

Annual Audit and Inspection Letter

May 2007



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Leicester City Council

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Our overall summary

- 1 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the findings and conclusions from the audit of the Council that has been undertaken in the last year and from a wider analysis of the Council's performance and its improvement over the last year, as measured through the Comprehensive Performance Assessment (CPA) framework.
- 2 The report is addressed to the Council, in particular it has been written for councillors, but is available as a public document for stakeholders, including members of the community served by the Council.
- 3 We have concluded that Leicester City Council is a three star council that is improving adequately. The main messages for the Council in relation to overall performance are set out in our annual scorecard, which is reproduced below.
 - The Council has delivered improvements in some priority areas but its overall rate of improvement is about average and some areas of service have not performed as well as in previous years. User satisfaction has improved in most areas.
 - The Council has increased educational attainment but performance at some Key Stages remains in the worst quartile. Adult social care services has delivered improvements in areas such as intermediate and home care, also community safety and recycling have both improved. Public satisfaction with community leisure facilities has increased and Beacon Status has been achieved in Culture and Sport. The Housing Benefits service deteriorated to a fair service following a software systems failure.
 - The Council's planning arrangements are reasonably robust. The Business Improvement Programme aims to deliver financial savings and service improvements. Value for money is starting to improve. There is significant investment underway to strengthen Culture and Education but they are at different stages of development. Performance management is being strengthened. However, Member behaviour and collaboration is not always effective and may be a barrier to further improvement.
- 4 In relation to financial management and governance our main messages are:
 - the tighter deadlines set in 2005/06 for the closedown of the accounts and the issue of the audit opinion were both met, as was the new target for the Whole of Government Accounts (WGA) return; and
 - we issued an unqualified opinion on your 2005/06 accounts and an unqualified VFM conclusion.

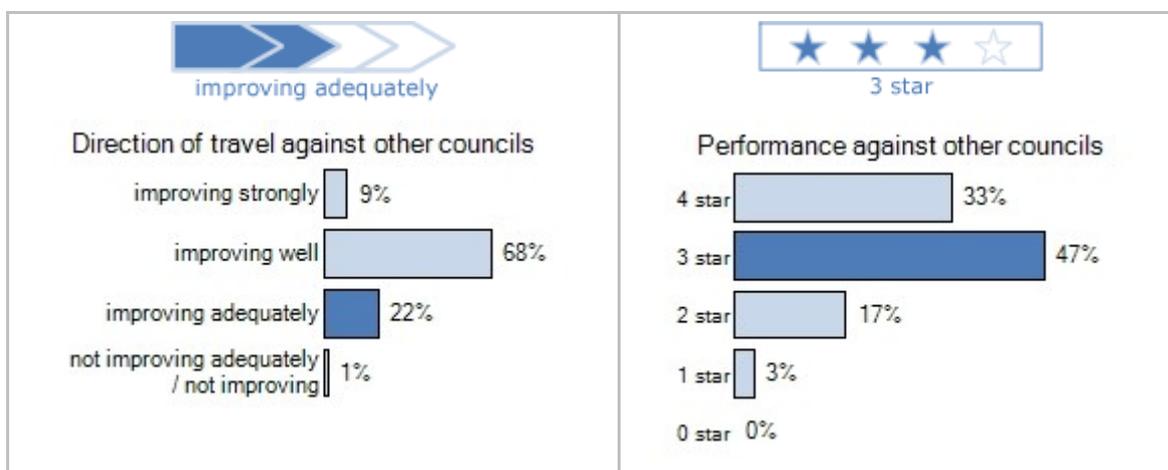
Action needed by the Council

- 5 There are a number of key areas that members should focus their attention on to further improve performance.
 - Improvements should continue to be targeted at poorer performing services together with ensuring a more consistent and methodical approach to achieving value for money across all departments.
 - Continue to develop and promote a corporate performance culture across the Council and strengthen arrangements for the identification and dissemination of best practice.
 - Further develop and strengthen project management arrangements to ensure the benefits of major projects and improvement programmes are realised.
 - Further develop the role of the Standards and Audit Committee to ensure that a strong framework of internal control and high standards of conduct are achieved at all levels within the Council.

How is Leicester City Council performing?

- 6 The Audit Commission’s overall judgement is that Leicester City Council is **improving adequately** and we have classified the Council as **three-star** in its current level of performance under the Comprehensive Performance Assessment. These assessments have been completed in all single tier and county councils with the following results.

Table 1



Source: Audit Commission

- 7 The detailed assessment for Leicester City Council is as follows.

Our overall assessment - the CPA scorecard

Table 2 CPA scorecard

Element	Assessment
Direction of Travel judgement	Improving adequately
Overall	Three Star
Current performance	
Children and young people	3 out of 4
Social care (adults)	3 out of 4
Use of resources	3 out of 4
Housing	3 out of 4

Element	Assessment
Environment	3 out of 4
Culture	3 out of 4
Benefits	2 out of 4
Corporate assessment/capacity to improve	3 out of 4

(Note: 1 = lowest and 4 = highest)

The improvement since last year - our Direction of Travel report

Improving outcomes

- 8 The Council achieved an average level of improvement in the last year compared to other councils (based on the Commission's Data Pack). 67 per cent of its key performance indicators (BVPIs) improved compared to the national average of 67 per cent. A third (33 per cent) of the Council's BVPIs displayed performance in the best quartile. The Council is making progress in improving its priority areas of service, in particular education and the environment. Social care, housing, waste collection and public transport strategies are also continuing to improve. Despite this improvement, some BVPIs remain in the worst performing quartile and some services have deteriorated, for instance, Housing Benefits (the service has started to improve markedly in recent months).
- 9 According to Inspectors, the Council overall continues to provide a good service to children and young people, given the challenging context of 'one of the lowest levels of child development on entry to school, together with one of the highest levels of pupil mobility or turbulence, in the country.' The Council's contribution to improving standards is deemed adequate and whilst standards of educational attainment have shown clear and sustained improvement, improvements were only in line with those achieved by similar areas. Levels of attainment are seen as too low and below national average figures. Nine key education BVPIs remain in the worst quartile and absolute levels of attainment remain relatively low compared to other Councils. The 2006 exam results show an improving trend on the 2005 results (which inform the inspector's judgements).
- 10 There has been improvement in the overall achievement and standards of attainment of looked after children in 2005. In 2005/06, 75 per cent of looked after children sat at least one GCSE equivalent exam compared to 53.8 per cent the previous year and 46.4 per cent achieved at least five A* to C grades at GCSE. Exclusions of looked after children and of pupils from special schools were low compared with statistical neighbours.

- 11 The Council is looking to strengthen the capacity of schools further through the Building Schools for the Future partnership project, which represents a major investment. This development is at the final procurement stage. It has also invested £6 million in the City's children's centre network at ten sites this year to improve access to parenting education and support and to targeted services for teenage parents, fathers and special needs support.
- 12 Adult social care, has continued to improve and is rated two-star by inspectors with a 'promising' capacity to improve, similar to last year. The directorate has developed a clear vision of how services are to be delivered and developed a range of joint working arrangements which have delivered improvements in some key areas. For instance, the intermediate care and intensive home care strategies have reduced unnecessary admissions to hospital and improved discharge processes from the acute sector. User choice and independence continue to be actively promoted and waiting times for items of equipment and adaptations have been improved. All areas identified for improvement in the Inspector's previous report have been largely met or work is ongoing.
- 13 There have been positive developments in relation to the Council's key priority to improve the overall feel and culture of the City to provide a more stimulating and welcoming environment. Culture and Heritage, Parks and Open Spaces and Libraries have all received increased investment which has led to an increased use of facilities; higher levels of user satisfaction. In 2005/06 over 5.5 million people participated in cultural activities, of which 32.5 per cent of cultural services users were from BME backgrounds (an increase of 6.9 per cent on 2004/05), which has helped move on the Council's well-respected diversity agenda. Usage of cultural services by disabled people increased from 2.7 per cent in 2004/05 to 3.37 per cent in 2005/06. The Council also achieved Beacon status for innovation and excellence for Culture and Sport for Hard to Reach Groups this year.
- 14 Also integral to the ambition to improve the environment, the City is taking forward major projects to stimulate redevelopment in the City Centre, spearheaded by the Cultural Quarter project which should be complete by 2008. These projects aim to make the City a more attractive place to live and work in. Proposals are also in train in relation to a range of projects, including new office core; a new science and technology park and a reinvigorated retail area, which are being developed in conjunction with the Leicestershire Economic Partnership. Major retail development is underway within the City which should start to transform the look and feel of the City. However these developments are still in train and the outcomes will be felt further down the line.
- 15 Community safety has improved. A Service Director 'champion' has been appointed to lead on community safety work across all council departments, based on the recommendations made in the Audit Commission's 2005 inspection report. Crime levels have reduced in the City over the past twelve months and 75 per cent of crime reduction targets have been met. Fear of being mugged or robbed also fell from 65 per cent to 40 per cent between 2001 and 2005. However, the BVPIs in relation to violence against the person and sexual offences remain in the worst quartile.

- 16 The Council continues to perform strongly in relation to its work with its diverse communities. It has also continued to work to improve engagement and support with minority communities and hard to reach groups. The 'aims, actions and measures' component of the Strategy for Leicester sets targets and aims for Economic Prosperity, Cohesive, Safe, Strong and Sustainable Communities. There is evidence of the commitment to these aims by the Council and its partners.
- 17 In relation to other areas of delivery, the picture is more mixed. The council's Housing Strategy (2005-10) was assessed as 'fit for purpose' by Government Office East Midlands and the Council remains on track to meet the decent homes standard by 2010. However, in key areas such as Council Tax collection and Housing Benefits (HB), performance remains in the worst quartile and inspectors have assessed HB performance as declining, in large part due to suppliers ceasing to support a major HB software system. Inspectors noted that the Council had met only three of their 12 performance measures and two of the four theme scores; claims administration and user focus score the lowest score of one. In recent months the decline in performance has been reversed and there is evidence of steady improvement.
- 18 Finally, in relation to value for money, the Council has shown some improvement in the efficiency of its service unit costs but there is some way to go. The Council has held Council tax at relatively low levels for three successive years.

Plans to sustain future improvement

- 19 The Council's overall plans are reasonably robust but it has seen some turnover of senior officers. It has consulted widely on budget priorities and on the Community Strategy. A new corporate plan will be developed which will align closely with the Leicester Partnership's 'Strategy for Leicester'. The Council has also played a key role in developing the Local Area Agreement.
- 20 The Council is implementing a Business Improvement Programme to improve efficiency and service outcomes. Early work is being carried out to: improve ITC skills and equipment; support the new Resource Management System (RMS) and rationalise HR support across the Council. 71 per cent of internal targets were met or were on track in 2005/06 but there has been some slippage. There are 26 business change and improvement projects currently under way.
- 21 Project management remains an area where the Council recognises that it needs to strengthen its performance and it is putting processes in place to seek to achieve this. A number of major projects, such as Building Schools for the Future and the Cultural Quarter project have however experienced ongoing difficulties. The Council has accordingly invested heavily in the Prince 2 project management system to ensure that the long-term implications of projects and programmes are properly assessed and better understood. This is not yet fully embedded.

- 22 A recent IDeA Peer Review identified a number of strengths in the Council's overall arrangements, particularly around its approach to diversity and its strong ambitions for improving services and the quality of life in the City. The team found a strong commitment to and pride in the City and identified a strong contribution from the Chief Executive. By its nature a peer review focuses on areas for improvement and the feedback highlighted opportunities to improve performance management, which the Council continues to seek to strengthen, and around the Council's ability corporately to punch its weight within the City and the region more widely. It also highlighted concerns about the lack of effective leadership displayed by Members across the Council. The coalition Cabinet was deemed effective in producing shared policy initiatives. However, the poor behaviour of some Councillors undermined the reputation and influence of elected members in the eyes of the public and was seen as a potential barrier to further progress.

Service inspections

- 23 In line with our policy of strategic regulation, we have not undertaken any service inspections at Leicester City Council in the last year due to its status as a top performing four star council. However, an important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators who also review and report on the council's performance. Relationship Managers share information and seek to provide 'joined up' regulation to the Council. During the last year the Council has received the following assessments from other inspectorates.

Children and young people - Ofsted/CSCI

- 24 Leicester City is a **good** performing council. It is one of Britain's most diverse cities and includes some of the most disadvantaged areas in England. A key service delivery challenge for Children and Young People's Services is to remain responsive to the city's varied and changing demographic profile and the lifestyle changes of children and young people, their parents and carers. This takes place in the context of a city with one of the lowest levels of child development on entry to school, together with one of the highest levels of pupil mobility in the country and a high level of referral to specialist and targeted services.

Table 3 Key strengths and areas for improvement

Key strengths	Areas for improvement
<p>Being healthy:</p> <ul style="list-style-type: none"> • there is effective promotion of healthy lifestyles in schools; • there has been improvement in many of the key indicators over the last year; and • the health needs of looked after children are assessed and met. 	<p>Being healthy:</p> <ul style="list-style-type: none"> • reduce health inequalities between different neighbourhoods and communities.
<p>Staying safe:</p> <ul style="list-style-type: none"> • there are robust safeguarding procedures and practices in place to ensure that children and young people are safe; and • key performance indicators relating to staying safe show good or improved performance. 	<p>Staying safe:</p> <ul style="list-style-type: none"> • strengthen the early years advice, guidance and support service to improve outcomes; and • improve performance in relation to core assessments being robustly worked on via development of integrated children's system, through implementation of training for frontline staff and managers and electronic systems.
<p>Enjoying and achieving:</p> <ul style="list-style-type: none"> • targeted intervention and support is effective in bringing about improvement in the quality of provision and in standards of attainment; and • there has been sustained improvement in raising standards and improving achievement. 	<p>Enjoying and achieving:</p> <ul style="list-style-type: none"> • raise standards of attainment particularly at Key Stages 2 and 4, to bring them in line with similar areas; • sustain improvements in attendance by further reducing levels of unauthorised absence; • reduce absence levels of looked after children; and • reduce rates of exclusions, both fixed term and permanent exclusion.

Key strengths	Areas for improvement
<p>Making a positive contribution:</p> <ul style="list-style-type: none"> • consultation builds upon successful models of active involvement of children and young people; and • the council has been effective in engaging the traditionally hard to reach groups. 	<p>Making a positive contribution:</p> <ul style="list-style-type: none"> • implement plans to further engage children and young people in all aspects of planning and in the evaluation of services to more fully empower different groups and communities to support themselves.
<p>Achieving economic wellbeing:</p> <ul style="list-style-type: none"> • co-ordinated planning and delivery of good quality 14 to 19 education makes a good contribution to the economic well-being of children and young people; and • partnership working includes voluntary and private providers and has led to some measurable improvement. 	<p>Achieving economic wellbeing:</p> <ul style="list-style-type: none"> • raise standards of attainment and reduce the number of young people not in education, employment or training so that outcomes are more securely in line with similar areas.
<p>Management of children's services:</p> <ul style="list-style-type: none"> • the council and its partners, across all sectors, provide effective leadership for children's services; and • the services have been developed through a strong tradition of partnership across all sectors and with an active focus on the involvement of service users, including parents and carers. 	<p>Management of children's services:</p> <ul style="list-style-type: none"> • improve the outcomes and effectiveness of the Youth Offending Team, particularly in relation to education, training and employment targets.

CSCI/Ofsted letter 1 November 2006

Adult social care – CSCI

- 25** The Commission for Social Care Inspection's latest annual performance assessment for adult social care concluded that the Council's capacity to improve was **promising** and gave an overall rating of a **two-star** service. CSCI identified a number of improvements since its last inspection.
- The new Corporate Director of Adult and Community Services has a clear vision about how social care services are to be delivered and has commenced the process of developing the systems and infrastructure to secure the necessary change and improvement.
 - A new corporate service planning framework has been introduced and commissioning plans have been written for Adult and Older People services, these are based on needs analysis information, resource mapping and include priority objectives and action plans.
 - There is a range of integrated and joint working arrangements in place and these have secured improvements in some key areas. For example, the intermediate care and intensive home care strategies have reduced unnecessary admissions to hospital and improved discharge processes from the acute sector.
 - Service users choice and independence continues to be actively promoted, for example more people have received a review and a statement of their needs, use of direct payments has increased and waiting times for items of equipment and adaptations has improved.
 - All areas identified for improvement in the Performance and Review Report for 2004-2005 have been largely met or work is ongoing, such as the modernisation of Learning Disability services.
 - The council continues to strengthen its commitment to the implementation of the Race Relations Act. Services for black and ethnic minority groups are good, for example the number of services and breaks and the increased use of direct payments.
 - There continues to be strong political and corporate support to the priorities for Adult Social Care and this is reflected in financial support and budget allocation, along with the ongoing commitment to the modernisation program.
- 26** The assessment also identified the following areas for further improvement.
- In order to deliver the councils revised vision for Adult Social Care there is a need to further develop and build managerial capacity and leadership and to ensure that all service plans are implemented in line with its strategic objectives and priorities.
 - The council has identified risks to service delivery for 2006/07 that include financial pressures related to social care delivery, financial pressures faced by health partners, organisational changes in PCTs, and capacity issues across all sectors. The council should ensure that the impact on service delivery is continuously monitored and its identified risk management strategies implemented where necessary.

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- Partnership working with health and other key stakeholders should be further enhanced by agreeing and clarifying governance and monitoring arrangements. The Council needs to ensure that all such arrangements achieve the agreed strategic objectives and deliver the expected outcomes for services users, within Leicester City.
- In partnership with the Mental Health Local Implementation Team (LIT) the council needs to ensure that it reviews performance to ensure that service user outcomes are being achieved and the National Service Framework targets met.
- A recent House of Lords ruling in relation to TUPE transfer agreements has impacted upon the integration of Learning Disability services with health. The council should continue to work in partnership with health to modernise these services and to align working structures and budget allocations. It should also continue to embed performance management and financial monitoring arrangements.
- The number of people with Learning Disabilities living in nursing or residential care homes is not in line with similar councils. This is due to the numbers who were transferred under preserved rights and the fact that some ex-Gorse Hill residents went into nursing and residential care. However the council should consider whether these individuals would benefit from alternative community accommodation.
- Working in partnership with health the council should progress its plans to discharge people with Learning Disabilities, who are living in NHS accommodation to more appropriate community settings by 2008/09.
- Performance management systems need to be further developed and embedded in practice across all service user groups. These need to be supported by robust monitoring and reporting arrangements and staff at all levels should use this information on a regular basis to ensure effective service delivery and monitoring of outcomes.

Benefit Fraud Inspectorate (BFI)

- 27 The Benefit Fraud Inspectorate undertook an assessment as part of the 2006 Comprehensive Performance Assessment (CPA) programme. Information for the assessment was gathered from a number of sources including:
- a self-assessment and evidence provided by the council;
 - Best Value Performance Indicators and performance measures;
 - discussions with senior officers in the council; and
 - BFI's CPA 2005 report.
- 28 The report concluded that the council met 3 of the 12 performance measures and 59 of the 65 'enablers'. The council's overall score has reduced to **fair**.

- 29 Problems with the Document Image Processing (DIP) system/work flow management system and time spent implementing work-arounds resulted in a downturn in performance in the assessment period. The council acknowledged that it faced significant challenges to improve performance and the implementation of a new IBS work flow system will contribute to achieving its objectives.

Table 4 Key findings

Assessment area	Key findings
<p>Claims Administration:</p> <p>Score 1</p>	<ul style="list-style-type: none"> • In 2005 the council met none of the six performance standards set for claims administration. The 2006 self-assessment showed that it had not improved. • Problems with the Document Image Processing system caused deterioration in performance during quarter four. However, with the exception of one standard, performance had also fluctuated across quarters one to three, and had not shown any indications of improvement. • The average time taken to process a new claim had improved but considerable further improvement was needed to meet the standard. • Rent allowance claims paid on time improved steadily during the year but remained significantly below standard. • A number of actions have been taken to improve performance and reduce the backlog, including engagement of a contractor, new standard letters, a customer guarantee and new Document Image Processing system.
<p>Security:</p> <p>Score 4</p>	<ul style="list-style-type: none"> • The Council has continued to meet all three performance standards. • Effective arrangements are in place for managing interventions and the visiting strategy has exceeded the standard. • Changes in line management arrangements, the introduction of new procedures and more effective processes has contributed to the council meeting the required standards.

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Assessment area	Key findings
<p>User Focus:</p> <p>Score 1</p>	<ul style="list-style-type: none"> • In 2005 the Council did not meet any of the three performance standards and the 2006 self-assessment showed that it had not improved. • Problems with the Document Image Processing system meant that management information reports were unreliable and incomplete. • The Council needs to effectively manage the appeals process in order to address the weaknesses in its performance and ensure that decisions are actioned promptly.
<p>Resource Management:</p> <p>Score 4</p>	<ul style="list-style-type: none"> • Financial support from the Performance Standards Fund had been used to facilitate an intensive 3 week training course for 14 new recruits to the Benefits service. • Relocation and refurbishment of the customer reception area has been undertaken to improve customer access and customer services. • Development of performance monitoring arrangements with performance against all indicators and local targets reported and considered monthly by Members and senior officers. • Appointment of a project manager and project team to ensure that the planned implementation of the new system will deliver the expected improvements to its performance.

Source: BFI CPA Assessment 2006

(Note: 1 = lowest and 4 = highest)

Financial management and value for money

- 30** We are required by legislation and the statutory Code of Audit Practice for Local Government bodies (the Code) to review and report on:
- the annual financial statements; and
 - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Annual governance report

- 31** The Code requires us to issue a report summarising the conclusions from our audit work to those responsible for governance within the Council. In normal circumstances it would be the Standards and Audit Committee that fulfils this role. However, it was not possible to convene a meeting of that Committee to fit in with the statutory deadlines and our report was therefore addressed to the full Council and considered by the Standards and Audit Committee retrospectively.
- 32** We reported our findings on 28 September 2006 including:
- an unqualified opinion on your accounts;
 - a conclusion to say that your arrangements for securing value for money are adequate; and
 - a report on the Best Value Performance Plan confirming that it has been audited.
- 33** Our report concluded that the overall standard of the accounts and supporting working papers was good and continues to improve. We also found that all specified standards in respect of the council's use of resources had been met. The following matters were highlighted in the report:
- two material adjustments in the financial statements in respect of the method of valuing council dwellings;
 - complicated and fragmented arrangements for recording fixed assets resulting in inconsistencies between various records and an unclear audit trail;
 - lack of regular reconciliation of the housing benefit system; and
 - professional standards which Internal Audit are expected to meet have been raised and at the time of our audit not all standards had been fully met.
- 34** We are currently carrying out an investigation as a result of information received during the course of the audit. Our work is not yet complete and we are therefore unable to formally conclude the audit. We will report our investigation findings and finalise the audit when the work is complete.

Use of Resources

- 35 The findings of the auditor are an important component of the CPA framework described above. In particular the Use of Resources score is derived from the assessments made by the auditor in the following areas.
- Financial Reporting (including the preparation of the accounts of the Council and the way these are presented to the public).
 - Financial management (including how the financial management is integrated with strategy to support council priorities).
 - Financial Standing (including the strength of the Council's financial position).
 - Internal Control (including how effectively the Council maintains proper stewardship and control of its finances).
 - Value for money (including an assessment of how well the Council balances the costs and quality of its services).
- 36 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in these five areas as follows.

Table 5

Element	Assessment
Financial reporting	3 out of 4
Financial management	3 out of 4
Financial standing	3 out of 4
Internal control	3 out of 4
Value for money	2 out of 4
Overall assessment of the Audit Commission	3 out of 4

(Note: 1 = lowest, 4 = highest)

- 37 The key issues arising from the audit, as reflected in the above judgements where appropriate, are as follows.
- Improvements have been evident across almost all areas of the assessment resulting in a consolidation of most scores and an increase in the score for internal control.
 - Financial reporting continues to be sound. The annual accounts are produced within statutory deadlines and contain relatively few errors. Openness and accountability are areas where the Council has strengthened its arrangements since last year by publishing summary financial information.
 - The Council has effective arrangements to ensure that its medium-term financial strategy, budgets and capital programme are soundly based and are designed to deliver its strategic priorities.

- Corporate budget monitoring arrangements are robust and overall revenue spending has remained within budget in recent years.
- Systems of internal control are generally sound but the Council needs to ensure that Internal Audit meet all the CIPFA standards and that robust business continuity plans are in place for all major systems and services.
- The Council has adequate arrangements in place to ensure probity and propriety in the conduct of its business but could do more to proactively review standards of conduct and promote a strong anti-fraud culture.
- The Council demonstrates a realistic understanding of its costs, linking these to its investment priorities and progress against key initiatives. Nevertheless, performance indicators presented a mixed picture of performance with some in the best quartile (eg housing, culture and transport) and some in the worst (eg revenue collection, housing benefits and education). Improvements should continue to be targeted at poorer performing services together with ensuring a more consistent and methodical approach to achieving value for money across all departments.

Building Schools for the Future (BSF)

- 38** The Council plans to refurbish or rebuild each of its 16 secondary schools and create a new 11 to 16 pupil referral unit. The programme involves both traditional and Private Finance Initiative (PFI) procurement routes and has BSF funding totalling around £230 million. It is divided into four phases, the final phase to be completed in 2011.
- 39** The objective of our audit assessment is to review the effectiveness of the Council's arrangements for implementing and monitoring the BSF programme and to identify areas for improvement. Our initial work is split into two phases.
- Phase 1 - consideration of the proposed accounting treatment of the PFI aspects of phase one of the project and risk assessment of the financial and governance aspects of the overall project.
 - Phase 2 - review of the overall vision and strategy by our education specialist.
- 40** The first phase of our audit was substantially completed and our findings discussed with officers in June 2006. Following those discussions a revised draft report was issued in August 2006. We are currently awaiting a response to the revised draft report.
- 41** The BSF project is one of the most complex and challenging procurement exercises the Council has ever embarked upon. It involves a large financial commitment over a long period of time and there are considerable inherent financial and operational risks.

- 42 Our draft report identified the following issues:
- satisfactory project management arrangements have been established following the identification of weaknesses in early project management procedures and deficiencies in PRINCE2 compliance;
 - continuing uncertainty over the affordability of the project;
 - concern over the adequacy of the operational project budget;
 - relatively low levels of attendance from Members at Project Board meetings and other BSF events;
 - lack of Internal Audit input into the project;
 - concern over the council's ability to achieve financial close within the proposed timetable; and
 - concern over the robustness of pupil number projections.
- 43 Phase one of our audit remains incomplete as the council is still in the process of considering the financial affordability of the scheme. In particular, there are concerns regarding delivery of the proposed ICT services and the need to redesign aspects of one of the phase one schools.
- 44 We will continue to monitor the BSF project on an ongoing basis and will review the affordability calculations when available. Phase two of our audit will commence once the affordability issues have been addressed.

Project management

- 45 During 2002/03 we carried out a project management audit to assess project management standards, including a detailed review of three capital projects. Our audit concluded that, overall, the Council's project management standards were sound but were not being fully complied with.
- 46 Since our initial report, the Council has implemented new project management standards based on the PRINCE 2 method and has introduced a corporate training programme. In addition, directors are now required to confirm that the projects for which they are responsible are managed in line with the new project management standards or to give valid reasons for non-compliance.
- 47 To determine what improvements have been made we carried out a follow-up of the recommendations in our original report and examined a further four mid-sized projects to review the level of compliance with the new standards. The projects selected for review were:
- Braunstone Park regeneration;
 - Town Hall project phase II (part of CLABs - Centrally Located Administrative Buildings);
 - Charnwood joint service centre (part of LIFT - Local improvement Finance Trust); and
 - Electronic Social Care Records.

- 48 We also reviewed the Business Improvement Programme against the *Office of Government Commerce Managing Successful Programmes* approach, which is the method that complements PRINCE 2™.
- 49 We concluded that the Council has put in place an improved project management framework but the level of compliance remains inconsistent across the projects examined. Improvements required include:
- systematic application of the framework, with support and monitoring;
 - strengthening the reporting and monitoring of progress at corporate and member level so that project risks are known and addressed; and
 - changing the culture of the organisation to one where compliance with the corporate standards is a given.
- 50 Our report included recommendations for improvement at a corporate and individual project level. We have discussed and agreed our findings with officers. In response, officers have informed us that funding has been agreed from April 2007 for the establishment of a Portfolio Office and the Head of Profession for Project Management is recruiting staff to carry out project support and monitoring, which will address the recommendations in our report.
- 51 We will follow-up progress against the recommendations as part of this year's audit.

Single Regeneration Budget (SRB)

- 52 Partnership working is a major element of the modernisation agenda for public services and a requirement for receipt of many sources of external funding. The Government's Single Regeneration Budget programme is one such example. For public sector bodies such as councils it brings with it responsibility, as an accountable body, for ensuring that arrangements are in place to deliver the planned objectives and outputs through efficient, effective and proper means.
- 53 Since 1996 Leicester has had seven approved SRB schemes providing government monies to operate a series of area based regeneration initiatives. In 2000, an SRB round six bid for the regeneration of Leicester's Greater Humberstone area was submitted by a community led partnership. The bid included proposals for community and sports facilities to be provided on the Mundella site. The project was to be managed by the community led partnership, Greater Humberstone Community Development Ltd (GHCDL).
- 54 In August 2006, concerns were raised with the Audit Commission about the Council's handling of the Mundella project. Particular concerns included:
- the independence and professionalism of individual Council officers;
 - the competency of professional advisers appointed by the Council; and
 - that the council did not act soon enough regarding the continuing viability of the project.

- 55 Given the complexities of the SRB bid we concluded that the Council acted properly in ensuring that it had contingency plans to provide the proposed facilities at an alternative site, if necessary. It took the right action in formally advising GHCDL from an early stage that it too should prepare a contingency position should the Mundella site not be a viable option.
- 56 The Council was remiss in letting GHCDL continue to develop the Mundella project for longer than was reasonable. It did not act on a mid-term review recommendation to find alternative ways to deliver the SRB outputs when the project was not fully appraised by December 2003. It continued to accept proposals for the Mundella project from GHCDL both after the project development monies were exhausted in early 2005, and after the SRB monies reserved for it were released to bidders in June 2005. This was despite both the Mundella site land sale and project planning consents not being in place to guarantee SRB economic targets being achieved by 31 March 2008 and the sustainability of the successive Mundella project proposals being unproven.
- 57 The Council acted properly in arranging for necessary capacity building support to be provided for GHCDL but failed to follow this through to ensure its effective delivery and to act on continuing concerns over GHCDL's capacity to deliver the Mundella project.
- 58 Although the work of the Council's tender-appointed contractor had been considered by the re-appraisal panel to be of an insufficiently professional standard, the Council's agreement to the Mundella project retaining Civic Regeneration after June 2004 was appropriate given the tight timescales and advanced nature of the work. The Council though, failed to take decisive post monitoring action and bring the Mundella project proposal to an end when the project development phase failed to produce a viable project within budget.
- 59 We have made a number of recommendations to address these issues, including:
 - take timely and decisive action when a project in development is no longer demonstrating actual or potential value for money or viability; and
 - put systems in place for the ongoing monitoring and feedback on the implementation of externally funded project approval recommendations.

Implementation of new payroll system

- 60 Internal best value reviews of human resources and payroll concluded that a new integrated computer system was key to both improving services and reducing costs. The reports highlighted that payroll costs could be reduced by around £400,000 per annum and that there would be benefits to the Council from all HR data being held in an accessible format in a corporate system.
- 61 The business imperatives of the Council were to improve the management of Payroll and HR processes: allowing HR officers to take a more strategic role, reducing the amount of double entry and paper processes, and providing better management information; whilst at the same time delivering budget savings for the Council.

- 62 The Council began the process of implementing the Resourcelink payroll system from Northgate Information Systems in mid-2004. A phased implementation was planned to be completed by April 2005.
- 63 The introduction of the new payroll system presents significant inherent risks, and outsourcing part of the operation represents a major departure from the way the Council has traditionally operated. We therefore undertook a review of the system to ensure appropriate controls are in place. Wherever possible, we placed reliance on work also carried out in this area by Internal Audit.
- 64 Our final report was issued in March 2006. We found that the payroll and HR infrastructure has been significantly improved as a result of the project and the business imperatives of the Council, in relation to the management of payroll processes, will be met. Once fully implemented, the standardisation of the HR process will allow the Council to consider alternative methods of delivery for the HR function. We also found that:
- the procurement and implementation process was effectively managed but took longer than anticipated meaning that savings were not fully realised in accordance with the original timetable;
 - there were adequate integrity checks to ensure that data is valid, accurate, complete and up-to-date and that changes are documented in an audit trail; and
 - access controls and segregation of duties within the system were weak, although controls have been strengthened since our report was issued.
- 65 At the time of our audit, business continuity and disaster recovery plans were in place at Northgate and tested every six months but complementary plans and tests were not in place at the Council. Arrangements were tested for real, however, by the Buncefield fire in December 2005. Despite the major disruption to systems and procedures all staff were paid on time. The system is now listed as a business critical activity and will form part of the Council's business continuity plan, although work is still needed to link this plan with Northgate's.
- 66 Our findings and recommendations have been discussed and agreed with officers, including a detailed action plan for delivering improvements. We will follow up progress as part of our 2006/07 audit.

Follow-up of previous recommendations

- 67 As part of our work each year, we follow up recommendations made in previous value for money (VFM) and management arrangements studies. This ensures that benefits gained from the recommendations are being achieved or, if not, that the matter can be drawn to the attention of the Council.

- 68 Our audit and inspection plan for 2005/06 included a follow-up of the following reports.
- Pupil mobility.
 - Risk management.
 - Performance management.

Pupil mobility

- 69 Many of the actions outlined in the recommendations of our original report have been addressed in the Council's Children and Young People's Plan 2006/09 which has been produced in response to the Government's reform of children's services laid out in the Children Act 2004. The Act requires all education authorities and relevant partner agencies to produce a single strategic plan covering all relevant services, showing how they will contribute to raising the 'Every Child Matters' outcomes for children and young people in their area.
- 70 This has been a major area of activity for the Council and the Plan, which came into effect on 1 April 2006, places a significant focus on addressing the issues associated with 'turbulence' - or pupil mobility. The Council has therefore made satisfactory progress in addressing the recommendations of our original report. Good progress has also been made on admissions and school place planning, including completion of consultation for 2008/09 and a major consultation planned for 2009/10 changes.

Risk management

- 71 The recommendations in the original report on risk management have been substantially addressed. The Council has made significant progress in strengthening its risk management arrangements and these are starting to become embedded. Examples include:
- the Council's service planning framework requires that service plans must identify potential barriers and risks to achieving objectives and incorporate a plan to manage these risks;
 - Council reports contain a risk matrix, where appropriate, which identifies the relevant risks, likelihood, severity impact and control actions required;
 - member awareness of risk management has been enhanced through the provision of seminars and training, risk management forums and presentations to each scrutiny committee on the role of members in risk management;
 - provision of risk management training for managers with follow-up training in specific areas in summer 2006; and
 - £200,000 allocated annually to fund innovative risk management projects to identify and disseminate good practice.
- 72 The Council has therefore made satisfactory progress in addressing the recommendations of our original report and strengthening corporate risk management arrangements.

Performance management

- 73 The Council has made substantial progress in addressing the recommendations in the original report on performance management. Progress has been achieved in strengthening service and financial planning and performance management arrangements. A performance culture is not yet fully embedded across the Council although progress is being made in ensuring that performance management is seen as part of how people work and manage proactively rather than just monitoring. There are clear links between the Council's overall ambitions and community and corporate plans, through to service and individual plans, priorities and targets. Support for members has assisted them to provide a more challenging role in managing the performance of the Council.
- 74 The Council uses opportunities to learn from its own successes and failures and good practice within the Council and other Councils, although this is more 'ad hoc' than systematic. The Council is open to external evaluation and challenge and makes effective use of opportunities to learn in this way.

The way forward

- 75 Areas where action remained outstanding at the time of our audit included the following:
- identification of senior leadership responsibility on pupil mobility issues including the impact on schools, pupils and their families;
 - ensure that the delivery of the Children & Young People (C&YP) Plan provides guidance to schools on developing effective practice for managing pupil mobility;
 - ensure alignment between the C&YP Plan and other key strategic plans;
 - ensure that secondary schools receive sufficient prominence when delivering actions to address pupil mobility;
 - ensure all departments monitor risk registers quarterly;
 - achieving cultural change is an ongoing issue and the Council needs to maintain its current focus to promote a corporate performance culture; and
 - ensure that systems for identifying and disseminating learning and good practice are sufficiently robust to maximise the impact of the wide range of learning activities being undertaken

Best Value Performance Plan

- 76 I have audited the Council's Best Value Performance Plan in accordance with section 7 of the Local Government Act 1999 and the Audit Commission's Code of Audit Practice. There were no matters to report to the Council nor have I made any recommendations on procedures in relation to the plan.

Data Quality

- 77 As part of our requirement to satisfy ourselves that proper arrangements have been made for securing economy, efficiency and effectiveness in the use of resources, we have assessed the Council's arrangements for ensuring data quality.
- 78 Good quality data is the essential ingredient for reliable performance and financial information to support decision-making. The data used to report on performance must be fit for purpose, and represent an organisation's activity in an accurate and timely manner. At the same time there must be a balance between the use and importance of the information, and the cost of collecting the required data to the necessary level of accuracy.
- 79 The audit of Data Quality replaces the previous audit methodology for auditing Best Value and other performance information and places more emphasis on the management arrangements for producing performance data, backed up with more detailed spot-checks on a smaller number of individual indicators.
- 80 The Council's management arrangements for data quality were assessed as consistently above minimum requirements. Our spot checks on eight specified PIs revealed that five were fairly stated and three required amendment by relatively small amounts.

Conclusion

- 81 This letter has been discussed and agreed with the Chief Executive. A copy of the letter has been presented to the standards and audit committee.
- 82 The Council has taken a positive and constructive approach to our audit and inspection I would like to take this opportunity to express my appreciation for the council's assistance and co-operation.

Availability of this letter

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

Phil Jones
Relationship Manager