

Annual Audit and Inspection Letter

Birmingham City Council

Audit 2004-2005

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Key messages

Council performance

- 1 Under the new Comprehensive Performance Assessment (CPA) framework, the Council is improving well and its overall category is two-star. The Council has improved in most of its priority services. There are significant improvements to children's social care and its housing service, which were previously poor. Both were inspected during 2005 and received improved ratings with promising prospects for further improvement. However, much more work is needed to ensure that the services fully meet people's needs.
- 2 The Council has achieved some improvement in performance across all of its core service areas, and 56 per cent of core service performance indicators improved in 2004/05, compared with 2002/03. The level of improvement was particularly strong in education, environment and 'capacity' (which includes areas such as benefits and equalities). However, only around half of those PIs in the lowest quartile have improved and the Council needs to ensure that performance in these areas is closely monitored.

The accounts

- 3 We gave an unqualified opinion on your accounts on 21 October 2005.

Financial position

- 4 Your overall financial position continues to be sound. Your longer-term financial position, whilst exposed to various external factors, continues to be supported by a number of well established processes to help monitor and control it. Your medium-term financial strategy continues to develop and you recognise a number of issues which may impact on the projected long-term financial shortfall. Whilst continuing to ensure levels of reserves are maintained at an appropriate level, you need to ensure that risks to your financial position continue to be identified at an early stage and action taken as a result.
- 5 Whilst there are some in-year over and underspend issues, these are being monitored closely and concerns over this issue expressed in our previous annual letter have been alleviated through an improved financial framework in Social Care and Health in particular. The Council should continue to monitor this area closely and take action where necessary.
- 6 The capital programme continues to show significant slippage and the Council is in the process of taking action to make improvements in this area. It is important that action is taken on the outcome of your review to ensure the capital programme is delivered as planned to contribute towards key strategic objectives.

Action needed by the Council

- 7 As in previous years, you continue to face a number of challenges linked to your corporate priorities. Whilst we have included many recommendations in individual audit and inspection reports, our broad recommendations to members are:
- continue to build on improvements made to the children's social care and housing services. For children's services in particular, ensure that the integrated children's services agenda is fully implemented with no short-term 'dip' in service delivery;
 - take urgent action to improve learning disability services;
 - ensure that improvement plans include those areas of service where performance is still in the worst quartile and there was no improvement in 2004/05;
 - continue to develop arrangements for ensuring value for money across all key services, so that an efficiency culture is instilled across the Council; and
 - continue to take forward the localisation agenda in delivering the Council priorities, taking on board our earlier findings and the outcomes of the current scrutiny exercise. In particular, ensure that the processes put in place to deliver services locally continue to result in actual improvements for service users.

Performance

- 8 The Council has made significant improvements to its two most challenging services – housing and children’s social care – and as a result, is now a two-star Council which is improving well.

CPA scorecard

- 9 The CPA judgements this year have been made using the revised methodology: CPA - the harder test. As the title implies, CPA is now a more stringent test with more emphasis on outcomes for local people and value for money. We have also added a new dimension, a Direction of Travel judgement that measures how well the Council is improving. Under the new framework the Council is improving well and its overall CPA category is two-star.

Table 1 CPA scorecard

Element	Assessment
Direction of Travel judgement	Improving well
Overall	**
Current performance	Out of 4
Children and young people	2
Social care (adults)	2
Use of resources	2
Housing	2
Environment	3
Culture	3
Benefits	4
Corporate assessment/capacity to improve (not reassessed in 2005)	2 out of 4

(Note: 1=lowest, 4=highest)

- 10 The Council has improved in most of its priority services. There are significant improvements to children’s social care and its housing service, which were previously poor. Both were inspected during 2005 and received improved ratings with promising prospects for further improvement. However, much more work is needed to ensure that the services fully meet people’s needs.

- 11 Whilst progress has also been made in adults' social care, urgent action is still needed to improve services for people with learning disabilities. There has been continued improvement in education and benefits services, with pupils' attainment levels improving overall and turnaround times for benefits claims continuing to fall.
- 12 The Council has worked well with partners to achieve significantly improved community outcomes including reduced crime and continued economic regeneration.
- 13 It has begun to develop its arrangements for ensuring services provide value for money and is continuing to improve the way it monitors performance and drives improvement. It has clear plans for further improvement which link effectively with one another and will improve further now that the new Community Plan and district plans have been adopted.

Direction of Travel report

Improving outcomes

- 14 The Council has achieved some improvement in performance across all of its core service areas, and 56 per cent of core service performance indicators improved in 2004/05, compared with 2002/03. The level of improvement was particularly strong in education, environment and 'capacity' (which includes areas such as benefits and equalities).

Table 2 Key service performance indicators

Service area	Percentage improved	Percentage in best quartile	Percentage in worst quartile
Education	63	10	24
Social care	40	15	8
Environment	58	39	23
Housing	50	5	50
Community safety	100	100	0
Capacity	64	27	13
Culture	17	13	25
Overall	56	23	24

- 15 This level of improvement is encouraging. However, only around half of those PIs in the lowest quartile have improved and the Council needs to ensure that performance in these areas is closely monitored. Some of these indicators are in housing and we are aware that performance has already improved since 2004/05; others include school exclusions and reductions in 'slight injury' road accidents.

Children's services

- 16 Improvement of children's social care is one of the Council's top priorities and significant progress has been made during the year. An inspection carried out by the Commission for Social Care Inspection in July 2005, reported in September 2005, found that children's social care services were now serving some children well, with promising prospects for improvement. The inspection found improved management and practice within children's services, and a clear corporate priority being given to improvement. Improvements had been made to financial management, including budget development and staff training and support. Partnership working had moved forward. The inspection did, however, concur with the Council's existing view that considerable further work was needed to ensure consistency of practice and to develop services in areas such as those for children with disabilities.
- 17 The education part of children's services was scored for CPA purposes as consistently delivering above minimum requirements, with good capacity to improve services. Levels of educational attainment are continuing to improve. GCSE results are in line with national averages and above those for similar areas and the highest among the core cities, although the degree of progress made by pupils through secondary schools is below expectations. Efforts are being made to improve the attainment of under-achieving groups of pupils.
- 18 The Council made a conscious decision to proceed slowly with integration of services for children, in order to avoid distracting effort from the improvements urgently needed to children's social care. Better progress towards integration has been made at an operational level than strategically, although some important strategic elements have recently been put in place.

Housing

- 19 Housing has been the Council's other main focus for service improvement and significant progress has been made. After two successive 'zero-star' inspections in 2001 and 2003 resulted in a period of special supervision and support by the Audit Commission, a further inspection in May 2005 scored the repairs service as a one star (fair) service with promising prospects for improvement. When combined with performance indicator information to produce a score for CPA services, housing scored 2 out of 4.

- 20 The inspection found that significant improvements had been made, but considerable further work was needed. Key improvements included higher standards of customer care, a clear programme to address non-decent stock and improvements in the promptness of repairs. Issues still to be fully addressed included ensuring that diversity issues are better reflected in service delivery, reducing the proportion of repairs which are treated as emergency or urgent and reducing high-cost and long-term void properties. More detail appears later in this letter.

Adult services

- 21 The Commission for Social Care Inspection awarded your Services for Adults a score of 2 out of 4 for CPA purposes. In their annual performance review report, they identified a number of areas where improvements had taken place, and commented that the overall level of performance had been maintained while responding robustly to serious concerns about financial management and the management of the integrated service for people with learning disabilities. They noted that investment in adult services had increased and that funding was being directed to strategic priorities.
- 22 The rate of implementation of strategies and consequent improvement in outcomes is, however, variable. Variation in the quality of frontline practice is too high. Significant concerns remain regarding improving outcomes for people with learning disabilities.

Other areas

- 23 The Council's benefits service has continue to improve and is judged by the Benefits Fraud Inspectorate to be excellent. Speed of processing both new claims and changes of circumstances has continued to improve. For new claims, performance is well within the BFI standard, and that for changes is only just outside the standard. The service has come a long way in recent years.
- 24 As part of our work on your direction of travel, we looked specifically at regeneration. Much of the Council's regeneration work is inevitably long-term and it can be difficult to measure outcomes in the shorter-term, the available information suggests that the Council is having an impact in this area. This is confirmed by the changes in the built environment of the City. Key projects for the future include the Eastside, the SW Birmingham Central Technology Belt and the North West Birmingham HUB. Valuable results have been achieved in helping to ensure that people from deprived wards have obtained jobs in new developments such as the Bull Ring.
- 25 The Council has, together with its partners, achieved significant reductions in recorded crime levels. There were significant falls in 2004/05 in domestic burglaries, robberies and thefts of and from motor vehicles. Where there were increases (violence and sexual offences) these were very small.

- 26 The Council has continued to make progress with its environmental services, for which 58 per cent of key performance indicators improved. The percentage of household waste recycled rose to 15 per cent in 2004/05, although this remains among the worst 25 per cent of authorities and is below the government target of 18 per cent set for 2005/06.

Plans for future improvement

Plans and strategies

- 27 Overall, the plans which the Council now have in place provide a sound basis for future improvement. The Council Plan is at the heart of this, with clear links to the more specific targets set out in the performance plan. External links are made through the new community strategy which was adopted by the Birmingham Strategic Partnership in October. Arrangements for implementation of the strategy are sound. Community plans are also now in place at district level. The Council is currently agreeing the terms for its Local Area Agreement.
- 28 Our work on regeneration confirmed that the Council and its partners have effective strategic plans which are designed to bring extensive economic benefits to the City.
- 29 The level of achievement against targets set in plans is variable. There is a good record of achievement against the 2004/05 cabinet and corporate plan, although this was less good in areas such as housing, development control and older people. Performance against the full range of best value targets was also less impressive. We recognise, however, the need to achieve a balance between targets which are sufficiently stretching while at the same time attainable.
- 30 The use of specific performance improvement plans within social care and housing has now been proven to aid improvement. Delivery against the housing 'PiP' was initially slow and patchy, but this improved with time.

Communication and consultation

- 31 The need to improve both internal and external communication and consultation was identified as a key improvement area following the original corporate assessment in 2002, and the Council has taken a wide range of actions to address this. Our most recent review of progress concluded that the Council has made slow progress in improving its approaches to consultation, communications and complaints. It is continuing to put in place building blocks which should help to deliver and sustain future improvement, but the impact of these investments has yet to be seen.

Improving value for money

- 32 The Council has made significant improvement to its arrangements for achieving value for money, although it cannot yet demonstrate that value for money is being consistently achieved. Key recent developments include the efficiency programme and forum, the use of priority-based budget reviews and continuing improvements in procurement practices. The Council now needs to ensure that the new culture of value for money, which is represented by these initiatives, becomes an integral part of everyday management.

Performance management

- 33 The Council has continued to improve the way it monitors performance and drives improvement. At a corporate level, arrangements are good and improvements have also been made to departmental arrangements.

Capacity

- 34 Overall, the Council has the capacity to implement its plans although there are weaknesses in a few areas. Inspection reports have been positive about the prospects for improvement. The housing and children's services inspections both rated prospects as promising, while the children's services annual performance assessment concluded that prospects for improvement are good, with a key strength being the strategic direction provided by councillors and managed by officers.
- 35 Improvements have been made to partnership working with other agencies and the voluntary sector, further extending the Council's capacity. This is evidenced through the children's and adults' services annual assessments and our own work on regeneration.
- 36 Steady progress is being made in increasing capacity by reducing staff sickness. This has reduced from an average of 10.4 days per employee in 2002/03 to 9.8 in 2004/05, very close to the average for other authorities and the best among the core cities.

Other work relating to improvement priorities

- 37 As in previous years we have carried out work in areas linked to your improvement agenda

Commissioning services for older people

- 38 The Council currently supports around 890 older people in its 29 Council operated elderly persons care homes at an annual cost in the region of £21.6 million. The Council's homes do not currently meet new care home standards and the unit cost of purchasing care from council homes when compared with costs in the independent sector, is high.

- 39 Since 2000, a number of options have been considered as to the best way to deliver residential care to older people, culminating in an approved Commissioning strategy in April 2005. The strategy is designed to promote independence by shifting the balance of care from residential to a range of community based support. It includes eight commissioning priorities.
- 40 We have raised a number of 'challenge' questions aimed to help implementation of the strategy and the Council is currently responding to these. These cover such issues as:
- co-ordination of commissioning activities across various work streams involving a range of organisations;
 - ongoing development of the strategy priorities to reflect local need; and
 - management of risks associated with the strategy.

Devolution and localisation

- 41 Steady progress has been made across much of the localisation and devolution agenda. At the time, the new district structure 'went live', there was no significant adverse impact on delivery of local services, unlike in similar situations in some other authorities where major change led to a dip in performance. The challenge now is to ensure that processes are embedded culturally and organisationally within the Council and that they lead to visible improvements for service users. Whilst there is a clear commitment and effort engaged in making this happen, the Council faces a significant challenge in transferring significant parts of its services from a traditional to a localised service.
- 42 Strengths in the process identified by our review included:
- a developing approach to performance management requirements and rationalising strategic and service planning processes;
 - a good level of understanding of the relative roles of portfolio holders and district committees; and
 - progress in setting up District Strategic Partnerships.
- 43 Specific challenges include:
- ensure the purpose of the localisation agenda is more firmly embedded and understood across the Council;
 - implementing a comprehensive performance management framework for the directorate; and
 - development of budget allocation across the districts which reflects local needs and service planning.
- 44 A scrutiny review of the future direction of the localisation agenda is currently underway. We, therefore, delayed our planned follow up of our previous report until later in 2006 and will report on progress made on completion of our review.

Complaints, communications and consultation

- 45 In August 2005, we assessed the progress you have made in addressing our recommendations relating to the way the Council approaches engagement with citizens. Building blocks continue to be put in place which should help deliver and sustain future improvement. However, progress has been variable, with limited progress on consultation and communication despite having identified this as an area for improvement in 2003.
- 46 In particular:
- complaints - the Council has made good progress with implementing its policy and processes for dealing with compliments, comments and complaints. Implementation of a strategy is now underway with this work being effectively project managed. There is potential to significantly improve the quality of the Council's customer service;
 - consultation - the development and implementation of a strategy has been hindered by lack of dedicated resources. Recently, the Council has committed resources to creating a dedicated corporate consultation team which should enable implementation of the strategy. Although there is some good innovation in Districts, development of a shared approach to citizen engagement with partners at a city-wide level is at an early stage; and
 - communications - although an interim Head of Corporate Communications has recently been appointed, the approach to communications has lacked clear strategic direction. However, we noted that officers have continued to deliver some good work in this area eg in marketing. Since our audit, considerable groundwork has been done to improve the strategic approach, with a new communications plan and operating plan now prepared and being agreed.

Housing repairs and maintenance reinspection

- 47 Following two previous 'no-star' inspection scores for the service and special supervision and support from the Audit Commission Housing Inspectorate, a reinspection was carried out in May 2005.
- 48 The Council was assessed as providing a 'fair', one-star service with promising prospects for improvement. This represents a very significant achievement, and members, officers and partners now need to build on this. Our most significant findings included:
- high standards of customer care from repair contact centres;
 - improved liaison and engagement with tenants with better quality key documents available for tenants; and
 - an effective strategic partnership in place to deliver a five-year improvement programme to bring all homes up to the decent homes standard by 2010.

However:

- tenant satisfaction levels, though improving, are still poor compared to other housing organisations;
- diversity issues are still not sufficiently embedded in service delivery;
- little progress has been made in addressing the high numbers of emergency and urgent repairs; and
- the Council has not explored the potential of shifting towards more planned maintenance.

Prospects were judged to be promising as the Council could demonstrate sustained focus on improvement which has resulted in service improvements in most areas, resulting in discernable benefits to customers. Investment in new partnerships and IT has helped to strengthen the capacity of the Housing department. Birmingham's current housing priorities are seeking to address the issues raised in the report.

Other performance work

Single status

- 49** During the year, we carried out an overview of the Council's arrangements to achieve a 'single status' workforce by 31 March 2007. Our overview concluded that an adequately resourced project plan was in place to ensure the Council completes negotiation of its new pay and grading review and terms and conditions by 31 March 2007 and then commences a roll-out which will be complete by the end of October 2007. The Council is proceeding at a similar rate to other metropolitan authorities.
- 50** Your risk assessment has identified some significant issues to consider. Key among these are: the additional pay bill cost of implementation, failure to reach collective agreement, and the risk of legal challenge. Engaging key parties in the process also remains a challenge. However, ways of mitigating these risks have been considered but this remains a high-risk project and the Council will need to monitor the project closely.

Other Audit Commission inspections

- 51** During 2005, a two-phase inspection of the Council's Supporting People programme was carried out in February and October respectively. The total amount of Supporting People grant available to the Council in 2004/05 was over £55 million.

- 52 A composite report reflecting the findings of both phases of the inspection is due to be published in 2006. Our report will comment on how effectively the Council delivers the programme as well as the value for money presented by the contracted services and the outcomes for vulnerable people. It will reflect the context for the Council at the time of the inspection together with any improvements or deterioration in the delivery of the programme during the intervening months.

Working with other inspectorates and regulators

- 53 An important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators who also review and report on the Council's performance. These include:
- Ofsted;
 - Commission for Social Care Inspection (CSCI);
 - Benefits Fraud Inspectorate (BFI);
 - DfES; and
 - Government Office for the West Midlands.
- 54 We share information and seek to provide 'joined up' regulation to the Council. We have already commented on assessments from other inspectorates in our Direction of Travel statement.

Accounts and governance

We have given an unqualified audit opinion on your accounts.

Once again, your overall corporate governance arrangements are satisfactory in most key areas. Your financial position is sound overall. Whilst you continue to be subject to financial pressures controls are in place to identify budgetary issues early and take appropriate corrective action. Significant issues in internal financial control identified in our previous letter have been addressed.

Audit of 2004/05 accounts

- 55 We gave an unqualified opinion on the Council's accounts on 21 October 2005.

Report to those with responsibility for governance in the Council

- 56 We are required by professional standards to report to those charged with governance (in Birmingham's case, the Cabinet and the Council Business Management Committee) certain matters arising from our audit.
- 57 In our report attached to this letter at Appendix 4, we have commented on the number of audit adjustments required to the draft accounts as well as arrangements for complying with the 1993 Charities Act. Action is being taken to address the issues raised in both areas.

Matters arising from the final accounts audit

- 58 The published accounts are an essential means by which the Council reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources. Members approved the Council's annual accounts on 27 June 2005 and we gave an unqualified opinion on 21 October 2005.
- 59 In last year's Annual Audit and Inspection Letter, we emphasised that timeliness in producing the accounts will become increasingly important over the next few years, as the deadline for completion of the accounts is brought forward in line with the Government's requirement. Whilst the 2004/05 accounts were prepared to meet the requirements this year, the deadlines will become increasingly more difficult to achieve and will require early planning and thoughtful scheduling of key meetings in 2006 and 2007.

- 60 Whilst the accounts were once again produced to timetable, we noted issues around the quality of inclusions in the draft statements and supporting documentation. Good progress has already been made by officers to deal with these issues. Changes to closedown procedures have already been put in place to help secure improvements in the accounts produced for 2005/06. We have reported our detailed findings separately and officers are taking appropriate action.

Financial standing

- 61 Your financial position is sound overall. Your medium-term financial strategy continues to develop and you recognise a number of issues which may impact on a long-term financial shortfall. Whilst continuing to ensure levels of reserves are maintained at an appropriate level, you need to ensure that risks to your financial position continue to be identified at an early stage and action taken as a result.
- 62 Whilst there are some in-year over and underspend issues, these are being monitored closely and concerns over this issue expressed in our previous annual letter have been alleviated through an improved financial framework in Social Care and Health in particular. The Council should continue to monitor this area closely and taken action where necessary.
- 63 Increasing slippage on your capital programme is an issue which needs to be improved as a priority to ensure the Council's objectives are achieved. A review to assess the reasons for the slippage is underway. It is important that action is taken on the outcome of the review to ensure the capital programme is delivered as planned.

General fund spending and balances

- 64 The Council's financial position does not currently identify the substantial projected in-year overspends which were evident at the time of producing our previous audit letter. In particular, improvements have been made to the financial framework in the Social Care and Health Directorate which have resulted in better control of financial arrangements during 2004/05.
- 65 For 2005/06, there is a total projected year-end overspend for the Council (as at September 2005) of £5.4 million (0.4 per cent) which compares more favourably with the £22.6 million reported for the same stage in 2004/05 in our previous letter. In particular for Social Care and Health, whilst there are a number of pressures to be managed within the Directorate (total £5.8 million as at September 2005), additional savings have been identified to ensure that frontline services are protected and that a balanced year-end position is forecast. The Council continues to monitor this area closely.

- 66 The general fund balance increased by £3.6 million during 2004/05 (£5.6 million in 2003/04) to £25.7 million (excluding school balances). Of the total, £10.9 million has been set aside to act as a minimum working balance in line with recognised good practice, with £1.5 million allocated in 2004/05 through the budget process as in previous years. Whilst total balances have risen, the balance at March 2005 represents only 1.8 per cent of the Council's budgeted net expenditure for 2005/06 and this requires particularly effective management of risks.
- 67 The Council continues to ensure its financial planning processes incorporate the impact of changes in ongoing contribution rates to the West Midlands Pension Fund. The impact of the latest actuarial valuation (as at 31 March 2004) has resulted in increased future contribution rates which continue to be taken into account in medium-term financial planning.

Capital programme

- 68 Slippage on the capital programme continues to be an issue for the Council which needs to be addressed as a priority. Capital outturn for 2004/05 showed slippage of £114.9 million on a budgeted outturn of £389.9 million, equivalent to 29 per cent of the approved capital programme. Comparison with previous years shows an increasing level of slippage: £74.8 million in 2003/04 and £31.4 million in 2002/03. This needs to be improved. The Council has recognised this as an issue and is in the process of reviewing the reasons for the slippage. It is important that action is taken on the outcome of the review to ensure the capital programme is delivered as planned.

Housing Revenue Account

- 69 The Housing Revenue Account (HRA) balance increased again during 2004/05 by £5.8 million to £16.9 million. The outturn for the year showed a favourable variation of £9.7 million (2.3 per cent of total income and expenditure). As planned, the Council used all of the major repairs allowance and £3.9 million of the HRA balance during 2004/05 and proposes to utilise £4.2 million of the HRA balance during 2005/06.

School balances

- 70 The overall level of school balances, which are earmarked reserves available solely for schools' use, continues to be substantial and increasing. School balances increased by £7.3 million during 2004/05 to £40.5 million. The number of schools with deficits reduced with approximately 13 per cent (20 per cent in 2003/04) of Birmingham schools reporting a deficit. Whilst this is an improvement, the position should continue to be monitored to ensure individual schools' financial management is robust.

Income collection and arrears

- 71** The Council's collection rate for council tax has met its target and improved slightly during 2004/05 from 94.7 per cent to 94.9 per cent. For NNDR the collection rate has fallen slightly during 2004/05 from 97.7 per cent to 97.3 per cent (against a target of 97.8 per cent). As at November 2005, collection rates in both areas were comparable with or slightly improved on the rates for the equivalent period in 2004.
- 72** The Council's housing current rent arrears balance reduced by 9.5 per cent from £13.7 million to £12.4 million over the year. Total housing numbers only reduced by 3.6 per cent to 70,332 showing that arrears per property based on year-end figures has reduced in overall terms, an improvement on previous years. Similarly the percentage of arrears as a proportion of gross debit year-on-year shows a reduction. This trend is shown in the table below.

Table 3 Trend in housing arrears

	2003/04	2004/05
Gross debit (£k)	192,807	194,602
Arrears	13,743	12,824
Percentage of debit	7.1%	6.6%

National Exhibition Centre (NEC)

- 73** The Council has reduced its risk associated with potential liabilities in guaranteeing loans made to the NEC which it would have to repay if the NEC Ltd did not have the resources available. During 2004/05 the Council continued to set aside monies to cover a loan of £215 million due in 2016. However, the sinking fund is no longer required to provide for the repayment of the NEC stock issue as the Council has refinanced this sum from its own bond issue in 2005/06. Whilst interest rate exposure risk still remains, this will be managed as part of the Council's overall approach to treasury management. Savings from refinancing the NEC debt have been considered as part of the budgeting process.
- 74** A sinking fund will still be needed to meet the NEC Developments loan repayment of £73 million in 2027. This fund is being managed as part of the Council's treasury management policy. Treasury management risks are currently being reviewed in relation to other bodies linked to the Council such as Millennium Point and Aston Science Park and it is important that they continue to be monitored closely.

Systems of internal financial control

- 75 We have not identified any significant weaknesses in the overall control framework.

Internal Audit

- 76 Once again our review of Internal Audit found that the service is meeting key responsibilities and the quality of work performed continues to meet CIPFA standards.

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

- 77 We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption. Once again overall arrangements are in place to ensure that the Council's affairs are managed in accordance with proper standards of financial conduct, and prevent and detect fraud and corruption.
- 78 We have also assessed the adequacy of the arrangements put in place by the Council to ensure that ethical governance standards are maintained. We concluded that overall the Council has adequate procedures in place. Our review examined the role of the Standards Committee, member code of conduct and register of interests and the role of the monitoring officer.

Legality of transactions

- 79 We have not identified any significant weaknesses in the framework established by the Council for ensuring the legality of its significant financial transactions.
- 80 As for previous years, we have received a relatively small number of questions from members of the public which through liaison with yourselves we have either resolved or which we are currently investigating.

Other governance reviews

Highways PFI

- 81 Our monitoring of your PFI schemes has concentrated in particular on the development of the Highways PFI and the risks associated with the scheme. Progress continues to be made with member involvement at key stages. It is important that ongoing risk assessment continues to be carried out and acted upon to ensure the overall PFI process is effective in delivering key objectives.

Strategic partnering arrangements

- 82 In its drive for service improvement and to support delivery of the council plan, the Council is making progress in appointing a strategic partner. It has recently approved a preferred bidder to implement business transformation and corporate IT services and is now moving towards setting up an interim contract by April 2006. We continue to work closely with you in monitoring your arrangements in this area.

Implementation of revenues and benefits system

- 83 The Council is implementing a new revenues and benefits system (SX3) to operate from January 2006. Whilst the new system is one which is in use in many councils, due to the volume of data and size of the system at Birmingham, it is essential that there are effective arrangements in place to manage the risks of implementing this system. The previous benefits system (MBAS) will be available for enquiries until June 2006.
- 84 We have reviewed your arrangements for implementing SX3 and are in the process of discussing our findings with officers. Our overall conclusion at this stage is that the project is being managed in line with good practice standards by a project team including key stakeholders. Whilst it is not possible to test for the effect of full operational running of the new system at this stage, the Council continues to take reasonable steps to mitigate risks. However, action needs to continue on errors identified through the data transfer process to ensure the Council's benefit subsidy entitlement is not adversely affected.

Implementation of other new systems and project management review

- 85 A number of new corporate IT systems have been introduced by the Council in recent years. Our review was undertaken by ongoing monitoring of these new systems to identify ways in which the Council can improve project management and implementation of new systems in the future.
- 86 We followed up previous recommendations relating to our work on the following systems:
- HRIS (integrated payroll and personnel system);
 - Glamis Phase 4 (purchase orders and payments);
 - CRM (customer relationship management);
 - HITS (housing IT system); and
 - CareFirst (social care and health).

- 87 In addition, a number of other major developments had started and are at different stages in their respective life cycles. In particular:
- cash receipting (PARIS);
 - debtors (Aims);
 - constituency management information system (InfoRM);
 - a corporate performance management information system; and
 - e-procurement.
- 88 We concluded that since our last review there had been major changes to corporate governance arrangements and significant developments had taken place in the majority of the projects covered by the review. Action had been taken to address the recommendations arising from our 2001/02 review. Further progress had been made with the ongoing development of the majority of the systems covered by our previous reviews.
- 89 Compliance with corporate project management standards was satisfactory in most cases. Corporate project management standards and associated guidelines had been reviewed and updated. Development areas include:
- further work to ensure that these (minimum) standards are developed to accommodate the requirements of different directorates; and
 - earlier production in the development life cycle and regular review of business case justifications and risk assessments.
- 90 The main concern was with budgetary and cost control where there had been only limited improvement since our last review. Project management standards and guidelines provided little guidance on budgetary and cost control. Consequently the quality and consistency of approach and of financial information varied significantly from project to project. The Council is currently working to improve the monitoring and reporting of costs against budgets in this area.

Strategic approach to the voluntary and community partnership

- 91 The Council is undertaking a long-term project to develop a strategic, corporate approach to funding the third sector (voluntary and community). The Council's Corporate Third Sector Group is charged with designing and overseeing implementation of this approach. During 2004/05, we reviewed progress as it was made, raising challenge questions on the developing approach. Our questions covered governance arrangements and corporate compliance; the commissioning (gateway) framework; communications and consultation; and, development of a corporate support structure. The Council has responded positively to our questions by, among other things: appointing a political champion, establishing a full-time team to deliver the project, producing a draft corporate funding strategy which takes account of our comments and piloting the new commissioning approach. In 2005/06, we will audit and monitor the Council's progress in implementing the new arrangements.

Governance aspects of partnership working

- 92** An internal audit of the Council's approach to partnership working, focusing on the Birmingham Children's Fund, led to a briefing report in December 2004. This raised three internal partnership governance issues, the lack of: a partnership database, of corporate guidelines for partnership working and of corporate responsibility. The Council's internal auditor determined that a comprehensive audit of the Council's partnership working was required but has agreed that this be conducted as a joint exercise with the Audit Commission. This audit will take place in early 2006 and the first part will consider the Council's governance of partnerships at corporate and directorate level. The second part of the audit will review the Council's relationships with its partners and the effectiveness of its partnership working structures with the introduction of District Strategic Partnerships and a Local Area Agreement.

Risk management

- 93** Our follow-up work showed that overall arrangements for risk management continue to work effectively. The Council has introduced workable guidance and systems which are being operated consistently. Members at Cabinet and Scrutiny levels are involved in the process, which is operating both ways through the management chain. Performance management of risk is established and the organisation has improved operational capacity by ensuring that risk responsibilities are spread widely.
- 94** Amongst the areas where further improvements could be made are:
- making an explicit link between risk practices and the budget processes particularly for major new risk controls which require additional resources;
 - reviewing how risk is dealt with where the Council is involved in major partnerships where it is not the lead body; and
 - establishing working mechanisms for sharing good practice more widely.

Use of resources judgements

- 95** The use of resources assessment is a new assessment which focuses on financial management but links to the strategic management of the authority. It looks at how the financial management is integrated with strategy and corporate management, supports council priorities and delivers value for money. It will be carried out annually, as part of each council's external audit. For single tier and county councils, the use of resources assessment forms part of the CPA framework. It was intended to be a harder test for authorities than the previous auditors' scored judgements used in previous years, and the pattern of scores achieved by authorities bears this out.

- 96 For the purposes of the CPA, we have assessed the Council's arrangements for use of resources in five areas.

Table 4 Use of resources

Element	Assessment (out of 4)
Financial reporting	2
Financial management	2
Financial standing	3
Internal control	2
Value for money	2
Overall	2 out of 4

(Note: 1=lowest, 4=highest)

- 97 In reaching these judgements, we have drawn on all our audit work and supplemented this with a review against specified key lines of enquiry.

Financial reporting

- 98 We have previously commented on some of our key findings around producing the accounts in this letter under 'matters arising from the final accounts audit' and 'report to those charged with governance'. In addition we noted good development of the Council's website for allowing access to copies of the accounts, key reports and Council minutes. Amongst further developments in this area is the need for systematic review of final accounts working papers to ensure they properly support entries in the Council's statement of accounts.

Financial management and financial standing

- 99 Our comments relating to the Council's medium-term financial framework and performance monitoring, particularly in Social Care and Health Directorate, are included previously in this letter. We also noted good progress on management of the Council's asset base including setting up of a property board and more recently, establishment of a dedicated committee to take forward the Council's priorities in this area.

Internal control

- 100** A sound framework is in place for carrying out risk management across the Council with a policy which has been updated and a risk register in place. Whilst expertise in contract risk management is evident, there is opportunity to extend this to other areas such as partnership arrangements. We have previously commented that Internal Audit meets relevant CIPFA standards. Whilst the Statement of Internal Control reflects the Council's position, further development is required to bring together the assurance and risk framework for internal control by setting up a member committee with specific responsibilities in these areas. You now have firm plans to do so.

Value for money

- 101** Through the work of the Efficiency Forum in particular and clear corporate leadership and challenge, a firm base has been established on which to demonstrate that the Council achieves value for money. The Council is making progress in obtaining, using and understanding cost and comparative data with the priority based budgeting (PBB) reviews currently providing the onus for this. Where services were not yet delivering value for money, they are now following a clear programme of review and improvement which should result in improved efficiency, economies and effectiveness in future years. Procurement processes are generally sound with 'gateway' challenge stages operating in some areas. The Council is in the process of embedding procurement practices fully into its directorates and services.
- 102** The most significant areas where further development is needed and in which action is already being taken are:
- maintaining sustained improvements in poorer performing areas to be able to demonstrate delivery of value for money in all key services; and
 - complete the priority based budgeting review programme to enable implementation of budgetary and service changes where appropriate to help generate efficiencies and economies.

Other work

Grant claims

- 103** In accordance with Strategic Regulation, the Audit Commission has continued with a more risk-based approach to the certification of grant claims. Whilst we have reduced our audit of these claims wherever possible our ability to reduce further continues to depend on the adequacy of the Council's control environment.
- 104** There are continued weaknesses in the Council's arrangements for managing and quality assuring grant claims submitted for audit. As identified in our previous letter, grant co-ordination, claim preparation and supporting documentation, as well as timeliness of claim submission require improvement. For 2003/04:
- 45 per cent of claims were submitted after the required deadline required by the grant paying body (53 per cent for 2002/03); and
 - 70 per cent of claims require either amendment or a report to the grant paying body (59 per cent for 2002/03).
- 105** As a result of these issues, there remains a risk to the Council of financial penalties and increased costs. We have noted, however, that there has been some improvement on the timeliness of submission of 2004/05 claims, although it is too early to see any improvement in the level of amendments to claims.

National Fraud Initiative

- 106** In 2004/05, the local authority took part in the Audit Commission's National Fraud Initiative (NFI). The NFI, which is undertaken every two years, aims to help identify and reduce fraud by bringing together data from NHS bodies, local authorities and government departments and other agencies, to detect a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud, tenancy fraud and payroll fraud as well as, new for 2004/05, right to buy scheme fraud and providing new contact details for former tenants with arrears in excess of £1,000.
- 107** The local joint working initiative with neighbouring authorities continues to operate with employee cases given high priority. As at October 2005, in excess of 400 benefit and 200 corporate cases were under investigation. As reported in previous years, the Council continues to participate fully in the NFI.

Looking forwards

Future audit and inspection work

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

Revision to the Code of Audit Practice

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

Closing remarks

- 112 This letter has been discussed and agreed with senior officers. A copy of the letter will be presented to all members and will be presented to the cabinet in February 2006.
- 113 Once again, 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

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

John Gregory
District Auditor and Relationship Manager
January 2006

Appendix 1 – Background to this letter

The purpose of this letter

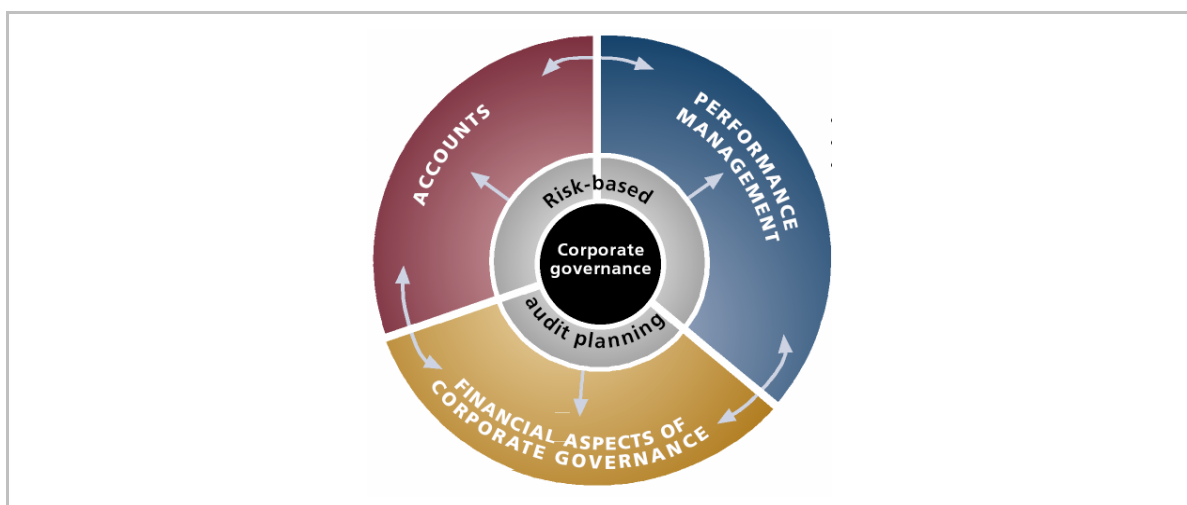
- 1 This is our Audit and Inspection 'Annual Letter' for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council's Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections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

Audit objectives

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

Figure 1 Code of Audit Practice

Code of practice responsibilities



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

Accounts

- Opinion.

Financial aspects of corporate governance

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

Performance management

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

Appendix 2 – Audit reports issued

Table 5

Report title	Date issued
Audit and Inspection Plan	May 2005
Performance Indicators	May 2005
Devolution of Decision-making - Local Services	June 2005
New IT Systems	September 2005
Housing Repairs Inspection Report	September 2005
Partnership Working with the Voluntary Sector	November 2005
Single Status	November 2005
Budgetary Control	November 2005
Commissioning Services for Older People	December 2005
Complaints, Communications and Consultation Follow-up	January 2006

Appendix 3 – Audit fee

Table 6

Audit area	Plan 2004/05 (£)	Actual 2004/05 (£)
Accounts	283,000	283,000
Financial aspects of corporate governance	190,000	190,000
Performance	182,400	182,400
Total Code of Audit Practice fee	655,400	655,400
Additional voluntary work (under section 35)	0	0
Total	655,400	655,400

Inspection fee update

- 1 The full year inspection fee is £147,600. The work reported in this Audit and Inspection Letter has been funded by an element of the fee covering 2004/05 and by an element of the fee covering 2005/06. In both years, the actual fee will be in line with that planned.

Appendix 4 - Report to Council Business Management Committee

Introduction

- 1 Professional auditing standards require auditors to report certain matters arising from the audit of the financial statements to 'those charged with governance':
 - expected modifications to the audit report;
 - unadjusted non-trifling misstatements;
 - material weaknesses in accounting and internal control systems;
 - qualitative aspects of accounting practice and financial reporting;
 - matters required by other auditing standards to be reported to those charged with governance; and
 - other matters that we wish to draw to your attention.
- 2 We have agreed with the Council that the communications required under these auditing standards would be with the Council Business Management Committee. This report sets out for Members consideration the matters arising from the audit of the financial statements for 2004/05.

Status of the audit

- 3 Our work on the financial statements is now complete. We issued an unqualified opinion on 21 October 2005 (statutory deadline of 31 October 2005).

Matters to be reported to those charged with governance

- 4 We have the following matters to draw to the Council Business Management Committee's attention.

Unadjusted misstatements

The Council's management has adjusted the Statement of Accounts for all non-trifling errors. However, we are also required to consider reporting adjusted misstatements to you where these are material and are relevant to your governance responsibilities.

Whilst production of the draft Statement of Accounts was timely, there were a significant number of audit adjustments required to the draft accounts approved by members. Several of the adjustments involved material disclosures. However, there was no overall impact on the reported surplus from these adjustments. We reported a similar situation in our previous (2003/04) report.

Examples of adjustments made include:

- gross expenditure and income of £135 million relating to rent rebates had been excluded from the Housing Services line of the consolidated revenue account, with no net effect; and
- an amount of £25.6 million, mainly relating to concessionary fares, was disclosed in the wrong line within the revenue accounts.

Action is now being taken to make improvements in processes which should help reduce the number of adjustments required in the future.

Other matters that we wish to draw to your attention

As reported in our 2003/04 report, the Council's arrangements for complying with the 1993 Charities Act are still not yet satisfactory. There are still a number of Trusts which have not been subject to independent examination for several years as required by statute. These include:

- Birmingham Bodenham Trust;
- Harriet Louisa Loxton; and
- Rupert Street Endowment (improved leisure facilities).

There is also no effective central control mechanism in the Council to oversee this process.

Charities where the local authority acts as managing trustee are subject to the same requirements for independent scrutiny of accounts as are other charities registered under the 1993 Charities Act.

Next steps

- 5 These issues have been drawn to officers' attention and action is being taken. We are drawing these matters to the Council Business Management Committee's attention so that you are aware of the actions which needed to be taken by officers.