.

Audit and inspection fees

The Audit Commission's Standing Guidance for Auditors (para 133) requires auditors to communicate to those charged with governance a breakdown of fee income - over the 3 CoAP elements plus all non-audit work and certification work - at the completion of the audit.

Exhibit 5 sets out our latest estimate of the actual fee for 2002/04 on the basis that work remains in progress, together with explanations where there are variances. Our Code of practice fee was reduced by £21,000 in the light of CPA judgement of 'Good' for the City Council.

EXHIBIT 5 AUDIT FEES

Audit area	Plan 02/04 £000	Anticipated actual 02/04 £000
Accounts	191	191
Financial aspects of corporate governance	92	92
Performance	145	124
Code of Practice Fee	428	407
Inspection (1)	44	44
Additional s35 work	0	0
Certification of grant claims (2)	95	95
Total audit/inspection fee	567	546

(1) Inspection fees are net of ODPM grant received.

(2) The grant claim audit continues until the end of 2003 and the actual fee reported is our current estimate of the likely fee for the 2002/03 certification work.

Members should note that in order to bring the Audit Commission financial year in line with the local authorities, the current plan covers the period from November 2002 to March 2004. In this time we will deliver two statutory audits and two annual audit letters.

Strategic regulation: future audit and inspection work

Strategic Regulation contributes to improvement in public services by ensuring that regulators collaborate to identify each council's priorities for improvement, and provide assessments that are useful to managers, professionals, politicians and the public.

For the first time we have brought together co-ordinated audit and inspection plans that make clear how our work supports the improvement agenda of each single tier and county council. These plans are now available on the Audit Commission website.

Our joint audit and inspection plan for 2003/04 was presented to the Organisation and Scrutiny Overview Committee on 22 September 2003. We have developed a programme of work that is proportionate to both the council's risks and its performance as assessed through CPA. We have structured our work programme across the following themes that help to clarify the purpose of our work:

- Assessment
- Improvement
- Assurance.

The key areas of work programmed for 2003/04 are:

- Adult Social Care – Case File Audit
- Children's Social Care – review of costs of Foster Care
- Waste Collection – Inspection
- Joint Waste Management PFI
- Schools Attendance and Exclusions
- Housing Options
- City Direct
- Performance Management.

Audit and Inspection planning for 2004/05, linked to your improvement plan, will be carried out in early 2004.

Status of our Audit & Inspection Annual Letter

Our Annual Letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. The Letter is prepared by the Relationship Manager and District Auditor and is addressed to Members and officers. It is prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party.

Closing remarks

Finally, I would like to take this opportunity to express my appreciation for the assistance and co-operation provided during the course of the work. Our aim is to deliver a high standard of audit and inspection which makes a positive and practical contribution which supports the council's improvement agenda. We recognise the value of your co-operation and support.



Darren Wells
District Auditor and Relationship Manager

21 January 2004

Audit and Inspection reports issued during 2002/03

Audit plan	February 2003
Local Public Service Agreements	February 2003
Budget Management.	March 2003
Managing partnerships	August 2003
Management of sickness absence	September 2003
Core Process Review	October 2003
Financial Aspects of Corporate Governance Review	October 2003
Final Accounts Memo	November 2003

Auditor's Report to Brighton & Hove City Council on its Best Value Performance Plan for 2003/04

Certificate

I certify that I have audited Brighton & Hove City Council's best value performance plan in accordance with section 7 of the Local Government Act 1999 (the Act) and the Audit Commission's Code of Audit Practice. I also had regard to supplementary guidance issued by the Audit Commission.

Respective Responsibilities of the Council and the Auditor

Under the Act the Council is required to prepare and publish a best value performance plan summarising the Council's assessments of its performance and position in relation to its statutory duty to make arrangements to secure continuous improvement to the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

The Council is responsible for the preparation of the plan and for the information and assessments set out within it. The Council is also responsible for establishing appropriate performance management and internal control systems from which the information and assessments in its plan are derived. The form and content of the best value performance plan are prescribed in section 6 of the Act and statutory guidance issued by the Government.

As the Council's auditor, I am required under section 7 of the Act to carry out an audit of the best value performance plan, to certify that I have done so, and:

- to report whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Act and statutory guidance and, where appropriate, recommending how the plan should be amended so as to accord with statutory requirements;
- to recommend:
 - where appropriate, procedures to be followed in relation to the plan
 - whether the Audit Commission should carry out a best value inspection of the Council/Authority under section 10 of the Act
 - whether the Secretary of State should give a direction under section 15 of the Act.

Opinion

Basis of this opinion

For the purpose of forming my opinion whether the plan was prepared and published in accordance with the legislation and with regard to statutory guidance, I conducted my audit in accordance with the Audit Commission's Code of Audit Practice. In carrying out my audit work, I also had regard to supplementary guidance issued by the Audit Commission.

I planned and performed my work so as to obtain all the information and explanations, which I considered necessary in order to provide an opinion on whether the plan has been prepared and published in accordance with statutory requirements.

In giving my opinion I am not required to form a view on the completeness or accuracy of the information or the realism and achievability of the assessments published by the Council. My work therefore comprised a review and assessment of the plan and, where appropriate, examination on a test basis of relevant evidence, sufficient to satisfy me that the plan includes those matters prescribed in legislation and statutory guidance and that the arrangements for publishing the plan complied with the requirements of the legislation and statutory guidance.

Included in the plan are the Council's estimates for the year ending 31 March 2003. Actual results for the year are likely to be different from the figures reported, because events and circumstances frequently do not occur as expected, and the differences may be material. To the extent that figures included in the plan are estimates, my audit work comprised an assessment as to whether the estimates made by the Council had been properly compiled in all significant respects on the basis of the assumptions stated by the Council, as at the date at which the plan was prepared.

Where I have qualified my audit opinion on the plan I am required to recommend how the plan should be amended so as to comply in all significant respects with the legislation and statutory guidance.

Opinion

In my opinion, Brighton & Hove City Council has prepared and published its best value performance plan in all significant respects in accordance with section 6 of the Local Government Act 1999 and statutory guidance issued by the Government.

Recommendations on referral to the Audit Commission/ Secretary of State

I am required each year to recommend whether, on the basis of my audit work, the Audit Commission should carry out a best value inspection of the Council or whether the Secretary of State should give a direction.

On the basis of my work:

- I do not recommend that the Audit Commission should carry out a best value inspection of Brighton & Hove City Council under section 10 of the Act
- I do not recommend that the Secretary of State should give a direction under section 15 of the Act.



Date 19 December 2003

Darren Wells
District Auditor

North Wing
Southern House
Sparrowgrove
Otterbourne
Winchester
Hants.
SO21 2RU

APPENDIX 3

Service reviewed/key findings	Further action
Budget management	
<p>We carried out a survey involving 310 budget holders to seek views on the:</p> <ul style="list-style-type: none"> • Level of service provided by Directorate Accountant • Adequacy of Financial Information • Adequacy of Financial Training • Effectiveness of the budget setting and review process. <p>We received 130 responses and we found that officers responding to our survey felt that the role of the budget holder needed to be more clearly defined and that further training was required, particularly for new budget holders.</p>	<p>The council has taken steps to implement our recommendations. Roles and responsibilities are now more clearly defined and overall arrangements strengthened through the publication of a revised budget manager's guide. There has been some rationalising of the number of budget holders and training provided for around 140 staff based on an assessment of their needs.</p>
Review of partnerships	
<p>The Council is involved in an array of partnerships, which aim to assist in achieving local strategic priorities. We found examples of good practice within individual partnerships and that the Council was working towards a more structured approach to partnership working.</p> <p>There is a need to more clearly demonstrate how individual partnerships assist the Council in achieving priorities and improvements in service delivery.</p>	<p>The Council should:</p> <ul style="list-style-type: none"> • develop and implement a corporate policy for partnership working • ensure that all strategic partnerships clarify their links and accountabilities to the 2020 Community Partnership to demonstrate how their activities are contributing to local priorities • consider whether the existing strategic partnerships need to be adapted or supplemented to ensure effective delivery of corporate priorities • establish an up-to-date database of all the partnerships the Council is involved in, carrying out an assessment of their role and relevance to the achievement of council priorities • assess the full resource implications for the Council of officer involvement in partnership working • encourage all partnerships to develop action plans for achieving objectives and use these to monitor progress.

Service reviewed/key findings	Further action
Management of sickness absence	
<p>The Council's policy and procedures generally conform to good practice guidelines although there is still scope for improvement.</p> <p>Some Managers remain unsure over how and when contact should be made with employees absent because of sickness and feel there needs to be greater clarity over the Council's policy on intervention.</p> <p>The Council's current approach to the management of sickness absence does appear to be reactive, and there needs to be more contact with the Occupational Health Service to prevent and minimise sickness and promote healthy lifestyles for staff.</p> <p>The approach to target setting and review needs to be strengthened, with corporate targets being cascaded across individual Directorates and service areas.</p> <p>There are concerns amongst front-line managers over the accuracy and timeliness of performance information, and a lack of access to the range of performance data required to manage sickness absence effectively.</p>	<p>As a priority, the Council should ensure that systems are in place to improve the quality and scope of sickness data and analysis.</p> <p>Clear targets need to be set for improving sickness absence, which are incorporated into the Council's overall performance management framework.</p> <p>The sickness absence policy needs to be reviewed, in particular, to define the 'triggers' for management action and maintaining contact with absent employees.</p> <p>Develop a more proactive approach to Occupational Health and a more comprehensive range of staff health and well being initiatives.</p>

Service reviewed/key findings	Further action
Local Public Service Agreement (LPSA)	
<p>The council has made considerable progress in establishing an effective performance management framework to deliver the improvements required by the Local Public Service Agreement.</p> <p>Operational staff were enthusiastic about the additional emphasis on service delivery brought about through the targets within the LPSA and were positive about the impact the Agreement would have on their areas of service.</p> <p>Some of the targets set are very challenging and the Council will need to ensure there is a renewed focus on delivering service improvements expected to secure the financial rewards offered by the government.</p>	<p>Ensure that the learning and experiences gained in drawing up the LPSA are harnessed and used to support the organisation in any future negotiations with central government.</p> <p>Action plans prepared to assist in achieving individual targets should be subject to a formal risk assessment, with exit strategies being developed for each target. The approach should assist the Council in agreeing with partners the support required towards the end individual schemes.</p> <p>The Performance Team should consult with operational managers to agree a common format for presenting performance information - these reports could be drawn from the detailed analysis already being undertaken by the Team.</p> <p>LPSA targets should be included within the process for tracking performance for BVPIs to ensure that there is an integrated, consistent process for reporting to the Management Team on performance issues related to key council targets. This will enable the Management Team to understand barriers to achievement of the LPSA targets and to take appropriate strategic action to ensure that those targets are met.</p>
Special Education Needs (SEN)	
<p>The LEA recognises that further work needs to be done to ensure that further guidance is provided to schools on dealing with SEN pupils and that more pupils are placed in mainstream schools (in 2002/03 the City Council placed a high proportion of its primary and secondary pupils in special schools - the sixth and fifth highest respectively of the 45 unitary authorities in the country and the highest of its Ofsted neighbours).</p> <p>The LEA is evaluating the approach to SEN with a focus in the following areas:</p> <ul style="list-style-type: none"> • Mainstream SEN Funding Formula • Age-phasing in SLD schools • MLD places • Outreach/support for schools <p>Our work has resulted in some further recommendations that the LEA is currently considering, as shown opposite.</p>	<p>The main issues that the LEA needs to consider within the review currently being undertaken are:</p> <ul style="list-style-type: none"> • developing an SEN and inclusion strategy which demonstrates inclusive practice, clarifying the LEA's approach and providing greater guidance on how schools can deliver inclusion within available resources • determining the future role of MLD schools, including establishing how many special school places are required to meet the future needs of pupils • establishing the level of support services provided to schools and how this support should be co-ordinated, funded and delivered, based on a detailed needs analysis • strengthening the statement and placement processes to ensure the approach supports the inclusion strategy • increasing the use of performance information and targets, including effective outcome monitoring, to measure the success of the LEA's strategy.

Service reviewed/key findings	Further action
Follow-up work	
<p>Schools attendance and exclusions</p> <p>The Council has endeavoured to address all the recommendations in the action plan agreed last year. There has been shift in resources from reaction to prevention, and the number of permanent exclusions in Brighton and Hove schools has reduced from 52 in 1998/99 to 24 in 2001/02. All the alternative provision for excluded pupils is arranged through the Alternative Centre for Education, which provides a consistent centralised approach. Data collection and analysis has improved to allow better tracking of excluded pupils, including outcomes.</p>	<p>The main issues that the Council must continue to address are:</p> <ul style="list-style-type: none"> • implementing the localised reintegration agreement for primary schools • continuing to work towards greater database integration, both within Education and with Social Services • considering ways to reduce the number of pupils in non-mainstream placements • assessing the performance of the Education Welfare Service to ascertain whether current staffing activities match the departmental and team plan priorities • ensuring that the tracking system for non-attending pupils works effectively in practice.
<p>Homelessness - Review of Temporary Accommodation</p> <p>The council has made a good start in implementing the recommendations made last year. Leases have been reviewed to ensure that the Council's interests are protected and a new process is in place for dealing with invoices.</p>	<p>The main issues that the Council must continue to address are:</p> <ul style="list-style-type: none"> • continuing to reconcile monitoring systems to allow the Housing department to manage accommodation effectively and facilitate more accurate forecasting • ensuring there are sufficient resources in place to deal with the large number of invoices received • ensuring that the legal services section is involved throughout the process of agreeing leases with the private sector • developing and implementing a monitoring system to ensure that homeless people are placed in accommodation appropriate to their needs.
<p>Leaseholder costs</p> <p>The Council has addressed the recommendations in the 2001/02 action plan. The Corporate Finance section has designed a spreadsheet linked to the accounting system to calculate the cost of officer time involved in leasehold management and show the level of any under-recovery, based on a staff time analysis. A leaseholders action group has been formed, with representatives on consultative forums, and periodic surveys occur.</p>	<p>The main issues that the Council must continue to address are:</p> <ul style="list-style-type: none"> • ensuring that members are provided with an opportunity to comment on any changes to the methodology when determining revised charges for future years • ensuring that all overheads are accounted for and considering when the time-measuring exercise will need to be repeated to update the methodology • continuing to take account of legal advice on the type of costs recovered.