

Bournemouth Borough Council 2004/05 Audit and Inspection Letter



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Ladies and Gentlemen

Audit and Inspection Letter 2004/05

We are pleased to present our Audit and Inspection Letter for the 2004/05 audit.

This covers the audit for the year ended 31 March 2005 and also incorporates work undertaken by the Audit Commission including the Corporate Assessment.

Yours faithfully

PricewaterhouseCoopers LLP

Martin Robinson
Relationship Manager, Audit Commission

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Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

We perform our audit in accordance with the Audit Commission’s Code of Audit Practice (the Code), which was issued in March 2002. This is supported by the Statement of Responsibilities of Auditors and Audited Bodies, which was issued in April 2000. Both documents are available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end, and what is to be expected of the audited body in certain areas. Our reports and audit letters are prepared in the context of this statement and in accordance with the Code.

Reports and letters prepared by appointed auditors and addressed to members or officers are 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. A new Code of Audit Practice will be in place for the 2005/06 audit year, together with a new Statement of Responsibilities of Auditors and Audited Bodies, both of which were issued in March 2005.

Executive summary

The purpose of this Letter

Each year we produce a formal letter to summarise the matters that we wish to bring to your attention that have been identified during the audit and inspection work performed at the Council.

This letter therefore includes the issues we wish to report arising from our audit programme of work and to meet our responsibilities under Statement of Auditing Standard (SAS) 610 - "Communication of audit matters to those charged with governance" which requires us to report certain matters to you. These include any errors that were identified during our work that affected the financial statements which have not been corrected.

This letter also includes the results of the work in connection with 'Use of Resources' that we are required to do together with the corporate assessment that was undertaken recently and the overall Comprehensive Performance Assessment (CPA) score based on this and other assessments.

Prior to finalising this letter we have discussed a draft version with management and also attended the meeting of the Audit and Governance Sub-Panel at which a draft version of this letter was discussed.

We have produced two other documents relevant to our reporting to the Council and these are as follows:

- SAS 610 Report
- Internal Control Report

The key issues arising from our work to date are:

- The Council has been assessed as a "three star" council in the overall CPA scorecard, which included the score of '2' from the Corporate Assessment carried out in September.
- The pace of change at the Council is accelerating with a clearer focus on driving improvement in key areas.
- The Council performed well in its Use of Resources assessment, achieving a score of 3 out of 4. The key area for improvement is on value for money, particularly the need to strengthen performance management and procurement.
- We gave an unqualified opinion on your accounts for the year ended 31 March 2005.
- The Council underwent a significant reorganisation with a new structure in place from April 2005. Reasonable provision has been made within the 2004/05 accounts for the associated costs. However, we identified some improvements that could be made to authorising severance payments.

- In common with many other local authorities, the Council faces cost pressures in the short and longer term, including increasing pension costs. However, it is taking a proactive approach to managing these risks and its overall financial position is reasonable.
- We also identified some control issues which need to be addressed, including a need to strengthen the IT security environment. Officers have responded to these and action plans have been agreed.

Inspection

Council performance and CPA scorecard

The Council has been assessed this year as a "three star" council under the Audit Commission's revised, "harder test" CPA methodology. We have assessed its direction of travel as "improving adequately".

CPA scorecard, December 2005

Element	Assessment	Source of Assessment
Overall	Three stars	Audit Commission
Direction of Travel judgement	2 ('improving adequately')	Audit Commission
<i>Current performance</i>		
Children and young people	3 out of 4	Ofsted/CSCI
Social care (adults)	3 out of 4	CSCI
Use of resources	3 out of 4	PricewaterhouseCoopers
Environment	2 out of 4	Audit Commission
Housing	3 out of 4	Audit Commission
Culture	4 out of 4	Audit Commission
Benefits	3 out of 4	Audit Commission
Corporate Assessment	2 ('adequate performance')	Audit Commission

(Note: 1=lowest, 4= highest)

The CPA judgements this year have been made using the revised methodology; as described in the Audit Commission's publication "CPA - the harder test". As the title implies, CPA is now a more stringent test with a greater emphasis on outcomes for local people and on value for money. We have also added a new dimension, a Direction of Travel judgement, that measures how well the Council is improving.

Under the new framework the Council is "improving adequately" and its overall CPA category is three stars, the second highest rating. Last year it achieved a rating of "fair" under the old methodology.

Corporate Assessment and Joint Area Review

The Council was among the very first group to receive a combined Corporate Assessment (CA) and Joint Area Review (JAR), published in December 2005 based on fieldwork in September and October. The two inspections were carried out in tandem and extensively informed each other's judgements.

The purpose of the corporate assessment is to assess how well the Council engages with and leads its communities, delivers community priorities in partnership with others and ensures continuous improvement across the range of its activities. The JAR, covering services for children and young people, focuses on the contributions made by services (within and beyond the Council) to improving outcomes.

The Corporate Assessment scores and JAR grades were as follows:

Corporate Assessment scores

Headline questions	Theme	Score
What is the Council, together with its partners, trying to achieve?	Ambition	2
	Prioritisation	2
What is the capacity of the Council, including its work with partners, to deliver what it is trying to achieve?	Capacity	2
	Performance management	2
What has been achieved?	Achievement	2
Overall corporate assessment score		2
Key to scores: 1 : below minimum requirements – inadequate performance 2 : at only minimum requirements – adequate performance 3 : consistently above minimum requirements – performing well 4 : well above minimum requirements – performing strongly		

Joint Area Review grades

	Local services overall	Council services	Health services
Being healthy	3		
Staying safe	3		
Enjoying and achieving	3		
Making a positive contribution	3		
Achieving economic well-being	3		
Service management	3		
Capacity to improve	3	3	
Children's services		3	
The education service		3	
The social care services for children		3	
The health services for children			3
Key to grades: 1 : inadequate 2 : adequate 3 : good 4 : outstanding			

Key conclusions

The Corporate Assessment and Joint Area Review reached the following key conclusions:

- The Council and its partners in the local strategic partnership do not have a clear longer-term vision for Bournemouth but are working constructively to develop one.
- The Council has clear corporate priorities, which were determined after consultation with partners and the public. However, it does not have fully-developed strategies for achieving some of these priorities – affordable housing being a case in point.
- The political leadership is providing strategic direction to the Council. Councillors are engaged with their local communities and the Council is now working more closely with sub-regional partners.
- The Council consults partners and the community in a variety of ways. However, it does not have a fully-developed corporate approach to equality and diversity issues.
- The Council has strengthened corporate capacity over the past eighteen months. This has resulted in a clearer corporate vision, improved relationships between councillors and officers, and good staff morale.
- Until recently, the pace of change at the Council has been slow, with limited drive from the corporate centre. However, the Council is now taking steps to drive improvement against priorities – in particular, by strengthening performance management, project management, partnership working, human resource planning and the approach to value for money issues.
- The Council has maintained good performance in some services (for example, education) and made improvements in others (for example, adult social services). But it has not given sufficient attention to some poorly performing services, such as planning.

- The Council and its partners provide good services for children and young people in Bournemouth and make a positive contribution to their health, safety, education and recreation, and economic well-being. Children benefit from high quality educational provision and there is good collaboration with partners in developing vocational provision. Children most vulnerable to abuse and exploitation are well-protected by a combination of effective early intervention and other procedures.
- The Council has established an integrated Children's Service and the lead member role for this is developing well. The Change for Children Implementation Board has drawn key partners together, set priorities, objectives and targets, and identified the key contributions expected from individual agencies towards the outcomes for children and young people identified in Every Child Matters.

Direction of Travel judgement

Bournemouth Borough Council is improving adequately and is a 3 star council.

It has made variable progress in improving services important to local people. Education results have remained good, and social services have maintained or improved outcomes for children and young people. The Council has improved adult social care, although further improvement is needed in the amount of intensive home care provided. The standards of parks, beaches and cleanliness of streets have remained high. However, some environmental and transport services, such as traffic volumes and road accidents, remain comparatively weak, and waste recycling has not improved. Most of the Council's housing services have improved, but progress in increasing the availability of affordable housing is slow.

The Council has made significant recent progress in building its ability to deliver future service improvements. In particular, it is developing stronger links with key partners, including the local strategic partnership, and is reallocating resources to priority services. However, it has not yet fully developed the clear strategies and action plans that are needed to achieve all its improvement priorities. It does not have a sufficiently robust strategy for dealing with diversity and equalities issues.

Service improvement

The Council has improved some services that have been identified as corporate priorities and which the public say are important to their communities. Examples of key improvements include:

- regeneration of parts of Boscombe and Southbourne, through work with partners using Single Regeneration Budget funding, and under the Neighbourhood Management scheme as a national pathfinder;
- Key Stage 2 results for 2005 that were among the most improved in the country, and significant improvements in GCSE results;
- the introduction of a single assessment process and access to services (Care Direct) for older people;
- the development of a training hotel in partnership with the Regional Development Agency (RDA), in support of local economic development;
- improvements in the quality and energy efficiency of the Council's housing stock and initiatives to improve private sector housing;
- a reduction in street drinking and drug misuse in some areas, resulting from work with partners on community safety initiatives; and
- a major refurbishment of the Bournemouth International Centre (BIC).

However, there is potential to improve some services. For example:

- completions of affordable housing are approximately 85 units per year, compared with a shortfall of more than 1,500 homes per year highlighted by the Council's own housing study;
- there is limited provision of affordable public transport for young people;
- the number of older people helped to live at home has fallen and remains in the second lowest quartile, and the provision of intensive home care remains below the comparator group and national average;
- the Council expects to meet only 3 of the 10 LPSA (Local Public Service Agreement) targets in full and is at risk of not meeting the 60 per cent achievement target for 5 sub-targets;

- there are weaknesses in the strategic and operational management of the planning service;
- there are weaknesses in transport planning; and
- the Council is in the early stages only of developing a strategic approach to addressing health inequalities.

Improvement planning

The Council has responded positively to the issues raised in the CA/JAR, and is in the early stages of developing an improvement plan that addresses these. We look forward to working constructively with the Council as it develops and implements the improvement plan.

Accounts and Governance

Accounts

The purpose of our accounts work was to provide an audit opinion on the Council's Financial Statements, or Accounts, in accordance with Auditing Standards.

We were able to complete this part of our work in line with a pre-agreed timetable and our unqualified audit opinion was issued on 28 October 2005.

We commenced our work in connection with the detailed testing of the financial statements and supporting working papers in July 2005 and we were pleased to note that the accounts were ready by the date we had agreed. The working papers that supported the accounts were of a high standard and there are no outstanding adjustments that need to be brought to your attention.

For the 2004/05 Accounts the timetable for approving the accounts and completing the audit had been brought forward by one month compared to 2003/04. We were, however, able to meet the deadline of 31 October 2005 for completing our audit and signing the audit opinion. In meeting this, we were grateful for the hard work put in by the financial accounts staff. This was a substantial achievement given the resource pressures faced by the finance team.

For 2005/06, the timetable has been brought forward by another month with the Council needing to approve the 2005/06 Accounts by 30 June and the

audit being completed by 30 September 2006.

It is evident that there are heightened expectations in terms of how quickly local authorities are now expected to prepare and publish their annual accounts. In addition, the success of a local authority in achieving this shorter timetable is one element in assessing the performance of the Council under CPA. It is therefore important that the progress made by the Council in producing reliable accounts promptly after the year end is maintained.

Formal communication of relevant audit matters to those charged with governance (SAS 610 Report)

SAS 610 - "Communication of audit matters to those charged with governance" requires us to communicate relevant matters relating to the audit of the financial statements. We have agreed with you that these matters should be communicated to the Audit and Governance Sub-Panel through this letter.

SAS 610 specifically requires us to communicate a range of matters including any expected modifications to the auditors' report; any unadjusted misstatements; and any material weaknesses in the accounting and internal control systems identified during the audit. We have provided a separate report for these areas.

SAS 610 also requires us to communicate with those charged with governance regarding:

- The concept of materiality and its connection to our audit approach
- Our approach in addressing the risk of material misstatement
- Our approach to the assessment of, and reliance on, internal controls
- Intended reliance on the work of internal audit
- The independence and objectivity of the audit team

These matters have already been communicated to you in the audit service plan and we have no changes to report to you. In particular we confirm that the audit team remains independent within the requirements of ethical and auditing standards.

Overall financial performance for 2004/05

In overall terms the Council incurred a General Fund deficit of £960,000 in 2004/05 that reduced its General Fund balance to £5.7 million. The original budget for 2004/05 that was approved before 1 April 2004 contained no provision for the reorganisation that was undertaken in the year. Costs relating to the reorganisation amounted to around £1 million and were therefore the main reason for the overspend against base budgets. The Housing Revenue Account generated a surplus of £69,000 and increased its accumulated balance to nearly £3.1 million.

Looking forward, the Council faces significant financial pressures from a range of sources including its pension related costs. Employees of the Council are either a member of the Teachers Pension Scheme or of the Dorset County Council Pensions Fund. The Teachers' Pension Scheme is administered centrally and it is not possible to identify the Council's share of any deficit or liability in the Scheme. However, in respect of the Dorset County Council Pension Fund, it is possible to identify the Council's share of the assets and liabilities of the fund and at 31 March 2005, the actuary's estimate of the deficit attributable to Bournemouth Borough Council had increased to £133 million from a deficit of £86 million at 31 March 2004.

In an effort to improve the financial health of the pension fund employer contributions are being steadily increased and clearly these increases will

impact upon the Council's spending and will need to be factored into budget projections. In addition, there is always a possibility that the period over which the deficit is to be eliminated (currently 20 years) will be reduced which will also create a significant possibility that contribution rates will increase to a significantly higher level.

The Council's own medium term financial forecast has identified a gap of around £1.6 million in the resources available to fund spending in 2006/07 if Council tax increases are to be held at 5% per annum. This gap, without corrective action, is forecast to widen by a further £3 million for 2007/08. Whilst the Council is actively seeking to identify areas where costs can be reduced (or income increased), against a background where the government grant settlement is unlikely to be favourable, the Council will need to carefully assess its priorities against available resources.

The 2004/05 accounts show a number of trading activities which made a loss in the year. Whilst we recognise that not all of these are designed to make a profit, we recommend that the Council reviews the current level of deficit funding to assess whether it is appropriate and provides value for money.

Reorganisation

The Council underwent a fundamental reorganisation which took effect from 1 April 2005. This has involved the creation of four strategic directors and sixteen Business Units which are responsible for service delivery. From a financial perspective we have the following comments to make:

- The Council has provided £1.3 million for severance payments in its 2004/05 accounts; we have reviewed this amount which appears reasonable.
- We examined the process for calculating and authorising severance payments and identified some areas for improvement. In particular, the process for agreeing severance payments requires clarification to ensure full Council approval, although we accept that the overall programme has been approved by Council.
- The Business Units now have a key role in budget management and

accountability. Our experience at other authorities suggests that it is important that the business unit heads have appropriate levels of financial awareness and that there is a strong central finance function able to monitor the overall financial position and hold business unit heads to account for their financial management.

Prudential Framework for Capital Expenditure

From 1 April 2004, the Council has been able to plan its capital expenditure under the new Prudential Framework. This focuses on ability to afford the consequences of spending decisions from future years' revenue and allows the Council to set its own limits on the borrowing needed to achieve an affordable capital strategy.

In 2004/05 the Council's capital expenditure amounted to around £28 million of which around £6 million related to housing related activities including grants to social housing providers of around £1.3 million. The major project that was undertaken by the Council in 2004/05 related to the refurbishment of the BIC. The project was funded using freedoms available under the Prudential Framework and borrowing of around £8 million in the year.

We reviewed the business case and subsequent progress of the BIC project. The Council took appropriate advice on the business case and has continued to review the case as the project progressed. The BIC refurbishment was completed in time and close to budget which was a creditable achievement. In order to keep within budget some changes have been made to the project scope and the Council has utilised maintenance funds. We identified some weaknesses in budget monitoring, though officers addressed these promptly. There is always a risk with conference and leisure facilities that income projections will not be met but initial indications are promising. A post implementation review will be required to determine whether there are any lessons to be learned for other projects.

We have reviewed the steps the Council took in 2004/05 to implement the Prudential Framework and manage spending and borrowing in the first year of operation and concluded that adequate preparation has been made.

Systems of internal financial control

The Accounts and Audit Regulations 2003 included a requirement that the statement of accounts prepared by an authority in England should contain a statement on internal control (SIC). These statements refer to much wider systems of control than purely financial systems and require the Council to have in place such systems of control. Authorities are required to conduct annual reviews of the effectiveness of the system of internal control, which will provide the findings to support the SIC.

We have prepared a report and issued it to the Head of Resources setting out the matters identified in our review of systems at the Council. Overall we concluded that the operation of the Council's systems was sufficient to support our planned audit approach in most areas and the matters raised have been communicated to management.

Priority issues not already mentioned were:

- The procedures for granting access to the Council's computerised systems for new staff and deleting access rights for leavers should be strengthened;
- Formal back-up procedures for retaining back-up papers should be developed;
- The Council should develop and maintain an up to date disaster recovery plan for its fundamental systems; and
- The access rights for activating the Council's BACs payments should be strengthened.

Bournemouth Transport Limited

The Council has been involved in selling its 100% holding in Bournemouth Transport Limited.

The sale was originally planned to have been completed in late summer 2005. Before the sale could take place, however, the Council needed to obtain the consent of various regulatory bodies including the consent of the

Department for Transport (DfT). Following an objection to the procedures adopted by the Council the consent of the DfT was not granted. The Council then needed to begin the process of selling the company by following amended procedures to assess the bids that were received. Due to these uncertainties, the investment is recorded at cost in the 2004/05 accounts.

We will review this issue as part of our 2005/06 audit, including the impact on the group accounts.

AFC Bournemouth

In 2001, the Council advanced a loan to AFC Bournemouth of £250,000 which was to have been repaid in May 2005, a date that was extended to November 2005. The Council has agreed that the Football Club will now deliver community services of a value not less than the loan in lieu of repayment. The timing of this transaction means that it will be covered during the 2005/06 audit when we will review any implications regarding legality and value for money.

Governance and audit

Governance and audit arrangements have assumed a prominent profile in all large organisations in both the public and private sectors. The Council has responded by creating an Audit and Governance Sub-Panel (AGSP) to consider audit issues and to act as Audit Committee. There is considerable debate about the structure and status of panels such as this within local government. Best practice suggests that the Council should create a fully constituted committee (rather than a sub-committee or panel) to discharge the functions of an Audit Committee. Therefore although the Council's creation of the AGSP is a positive step, the Council should monitor the effectiveness of the AGSP and, if necessary, act to strengthen its status.

Internal Audit

A key element of effective governance arrangements within local authorities is an effective internal audit function. In addition, in order for us to perform an efficient audit and to meet a demanding timetable for completing the audit requires that internal audit complete a full programme of work and that we can rely on the work. However, before we can place reliance upon the work,

we need to test it so that we can be satisfied that the work is of sufficient quality for us to place reliance upon it.

Against this background, in the 2004/05 audit we undertook a detailed review of Internal Audit and benchmarked it against best practice, involving the Chair of the CIPFA Audit Panel. We concluded that you have a strong and well regarded internal audit section that complies with most elements of best practice. We identified a small number of matters, the most significant relating to 'Audit Committee' reporting arrangements which the Council has attended to by creating the new Audit and Governance Sub-Panel.

Performance management

Use of Resources

A new element of the auditors planned work involves assessing the Council's use of resources and this assessment, amongst other things, looks at how financial management is integrated with strategy and corporate management and supports Council priorities. The assessed results create a scored judgement which is available to help inform future corporate assessments.

A table indicating the relevant scores for each component of the Use of Resources work is set out below:

Element of Use of Resource	Score
How good are the Council's financial accounting and reporting arrangements?	3
How well does the Council plan and manage its finances?	3
How well does the Council safeguard its financial standing?	3
How well does the Council's internal control environment enable it to manage its significant business risks?	3
How well does the Council currently achieve good value for money; and how does the Council manage and improve value for money?	2

- 1 Below minimum requirements - inadequate performance
- 2 Only at minimum requirements – adequate performance
- 3 Consistently above minimum requirements – progressing well
- 4 Well above minimum requirements – performing strongly

The Council has scored 3 overall which is a good achievement given the 'harder test' being applied. This reflects your strong financial management and general controls. The key area for improvement is around value for money, in particular:

- A need to develop the procurement arrangements within the Council.
- Stronger performance management arrangements are required, that enable services, particularly the poorer performing services, to be effectively monitored and challenged where progress is not satisfactory.
- The implementation of Post Implementation Review procedures for all significant capital and other 'once off' projects.

Accommodation

The Council owns or leases a number of large buildings within Bournemouth and for some, the lease period will expire within the next twelve months. Therefore it is timely for the Council to review its accommodation strategy because it now has various options open to it.

As part of our audit, individuals from our property team reviewed the Council's accommodation strategy. We produced a report in May 2005 that has been agreed with officers.

Intuitively the Council is following a sound short term strategy; it involves vacating buildings, making better use of assets and decentralising fieldwork teams which is consistent with national policies including the efficiency agenda and the Lyons report 'Towards Better Use of Public Assets' (December 2004).

The strategy is short-term in that it does not address the fact that the core buildings may not be suitable for supporting future business strategy. Furthermore they have a finite life and significant capital investment will be required to renew their economic life at some point to enable continued occupation.

A robust long term strategy has not been identified and this requires an examination of the future size and shape of the organisation and the translation of corporate objectives into a statement of future requirement. This will be a task for the new strategic team at the Council working with Members.

We would also encourage the Council to develop further its current initiatives around space utilisation and better use of IT.

Best Value

Under the Local Government Act 1999 we are required to carry out an audit of the Council's Best Value Performance Plan (BVPP). Our work consists of auditing a sample of the Council's Best Value Performance Indicators (BVPIs) as well as reviewing the 2005 BVPP.

Our testing of selected BVPIs identified one indicator which had been incorrectly calculated and one indicator which we reserved (qualified). Our review of the BVPP (which is incorporated within the Council's Corporate Plan) concluded that it complied with the statutory requirements. We have made one recommendation to the Council in respect of the BVPP, for the purposes of greater clarity.

Non Best Value Performance Indicators

The Audit Commission specified a number of additional, non Best Value performance indicators for review by auditors in 2005. These were indicators identified by the Commission as needing work from a national perspective in relation to the requirements for CPA and in particular, the proposals for service reviews.

There were ten of these additional indicators relevant for Bournemouth Borough Council; three relating to housing and seven to culture (libraries). We were not notified until July 2005 that we would be required to audit these indicators, which we have not previously audited.

As the Council had not anticipated that these areas would be subject to external review, staff in some cases found it difficult to provide sufficient evidence to support the calculation of these indicators for 2004/05. The audit was therefore somewhat problematic and resulted in us being unable to conclude that seven of the ten indicators were fairly stated.

Audit and inspection fees for 2004/05

Fees update for 2004/05 audit and inspection plan for 2004/05

Our actual audit fees were in line with our proposal and details are set out below:

Aspect of the Audit and Inspection role	Fees
	£
Accounts	100,000
Governance	72,000
Performance	65,230
	237,230
Inspection	78,720
	<u>315,950</u>

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