

Annual Audit and Inspection Letter

March 2008



Annual Audit and Inspection Letter

Three Rivers District Council

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.
- 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, 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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Key messages

- 1 Three Rivers District Council has continued to make progress against identified priorities whilst also successfully concluding a number of major projects. Housing stock transfer, the transfer of leisure services to a leisure trust, and exploring a number of shared services are significant undertakings which have not impacted negatively on the delivery of services to the district's residents.
- 2 The Council has delivered improvements against its priorities. There have been a number of successes in making the district safer and housing and recycling services have contributed to the objectives relating to sustainability. The transfer of the housing stock to Thrive Housing Association will enable investment to achieve the decent homes standard and performance in handling benefits remains strong, supporting those potentially disadvantaged groups in the community.
- 3 The Council was the first in the country to achieve Chartermark at both a corporate level and for all its services.

Action needed by the Council

- 4 With the emerging challenges of area assessment, the Council needs to further develop its role in shaping the area, working with and supporting other agencies and public bodies whose work will impact on the quality of life within the borough. The community leadership role will be brought into sharper focus.

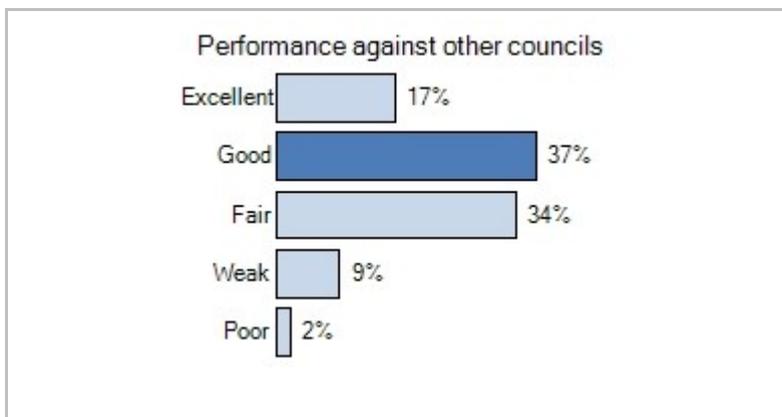
Purpose, responsibilities and scope

- 5 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the most recent Comprehensive Performance Assessment (CPA), the findings and conclusions from the audit of the Council for 2006/07 and from any inspections undertaken since the last Annual Audit and Inspection Letter.
- 6 We have addressed this letter to members as it is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. We have made recommendations to assist the Council in meeting its responsibilities.
- 7 This letter also communicates the significant issues to key external stakeholders, including members of the public. We will publish this letter on the Audit Commission website at www.audit-commission.gov.uk. [In addition the Council is planning to publish it on its website].
- 8 Your appointed auditor is responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, the auditor reviews and reports on:
 - the Council's accounts;
 - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (value for money conclusion); and
 - whether the Council's best value performance plan has been prepared and published in line with legislation and statutory guidance.
- 9 This letter includes the latest assessment on the Council's performance under the CPA framework, including our Direction of Travel report, and the results of any inspections carried out by the Audit Commission under section 10 of the Local Government Act 1999. It summarises the key issues arising from the CPA and any such inspections. Inspection reports are issued in accordance with the Audit Commission's duty under section 13 of the 1999 Act.
- 10 We have listed the reports issued to the Council relating to 2006/07 audit and inspection work at the end of this letter.

How is Three Rivers District Council performing?

- 11 Three Rivers District Council was assessed as 'Good' in the Comprehensive Performance Assessment carried out in 2004. These assessments have been completed in all district councils and we are now updating these assessments, through an updated corporate assessment, in councils where there is evidence of change. The following chart is the latest position across all district councils.

Figure 1 Overall performance of district councils in CPA



Source: Audit Commission

The improvement since last year - our Direction of Travel report

- 12 Three Rivers District Council has continued to make progress against identified priorities whilst also successfully concluding a number of major projects. These include leisure services transfer to a leisure trust, housing stock transfer and exploring sharing accountancy, human resources, ICT, and revenues & benefits services with a neighbouring council.
- 13 58 per cent of performance indicators improved for 2006/07 which reflects the average range for districts with 37 per cent of indicators in the top quartile. Crime levels are generally reducing; development control has improved but there remain a high level of appeals allowed. Recycling and composting rates are very good and the cost of collection is reducing. Level 2 of the Local Government Equality Standard was attained. The Council provides adequate and improving value for money.

- 14 There are robust plans to increase efficiency and improve resilience. There is also a fully resourced capital programme and adequate reserves. The Council demonstrates strong leadership and good capacity to deliver plans. Staff are customer focussed and committed. Embedded service planning underpins performance management and corporate priorities. Effective partnership working enhances capacity.

What evidence is there of the Council improving outcomes?

- 15 Three Rivers has 58 per cent of performance indicators improved since last year which is within the average range for all authorities and is ranked 219th out of 388 authorities for improvement over the period. 37 per cent of indicators are among the best, which is above the national average of 33 per cent.
- 16 Three Rivers District Council has made continuing progress against identified corporate priorities during 2006/07, while also delivering a number of major projects including stock transfer, the transfer of its remaining leisure services to a leisure trust and the shared services initiative. In this period of transition it has also reviewed its corporate priorities and reduced them from five to three. The Strategic Plan 2007-10 clearly sets out both what are priorities for action and what are not. There continue to be four cross cutting community themes in the Strategic Plan: Safe, Sustainable, Prosperous and Healthy Communities. However, these cross cutting themes no longer have equal priority. Safe and Sustainable Communities will have pre-eminence over Prosperous and Healthy Communities for the next three years. The Council also seeks to continuously improve services and the reputation of the Council and this is reflected in the third priority 'Towards Excellence'. This redefinition of priorities from five to three enables the Council to target resources effectively
- 17 The Council can demonstrate improvement against all of its original priorities. In relation to its 'safer' priority, partnership working and targeted initiatives are contributing to a safer district. The numbers of robberies, domestic burglaries and thefts of and from a motor vehicle have all reduced. Violence against the person and sexual offences are reducing. The number of anti-social behaviour incidents reduced from 5,594 to 5,556. Levels of unacceptable graffiti and fly posting also reduced this year.
- 18 The Council has been successful in protecting the green belt and the number of new homes built on previously developed land is better than average. Development control performance continues to improve but there remains a high level of planning appeals allowed. The need for more affordable housing has been identified by residents through community consultation process and 126 were completed during 2006/07. Recycling and composting rates continue to be high and the cost of collection is reducing. The overall volume of waste collected continues to rise but the amount sent to landfill is reducing. Residents can see clear commitment to sustainable communities.

- 19 There has been some success in increasing the prosperity of the district, acknowledging that the Council's focus is on tackling areas of deprivation. The Council has successfully enabled tenants to make an informed choice about options for the future of the Council's housing stock. The agreed transfer to Thrive Housing Association in March 2008 allows for the investment to achieve the Decent Homes Standard in the future. Performance on processing new housing benefits applications and change of circumstances is among the best nationally, but the number of applications processed correctly has dropped to amongst the worst. The Council appointed a joint economic development officer in partnership with Watford and Hertsmere Borough Councils for a three year period from 2005 to 2008. As at April 2007, 97 per cent of the retail units owned by the Council were let, generating almost £500,000 per annum in rents.
- 20 Partnership working, particularly on leisure activities has provided healthier outcomes for target groups in the community. The Council introduced a number of initiatives to increase the number of adults participating in regular physical activity under the 'Everyday Active' programme in partnership with West Herts PCT. Children have also been provided with opportunities for free or low cost access to leisure facilities. Preparations for the transfer of the Council's remaining leisure services to a leisure trust have been completed and the Council has provided funding support which will guarantee equal access for Three Rivers residents to new leisure facilities in Watford from summer 2008. In 2006/07 99 per cent of animal control service requests and 99 per cent of pest control services were responded to within the current performance target. Increased access to leisure opportunities and effective animal/ pest control is likely to have beneficial effects for sections of the community most at risk of disadvantage.
- 21 In relation to the 'Towards Excellence' priority, the Council was the first council in the country to achieve Chartermark both corporately and for all its services and the Council has been reaccredited with Investors in People (IIP) status. Service performance levels have been maintained throughout a period of change.

- 22 The Council's approach to partnership working in developing wider community outcomes remains positive, with a clear focus on priority areas. Work with the Crime and Disorder Reduction Partnership has contributed to reductions in burglaries robberies and vehicle crimes in the district. The Council has championed youth issues working closely with the Hertfordshire Children's Partnership Trust and helped develop an action plan to progress the five 'Every Child Matters' priorities. The Housing and Regeneration Initiative (HARI), a joint working initiative between Three Rivers District Council, Watford Borough Council and registered social landlords (RSLs) has delivered additional affordable housing units across the two districts Three Rivers and Watford building control functions recently agreed to share a manager. The Council plays an active role in the countywide waste recycling partnership. It has also demonstrated community leadership through its 'No smoking' public health campaign. Despite good working relations at officer level, understanding and involvement by councillors in the wider local strategic partnership and local area agreement (LAA) agenda is not well developed. Due partly to the re-organisation of PCTs, links between the council and the PCT are not well developed. However, relationships with the County Council at officer level are good. Overall, the Council is working to strengthen its engagement with partners, to the benefit of the local community.
- 23 The Council has a clear demonstrable commitment that the customer comes first. In December 2006 Charter Mark was achieved for all Council services. The customer service centre provides a good first point of contact for customers and this is appreciated by members of the public. There is a speedy and effective complaints procedure and satisfaction with complaints handling is very high. However, feedback from customers, obtained during a peer review in December 2007, indicated that where customer queries are not dealt with immediately the Council does not always follow these up to a satisfactory conclusion. The peer review also praised the comprehensiveness of the Council's website but reported that customers do not find the website very user friendly. Overall, customers can be assured that they will receive a consistent standard of customer service
- 24 The Council recognises that deprived communities exist in the district and has made a conscious decision to concentrate on improving services and access to services for these groups but to date there are few outcomes. Three Rivers has developed a Comprehensive Equality Policy to promote fair and equal access to services by all citizens. Commitment to equalities has been reinforced by placing it as a key priority in the Strategic Plan, making it integral to the Community Strategy, and setting out equality targets and actions in the service planning framework. The Council achieved level 2 of the equality standard for local government during 2006/07 and has plans to achieve level 3 by 2008/09. But, performance on the duty to promote race equality dropped last year from above average to below average. The Council has both a consultation and communications strategy and access to information for citizens is being improved. However, the peer review found that feedback to participants on consultation is not embedded. Commitment to equality and diversity is explicit but as yet there are few outcomes that disadvantaged groups will recognise.

- 25 The Council provides adequate value for money and improved its use of resources score from 2 to 3 in 2007. The Council has adequate financial standing and is delivering on efficiency targets. Budgetary processes have improved to tackle the historic unplanned underspends. It has a balanced budget, a fully resourced capital programme and healthy reserves. There is some evidence of benchmarking of services and the Council has undertaken market testing for some services with a view to improving value for money. The Council is part of a joint procurement initiative and has implemented joint initiatives to achieve efficiency savings.

How much progress is being made to implement improvement plans to sustain future improvement?

- 26 An ambitious change agenda is being delivered, largely to time and budget. Three major projects; housing stock transfer, the extension of leisure services provided by the leisure trust and the shared services initiative with Watford Borough Council promise to change the shape of some important service delivery. This change has been delivered without losing focus on the customer and on other day to day service delivery. The transfer of leisure services occurred in January 2008, the full business case for shared services went before each of the two councils in February and the housing stock transfers to Thrive Housing in March 2008. This is evidence of the Council's ability to plan and manage change and improvement effectively.
- 27 There are clear links between the Community strategy, the Strategic Plan 2007/10 and the Local Area Agreement (LAA). The LAA has targets and outcomes which link to other strategies such as the Hertfordshire Waste Strategy, Local Transport Plan and sub-regional Housing Strategy. The Strategic Plan brings together the high level, medium-to-long term objectives which the Council considers are priorities for the district and focuses on those areas where the Council has a lead role, or can play a key part in delivering or influencing the outcomes. The Council has no single improvement plan but the objectives and targets set out in the Strategic plan are underpinned by 19 service plans. Service planning is embedded within the Council and links into financial planning and the medium term financial strategy. Service plans provide a key focus for performance and project management with service heads responsible for managing and reporting performance within their areas. Action plans are produced within services to address under performance. Performance reports are considered by the policy panels (recently reconfigured in late 2007 to become Policy & Scrutiny Committees) and then the Executive. Performance monitoring is embedded within the Council and ensures focus on continuous service improvement.

- 28 Future plans for developing the physical and industrial infrastructure of the district are not fully developed. These plans will be supported in the Local Development Framework (LDF) and are designed to preserve the Green Belt, attract only “clean” industries, secure good quality housing, educational and leisure facilities, and attract shopping that is not at the top of the hierarchy, as there are major shopping facilities in and around Watford and beyond. Milestones for the delivery of the LDF were not achieved during 2007/08. There were a number of external factors which contributed to this although the Council has ensured that the policies in the existing local Plan have been safeguarded and has initiated community focused consultation to mitigate the absence of the LDF. An external assessment of progress on the LDF has indicated that good progress has been made on identifying the spatial issues for the District, and this coupled with the strong evidence base being assembled, provides a strong footing for further progress during 2008.
- 29 The Council has good capacity to deliver its plans. There is strong and committed leadership and the administration has a clear vision of how the district needs to develop. The Cabinet has experienced councillors with well defined portfolios but a peer review found that some councillors were too closely involved in operational matters rather than taking a strategic role. Relationships between officers and councillors are good with high levels of trust. There are no major recruitment issues and human resources practices are effective in workforce planning and recruitment. Sickness absence is managed effectively and absence rates are amongst the best nationally. Staff morale is high in spite of the change agenda and staff view the Council in a very positive light. The appraisal scheme is valued and universally applied. Staffing requirements for major projects were met through secondments and backfilling of posts. Effective workforce planning has meant services have continued to improve and major projects have been delivered.
- 30 The Council is using partnerships to supplement corporate capacity, for example procurement and building control, and in some cases to re-engineer the way that services are delivered. The shared services initiative offers the potential for improved services, increased resilience, and a potential saving of £1m per year per council when the programme by 2010/11. Accountancy, human resources, ICT, and revenues & benefits services are included in the programme.

Service inspections

- 31 There were no service inspections completed in 2007/08.

Health Inequalities

- 32 During 2007/08, we have undertaken a project examining the approach to tackling health inequalities across the east of England, including Hertfordshire. This has involved a survey, interviews and workshops with a wide range of agencies engaged in tackling health inequalities. The work is reaching its conclusion, and indications are that partners have begun working together to tackle this challenging, cross-cutting agenda. We anticipate issuing our report in Spring 2008.

The audit of the accounts and value for money

- 33** Your appointed auditor has reported separately to the Audit Committee on the issues arising from our 2006/07 audit and have issued:
- an audit report, providing an unqualified opinion on your accounts [or otherwise] and a conclusion on your vfm arrangements to say that these arrangements are adequate [or otherwise] on [date]; and
 - a report on the Best Value Performance Plan confirming that the Plan has been audited.
- 34** The key issues arising from this work are highlighted in the report to those charged with governance issued in September 2007. The key issues arising from our work are:
- a number of points in respect of the recording of entries, such as valuations, disposals and additions, relating to the Council's fixed assets; and
 - continued surpluses within the building control account.

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 your auditor has assessed the Council's arrangements for use of resources in these five areas as follows.

Table 1

Element	Assessment
Financial reporting	3 out of 4
Financial management	3 out of 4
Financial standing	2 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 this work are highlighted in the use of resources auditor judgements report. The Council continues to perform well. The key messages from PKF (UK) LLP's work are set in table 2 below.

Table 2 Use of resources' key messages

Element	Key messages
Financial reporting	The Council has good arrangements for financial reporting and has produced a good annual report, which includes a summary of financial and operational performance.
Financial management	The arrangements for financial management are sound, with good arrangements in place for developing financial strategies and managing the Council's asset base. There is a need to ensure improvements in the management of budgets are fully embedded.
Financial standing	The Council's financial standing is adequate, although there have been past issue over the level of underspending which has impacted on the overall assessment.
Internal control	Internal control arrangements are sound, with good arrangements for managing risks, a sound system of internal control and ensuring probity and propriety in the conduct of business.

Element	Key messages
Value for money	The Council has continued to consolidate its performance in achieving and improving value for money, with arrangements remaining adequate. The level of progress has not been significant and there remains a need to link outcomes with priorities, address areas of below average service performance and ensure the achievement of value for money becomes embedded in the performance framework.

Data quality

- 38** PKF (UK) LLP tested the Council's arrangements to secure quality performance information to support audit work on the best value performance plan and the use of resources judgements. Current arrangements are considered to be adequate, but could be improved further by defining responsibility for data quality, the development of data quality objectives and ensuring the performance management framework specifically considers the need for accurate, reliable valid and timely information.

Looking ahead

- 39 The public service inspectorates are currently developing a new performance assessment framework, the Comprehensive Area Assessment (CAA). CAA will provide the first holistic independent assessment of the prospects for local areas and the quality of life for people living there. It will put the experience of citizens, people who use services and local tax payers at the centre of the new local assessment framework, with a particular focus on the needs of those whose circumstances make them vulnerable. It will recognise the importance of effective local partnership working, the enhanced role of Sustainable Communities Strategies and Local Area Agreements and the importance of councils in leading and shaping the communities they serve.
- 40 CAA will result in reduced levels of inspection and better coordination of inspection activity. The key components of CAA will be a joint inspectorate annual area risk assessment and reporting performance on the new national indicator set, together with a joint inspectorate annual direction of travel assessment and an annual use of resources assessment. The auditors' use of resources judgements will therefore continue, but their scope will be widened to cover issues such as commissioning and the sustainable use of resources.
- 41 The first results of our work on CAA will be published in the autumn of 2009. This will include the performance data from 2008/09, the first year of the new Local Area Agreements.

Closing remarks

- 42 This letter has been discussed and agreed with the Chief Executive. A copy of the letter will be presented at the audit committee on 9 April 2008. Copies need to be provided to all Council members.
- 43 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Council during the year.

Table 3 Reports issued

Report	Date of issue
Audit and inspection plan	March 2006
Annual Governance Report	September 2007
Opinion on financial statements	September 2007
Value for money conclusion	September 2007
Annual audit and inspection letter	March 2008
Use of resources - key lines of enquiry and data quality	March 2008

- 44 The Council has taken a positive and constructive approach to audit and inspection work, and I wish to thank the Council's staff for their support and cooperation during the audit.

Availability of this letter

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

Gary Hammersley
Relationship Manager

March 2008