

Annual Audit and Inspection Letter

London Borough of Harrow

Audit 2005/2006

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

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

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

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

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

Status of our reports

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

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

Reports prepared by appointed auditors are:

- prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission; and
- addressed to members or officers and prepared for the sole use of the audited body; no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

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Contents

Our overall summary	4
Action needed by the Council	5
How is Harrow Council performing?	6
The improvement since last year - our Direction of Travel report	7
Corporate Assessment	8
Financial management and value for money	11
Conclusion	14
Availability of this letter	14

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, from the Corporate Assessment 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 The main messages for the Council included in this report are as follows.
 - The corporate assessment concluded that the Council is performing adequately overall, only meeting minimum requirements. Among the areas for development are:
 - a clearer hierarchy of priorities to guide service planning, and definition of clear outcome goals which are realistic and measurable;
 - Councillor capacity to support target-setting and the performance management of services and activities;
 - more systematic use of intelligence, including consultation with the public, to inform service changes necessary to respond to changing needs in the borough;
 - improve comparative position in areas of highest priority to deliver good quality services for local people; and
 - strengthening the Council's focus, with partners, on the wider well-being of older people, by agreeing a clear strategy to improve well-being across services.
 - The Joint Area Review of children's services undertaken in December 2006 assessed local services as 2 overall – adequate performance.
 - Your appointed auditor provided an unqualified opinion on your 2005/06 accounts.
 - Your overall Use of Resources score remained a two which indicates that you are 'at only minimum requirements – adequate performance'.
 - Your appointed auditor gave a conclusion on your arrangements for use of resources to say that these arrangements are adequate, except for the failure to put in place a medium term financial strategy, budgets and a capital programme that were soundly based and designed to deliver the Council's strategic priorities and arrangements to ensure that the Council's spending matched its available resources.

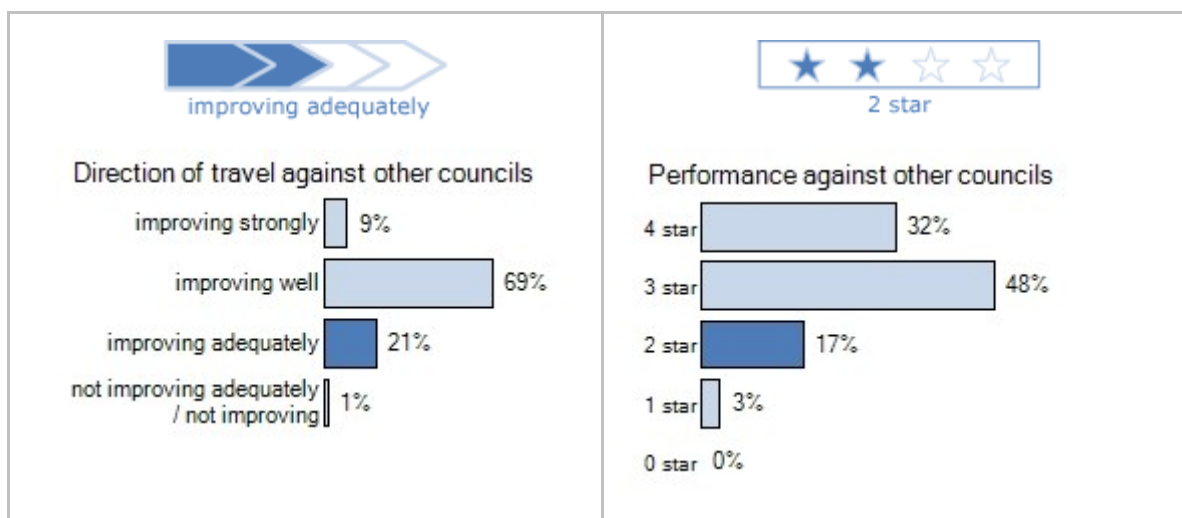
Action needed by the Council

- 4 Harrow's general fund reserves were very low at 31 March 2006 and, at £1.8 million, outside its minimum reserves policy of £3.5 million. The Council faces significant financial risks, including successful delivery of an 'in year' savings plan of £8.7 million and resolution of disputed debtor amounts, as well as ongoing demand pressures on existing budgets. The Council needs as a matter of priority to agree a medium term budget strategy through the current budget round which rebuilds reserves and stabilises its financial position.
- 5 The Corporate Assessment report (February 2007) includes the following areas for improvement.
 - The Council should clearly identify the key issues which are most important in delivering its longer-term ambitions and link these to a clear vision which sets out how the Council and partners will maintain and improve the special characteristics of Harrow as a place. To deliver this vision, the Council needs to create a clearer hierarchy of priorities to guide its service planning and define clear outcome goals which are realistic and measurable. The corporate plan needs to make these priorities clear including where financial pressures have led to the creation of lower priorities.
 - Councillor capacity needs to be strengthened to enable better definition of long term strategy and associated long-term outcomes. Councillors need support in target-setting and the performance management of services and activities.
 - The Council should aim for continuous improvement in areas of highest priority and seek to improve its comparative position in these areas to deliver good quality services for local people.
 - The Council needs to use systematically its range of profile data and regular public polling to inform service changes necessary to respond to changing needs in the borough.
 - With partners, the Council should strengthen its focus on the wider well-being of older people, by drawing up a clear and agreed strategy to deliver well-being across services and by providing officer leadership to drive its delivery.
- 6 The Joint Area Review draft report (February 2007) contains a number of recommendations for improvement in the short, medium and longer term. The recommendations requiring immediate action were:
 - ensure that all partner agencies have safe procedures and practices for vetting staff, volunteers and contractors for persons having contact with children and young people;
 - consult all partner agencies in a review of the threshold criteria for social care assessments and service provision; and
 - ensure direct payments are promoted in compliance with the statutory requirement.

How is Harrow Council performing?

- 7 The Audit Commission’s overall judgement is that Harrow Council is improving adequately and we have classified Harrow Council as two-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

- 8 The detailed assessment for Harrow Council is as follows.

Our overall assessment - the CPA scorecard

Table 2 CPA scorecard

Element	Assessment
Direction of Travel judgement	Improving adequately
Overall	2 star

Element	Assessment
Current performance	out of 4
Children and young people	2 out of 4
Social care (adults)	2 out of 4
Use of resources	2 out of 4
Housing	3 out of 4
Environment	2 out of 4
Culture	2 out of 4
Benefits	4 out of 4
Corporate assessment/capacity to improve	2 out of 4

(Note: 1=lowest, 4= highest)

The improvement since last year - our Direction of Travel report

- 9 Harrow has made some improvements in its key priorities. Overall, nearly two-thirds of key performance indicators have improved with strong performance maintained in attainment at GCSE level, and further improvement in recycling levels. Partnership working has helped to deliver regeneration benefits in town centres and to reduce fear of crime. Harrow is a low crime area but recent trends show a significant increase in certain crimes such as robberies. Improvement is less consistent in core services such as adults' social care and street cleaning.
- 10 Financial standing is weak and this is impacting on the Council's ability to deliver priorities such as environmental services. The Council provides adequate value for money and there is now an appropriate focus on achieving greater financial stability. The Council continues to refine its performance management framework and is using partnerships with the private sector to improve areas such as customer access and use of information and communications technology.
- 11 As well as rebuilding its finances effectively, the Council needs to now increase the pace of improvement across all key services so that quality services are delivered.

Corporate Assessment

- 12 The following is taken from the executive summary of the Corporate Assessment report - February 2007
- 13 The Council's ambition for the borough is to 'be a place which offers the best of capital and country and is loved by its residents'. It has a good understanding of its communities and local need and shares this intelligence with partners. It has developed a shared medium term vision for the future but a longer term strategic vision reflecting the distinctive nature of the borough is not clearly articulated. The immediate financial pressures faced by the Council and some of its partners drive a short term approach at the expense of articulation of a clear longer term strategic vision. This also affects priorities to improve. Harrow's priorities are focused upon achieving greater financial stability but this is drawing heavily on senior councillor capacity, which reduces strategic leadership. Priorities are a collection of short term and medium term improvements, and targets are not always challenging or clear.
- 14 The Council is adopting a stronger user focus through the redesign of service delivery such as Access Harrow, its one-stop shop and call centre. It uses a wide range of user surveys to gauge satisfaction at a high level and consults on policy change, though how the Council uses this in service planning is not always clear. The Council has structures in place to involve users at a strategic level, including for older people, sustainable development and enterprise work; but not all of these are sufficiently representative of the local population. There are fewer examples of users being involved in service monitoring and in reviewing the performance of services.
- 15 Harrow understands the diversity within its communities and has responded with effective changes in some but not all services. The Council has good systems to keep it updated on the profile and diversity of its communities, and regularly monitors local opinion on priorities and levels of satisfaction, including by different ethnic groups. It understands the changing nature of its communities such as the increase in the Somali and Eastern European population. The borough enjoys positive community cohesion and recent projects seek to strengthen this, such as third-party reporting of racial incidents. The Council's service responses to diversity are strongest in its work with schools and children's services. Council staffing figures show a reasonable reflection of the local community though the Council wants to do more. Good work with the voluntary sector and in projects such as Rayners Lane regeneration are also providing for diverse needs. But the Council does not routinely use its data to develop services, and some areas such as leisure do not yet offer mainstream services which respond to new needs.

- 16 The political leadership team provides clear direction but gaps in senior managerial leadership have meant they are more occupied with short term issues than long term strategic direction. It has a clear view of the need to achieve good overall political leadership, with a clear view of the need to achieve a stable financial position and take swift action on plans to achieve this. Portfolio leads bring some useful professional backgrounds but they do not yet provide sound strategic direction in some areas, such as children and young people (CYP) and housing. Managerial leadership is not consistent throughout the Council. The executive management team has suffered significant gaps over the last year, creating additional workloads and delays in organisational change. Leadership is clearest in Children's Services and these provide some of the best examples of using systems such as performance management to drive improvement. Organisational change has not always been effectively led in Harrow, though the Council has learned from this and recent changes have been more successful. Capacity through staff is stretched in size of establishments, rising sickness levels and reductions in posts.
- 17 Current financial capacity is weak. For two years the Council has not met the minimum level of reserves defined by its own policy, and there is little prospect of it doing so in 2007/08. Improving value for money is a top priority for the Council, but the auditor's latest assessment shows that current work to improve the cost and performance relationship has not yet produced an overall improvement. Harrow's recent business partnering exercises have resulted in improved systems and expertise and it is using these to address previous areas of weakness such as procurement. For example, a partnership with Accord MP for highways services is bringing additional expertise for town centre scheme design and planning.
- 18 Overall achievement and outcomes for local people in Harrow are adequate. The contribution of the Council to outcomes for children and young people are adequate overall, with some areas of high achievement as education attainment. It has shown an ability to target resources on meeting the needs of different areas, for example responding to neighbourhood issues in South Harrow and co-ordinated work to regenerate Rayners Lane. Service improvement is, however, often related to one aspect of service and it can be difficult to see the overall impact the Council wants. For example, performance on the environment is mixed and stretching targets for improvement are not always in place. There remain key challenges in transport congestion and housing in Harrow and in the Council's ability to balance the economic, social and environmental needs of the area. Harrow enjoys low crime rates and has worked with partners to reduce the fear of crime and provide more assurance and support to those most at risk of disadvantage. In other areas of the national shared priorities, older people and health, the Council's work to broaden its approach and refocus its services to contribute to these shared aims is at an early stage.

- 19 The Joint Area Review of children’s services - February 2007 assessed local services as 2 overall – adequate performance. Key messages included:
- 20 Outcomes for children and young people in Harrow are good overall. Children and young people are generally safe, mostly in good health, achieve very well, make a good and positive contribution to society, and enjoy good economic well-being.
- 21 The contribution of council services and social care services for children to improving outcomes is adequate. The work of the council in keeping children and young people safe is adequate and outcomes are adequate. The education service is good. Harrow has an inadequate youth service - it does not deliver minimum requirements for users.
- 22 The management of the council services for children and young people is adequate at a time of significant organisational change and uncertainty in the council. The capacity of the council to improve the management and quality of services is adequate but the budget situation in the council and health economy and the establishment of a formal structure for integrated working across partners remain a significant challenge.
- 23 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.
- 24 The Commission for Social Care Inspection assessed the Council’s Adults Services as ‘serving some adults well’ with ‘uncertain capacity to improve’ in 2006. This is a rating of one-star overall.
- 25 The Benefit Fraud Inspectorate has scored the Council as 4 for CPA purposes as detailed below.

Figure 1.1: Performance Standards theme scores			
Theme	2005	2006	Change
Claims administration	4	4	=
Security	4	4	=
User focus	4	4	=
Resource management	4	4	=
Overall score	4	4	=

Source: BFI analysis

Financial management and value for money

- 26** Your appointed auditor has reported separately to the Audit Committee on the issues arising from the 2005/06 audit and has provided:
- an unqualified opinion on your accounts;
 - a conclusion on your arrangements for use of resources to say that these arrangements are adequate, except for the failure to put in place a medium term financial strategy, budgets and a capital programme that were soundly based and designed to deliver the Council's strategic priorities and arrangements to ensure that the Council's spending matched its available resources; and
 - a report on the Best Value Performance Plan confirming that the Plan has been audited.
- 27** 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).
- 28** For the purposes of the CPA your auditor has assessed the Council's arrangements for use of resources in these five areas as follows.

Table 3

Element	Assessment
Financial reporting	2 out of 4
Financial management	2 out of 4
Financial standing	1 out of 4
Internal control	3 out of 4
Value for money	2 out of 4
Overall assessment of the Audit Commission	2 out of 4

(Note: 1=lowest, 4=highest)

- 29 The key issues arising from the audit, as reflected in the above judgements where appropriate, are set out in the following paragraphs.
- 30 The Council recorded an overspend of £4.4 million in 2005/06. This eroded reserves to £1.8 million, outside its minimum reserves policy level of £3.5 million. A savings plan of £8.9 million was agreed at the Cabinet meeting on 3 August 2006 to meet pressures which emerged after the original budget for 2006/07 was set, to allocate previously unallocated savings targets in the original budget to specific savings projects and to start to rebuild reserves. The Council will not close the current gap to its minimum reserves policy level unless it identifies and delivers further savings and is able to deliver the existing savings plan in full. The Council will need, through the current budgeting round, to update its medium term budget strategy with a view to re-stabilising its finances.
- 31 The Council has agreed additional processes to monitor progress on its savings plans and believes that recent system changes should provide a platform for improvements to financial monitoring information.
- 32 Whilst there were unforeseen circumstances which contributed to the Council's financial position, it has also been significantly affected by the inclusion of savings targets within successive budgets over the last three years which were initially not supported by detailed savings plans which have been only partially delivered. The savings plan agreed on 3 August 2006 was supported by a detailed list of specific projects.

- 33** There were improvements to financial reporting processes which enabled your auditors to issue their opinion by the statutory deadline for the first time in three years. As last year, adjustments were needed to the Housing Revenue Account (HRA) presented in the draft accounts submitted for audit which, although small in the context of the Council's overall operations, were material to the HRA (a statutorily ring fenced fund). On the General Fund side, there were accounting issues, in particular in relation to bad debt provisions, where your auditor considered the Council's approach was not unreasonable based on the information available at that time, but which nevertheless represent ongoing financial uncertainties which are significant in the context of the Council's financial position and will need careful monitoring alongside more routine financial information.
- 34** The Council has taken steps to strengthen its system of internal controls, including implementing a new management assurance process. It has also implemented a range of, in some cases, innovative initiatives aimed at improving the management and monitoring of value for money. These include undertaking a benchmarking exercise to measure the Council's baseline performance at delivering value for money; devising and including measures within its performance management system to specifically monitor value for money; and establishing improvement boards to review the performance of services. The Council should monitor to ensure that demonstrable and measurable improvements to value for money flow from these new initiatives.

Conclusion

- 35 This letter has been discussed and agreed with the Director of Resources and Director of Strategy. A copy of the letter will be presented at the Cabinet on 19 April 2007.
- 36 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

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

Jackie Barry-Purcell
Relationship Manager