

Annual Audit and Inspection Letter

March 2008



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Oxford City Council

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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.

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Key messages

- 1 The last year has been one of greater focus and determination for Oxford City Council and the pace of change and improvement has been impressive. There has been concerted cross-party leadership in pursuit of a more ambitious level of overall improvement. The City recognises that value for money will only improve through clear efficiency targets, partnership arrangements and higher aspirations. A new chief executive brings with him significant experience of strong local government performance, and his energy and knowledge is strengthening both performance and improvement management.
- 2 Greater focus will be vital in overcoming the Council's most significant challenge, that of value of money. It remains high cost compared with other councils, although it has already achieved savings of £3 million in 2007/08 and set a challenging budget target of £3.5 million for 2008/09. In addition it has improved some of its service performance at a faster pace than other councils, and agreed recently to market test one of its highest cost areas, leisure services. However, it has much to do to reach the aspirations and effectiveness of the best. Its ambitious turnaround plans demonstrate that the Council has increased its focus on the priorities of local people and can show leadership and innovation in issues such as climate change and community cohesion.
- 3 By restructuring the Council's management arrangements, it is beginning to direct its resources to respond more effectively to the future needs of the City, as well as to the needs of the residents and organisations. Further improvement will therefore be a test of both political and managerial leadership.

Action needed by the Council

- 4 The main actions for the Council are as follows.
 - Improve the focus on priorities, and deliver better results for local residents.
 - Deliver significant improvement in value for money (vfm), by achieving substantial financial savings, while improving or maintaining existing services.
 - Ensure partnership and political differences are used to create constructive, improvement focused challenge to deliver results.
 - Deliver on the proposed transformation agenda, to provide a range of better, faster and more accessible customer services at lower cost.
 - Accelerate work on diversity, including partnered work on the significant health inequalities experienced by some of Oxford's population.
 - Improve project and performance management and their use across the organisation, including making better use of benchmarks with the best performers.
 - Ensure the organisation is fit for purpose, with motivated and successful staff, and embed new structures once executive directors have been appointed.

- Provide a cost effective leisure service, in line with the needs of local people contributing to agendas such as health and well being.
- Focus on city development and regeneration, coordinating this better and ensuring resources and skills are deployed for effective delivery.
- Fully embed a system of risk management throughout the organisation.

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 As your appointed auditor I am 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, I review and report 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 Oxford City Council performing?

The improvement since last year - our Direction of Travel report

- 11 Oxford City Council has made significant progress with some important priorities in the last year, and provided a number of better services for local people. It has also shown much greater focus on improvement, most notably by the concerted effort across political parties to reduce costs significantly. Overall, the Council improved its performance in 2006/07 to a greater extent than achieved by most other district councils, although it still has much to do to match the achievements of the best and progress in some services is more advanced than others. It now provides strong leadership for further change, which is crucial in bringing more of its services up to some of the standards being achieved elsewhere.
- 12 Value for money (vfm) remains the Council's most significant challenge. Its overall performance on vfm has not improved relative to other councils, as a result of its significant high costs. This limits some of the otherwise good progress on service improvement. This issue is now being addressed as a matter of priority, through ambitious savings targets for both 2007/08 and 2008/09, and the Council's agreement to market test the leisure service. There is a clear commitment to further improve the quality of services and work more closely with county and district council partners to achieve greater efficiency. The close working now evident across political parties, and with the new chief executive, is expressed in the sharper aims and targets of the draft Corporate Plan 2008-2011, including for 'world class' organisational transformation. This consensus and ambition shows a significant growth in maturity in the combination of political and managerial leadership.
- 13 The Council's service development has been focused on local needs, with some strong examples of improved community consultation. This approach is enabling local communities to have more of a say in the services being offered to them, and how they want the Council to respond to their needs including people that are hard to reach. Examples include:
 - a new 'community champions' scheme;
 - an improved website: including a scheme to find local resident 'reporters'; better access for visually impaired people; and support for a volunteer-led neighbourhood discussion forum;
 - promotion of resident involvement in plans for their communities; and
 - improved ways of finding out what people think of their leisure services.

This community leadership is important in ensuring resources are spent on services that matter to local people.

- 14 The Council has been slow to maximise its overall impact on equality and diversity because, corporately, this is not coordinated effectively, and progress against standards has been slow. However, it has been demonstrating commitment through the number of services that promote social inclusion. For example, although it has more to do to work effectively with hard to reach groups, the benefits service has improved considerably. The Council's benefits take-up campaign has continued to address inequality by securing substantial backdated payments for some local pensioners. It added a new dial-a-ride bus, and supported activities focused on community cohesion - including the Oxford Mela and Streets for People festivals.
- 15 The Council's work on climate change demonstrates the ability to make and lead changes. Recycling has improved markedly towards the level of the best performers, with plans for extending new schemes across the City that should improve rates further. It introduced Tetrapak and other carton schemes ahead of national standards. In addition, it achieved a 30 per cent increase in landfill diversion at its own sites, and in the Covered Market. The Council's planning teams developed guidelines for renewable energy and affordable housing stock. The City was badly affected by floods twice in 2007, and the Council responded promptly to the needs of many of those affected. The strong focus on the City's environmental footprint also resulted in a number of awards:
- for a new sustainable living guide;
 - the town hall gallery and café; and
 - green flag status for two Council-managed parks.
- 16 Housing services show mixed improvement. The quality of the Council's work with homeless people was recognised in the award of 'beacon' regional champion status among local councils in South East England. Fewer people are now living in bed and breakfast and other temporary accommodation. A new register for affordable housing is now up and running, showing good partnership with other district councils and housing associations. As a landlord, the Council agreed and set out standards for consultation for its 8,000 tenants, and promoted this and other initiatives through a clear tenant newsletter. Planned repairs have improved well, and are now achieved in 33 days (compared with 102 days, two years ago). However, the balance between planned and reactive repairs could improve to offer better value for money and the Council's rates of rent collection and urgent repairs remain poor, when compared with other councils.
- 17 The City has become much cleaner. Local residents report greater satisfaction, including in their experience of reduced litter, graffiti and fly posting. Local people have also benefited from the Council's use of its enforcement powers to prevent and promote the impact of nuisance behaviours. For example, it publicised the fines and court cases it pursued, and ran an awareness-raising campaign among new students to counter the impact of late-night drinking. It also protected young people, for example by promoting the risks of drug use and spiked drinks.

- 18 The Council is improving its overall focus on the City. It has begun to show stronger community leadership in working with partners to develop opportunities for local people in both housing and the city infrastructure; for example:
- some estates regeneration;
 - pursuing both affordable housing and energy saving; and
 - progress with major redevelopment in both the West End and Bonn Square.
- 19 Various efforts were made to make the City's streets more accessible and enjoyable including:
- a successful campaign to reduce chewing gum litter;
 - new bus shelters; and
 - the planting of more trees.
- 20 Its work to reduce crime focused on residents' safety, including promoting a junior street wardens scheme and increasing the number of street rangers. It also improved the speed with which it processed planning applications, although some of the standards achieved remain below those of the best performers.
- 21 Improvement planning has sharpened considerably in the last year. This is based on cross-party consensus on setting clear and challenging budget savings and improvement targets. There has been rapid progress in the restructuring and reshaping of the organisation. All political leaders and senior managers are now focused and working together on effective change, with much more open recognition of the challenges faced in reaching the performance of the strongest councils. As a whole, there is very good evidence of a council more willing to take - and already making - difficult decisions that are focused on local peoples' needs now and into the future.
- 22 Councillor engagement in improvement has been strengthened through a cross-party working group, showing good self awareness and common vision in driving substantial changes during the last year. Early successes include the calibre of chief executive recruitment, and a strong focus on finance evident through radical budget targets over this and the next year. Councillors have agreed to reduce revenue spend by 25 per cent in two years while maintaining or improving service provision, and have agreed an organisational change policy and introduced staffing vacancy controls. Savings are being achieved, and councillors are engaged in risk assessing further savings plans.
- 23 The Council's improvement planning is focused, and better supported by performance management and review. The interim chief executive agreed an 18-step improvement plan by the middle of 2007, and good handover to the incoming new chief executive in August ensured that the pace of improvement was maintained. In fact the pace of improvement has increased in recent months. Substantial budget savings have already been made through a radical restructure, and partnership working and efficiency are now much higher on the Council's agenda.

- 24 This recognition and change in focus is essential, because recent improvement has not yet been based on a coherent approach to value for money that uses strong external challenge and adequate knowledge about diversity and local communities. Nor has the Council aspired sufficiently towards best performance. Vfm improvement processes have been under way but are not yet delivering sufficient impact, for example, in reducing the very high costs of leisure services, much stronger ownership at all levels in the organisation is needed. Recent developments on leisure show evidence of the Council taking hard decisions to achieve much needed change. They have decided to market test leisure services with the expectation that value for money will be improved by:
- improvements in the effectiveness of in house provision; or
 - possible externalisation of the management of the service.
- 25 The stronger focus on performance management is evident in overhauling both corporate and service planning and including risk and equalities in them. Strategic planning has improved, leading to a sharper corporate plan for the next three years, and stronger engagement in the community strategy. The Council has also aligned directorate and portfolio plans and introduce three new corporate performance boards. Further improvements are planned for 2008, focused on the Council's vision of becoming 'world class' and including a vfm invest to save programme, as part of much tighter control of project management. There is more to do to ensure consistent data quality and enable service managers to contribute to effective performance management.
- 26 Internal communication has strengthened, in support of change. The Council actively promoted its rationale for change, and staff at all levels are becoming more involved in pursuing value for money. The chief executive has encouraged staff consultation and idea generation, including a 'one-in-ten' staff participation scheme aimed at ensuring contact with the chief executive and influence on corporate direction. The culture of the organisation remains positive. It celebrates success well, and nurtures talent - achieving a number of national staffing awards for innovation and apprenticeship. While it may be challenging, many staff respect and welcome some of the current radical changes. This is important in demonstrating determination and coordination in the Council's efforts to better attune its internal culture towards greater vfm. The result is a more focused organisation.
- 27 The Council shows a genuine aspiration to be customer, user and citizen focused, which supports its capacity to deliver effective services. This is aided by some effective communication channels with residents. The last year has seen greater flexibility in this - for example with more facilities for interaction and better physical access to services.

- 28 Some areas require further effort. Improvement plans for customer focus have been hampered by the lack of a coherent strategy. This has meant that good initiatives have not been coordinated, and others not developed at all. However the Council has recognised this problem. Its plans for a more corporate approach to transformation during 2008 represent further steps in the right direction. This includes potential for some significant vfm improvements, including partnership with others and through the Council's recent decision to invest in a customer relationship management (CRM) system.
- 29 In 2007, the Council began to overhaul its approach to partnership working across the county, focusing on district and county partners, and reflecting greater realism over the need to develop capacity. It has joined in bids for partnership funding, and started to increase its coordination with others - for example on ICT and in strategies for area working. The Council took an effective lead in negotiating Oxfordshire-wide targets for the new local area agreement (LAA). However, it has not yet secured significant levels of political, strategic and operational partnership within and beyond Oxfordshire.
- 30 In the short term the Council is at risk, as its restructure resulted in the loss of all its directors, and the chief executive and other managers are very stretched. However, the pace of change has been impressive and recruitment is going ahead, with a clear focus on securing the overall capacity to focus on the twin challenges of improving the city and improving the Council's services to its customers. Staffing capacity can be further strengthened by reducing sickness levels, and by demonstrating better coordination between services and teams.

Service inspections

- 31 In February 2008 the Audit Commission published its inspection report on the Council's cultural services. We assessed the Council as providing a 'fair' cultural service which has 'promising' prospects for improvement.
- 32 Strengths include a wide and diverse range of cost-effective services across the city such as the arts, tourism, and parks. The services contribute to social inclusion and improvement of residents' quality of life. Other strengths include:
- good plans and leadership for the cultural development of the West End;
 - the addressing of management capacity issues; and
 - strong partnership working, particularly through community centres and in developing a new cultural strategy.
- 33 Weaknesses include:
- poor value for money of the leisure facilities;
 - a few aspects of the service are poor quality, such as a leisure centre and some play areas;
 - weak equality and diversity policies; and
 - no agreement on the future management of leisure centres.

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- 34 To help the service improve, we made a number of recommendations, including improvement in the value for money of leisure centres and agreeing a solution to their management. Other recommendations include:
- progressing the cultural vision for the city – via the new cultural strategy and West End redevelopment; and
 - focusing on the management restructure and equalities work.
- 35 The chief executive is driving these changes at a rapid pace, with cross-party political support. This new energy and commitment gives confidence that despite the issues that remain to be addressed the Council has promising prospects for delivering improved cultural outcomes for the community.

The audit of the accounts and value for money

- 36 As your appointed auditor I have reported separately to the audit and governance committee on the issues arising from our 2006/07 audit and have issued:
- my audit report, providing an unqualified opinion on your accounts;
 - a qualified conclusion on your vfm arrangements on the grounds that the Council has yet to put in place arrangements to manage and improve value for money and needs to fully embed a system of risk management throughout the organisation; and
 - my report on the best value performance plan confirming that the Plan has been audited.

Use of Resources

- 37 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).
- 38 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in these five areas as follows.

Table 1 Use of resources assessments

Element (1 = lowest, 4 = highest)	2006	2007
Financial reporting	2 out of 4	2 out of 4
Financial management	2 out of 4	2 out of 4
Financial standing	3 out of 4	3 out of 4
Internal control	2 out of 4	2 out of 4
Value for money	1 out of 4	1 out of 4
Overall assessment of the Audit Commission	2 out of 4	2 out of 4

The key issues arising from the audit

- 39 The individual scores for each element of Use of Resources have remained the same compared to the previous year due to higher expectations. However, indications are that the Council's performance is moving in the right direction in 2007/08 with more focus in the appropriate areas which should enable the Council to strengthen its arrangements overall.
- 40 We identified a number of improvement opportunities which are covered in our detailed report *Use of Resources 2007*. The key areas are as follows.

Risk management

- 41 Risk management remains a significant issue for the Council and although it can demonstrate that action is being taken to develop and strengthen its arrangements much of this has been put in place in the current year. Key issues for improvement are:
- formally adopt a risk management strategy;
 - ensure risk register is reviewed and up-dated on on-going basis;
 - assign member with specific responsibility for risk management;
 - include risk assessment on all reports to support strategic policy decisions, and project initiation documents; and
 - continue to roll-out staff and member risk awareness training.

Value for money

- 42 Overall, costs remain significantly higher than for similar councils elsewhere. However, costs are generally better understood when compared with our previous value for money assessments. The Council has recognised this, in making plans during 2006/07 to cut 25 per cent of net revenue budget over the two years of 2007/08 and 2008/09. The Council's improving management of vfm is being supported through service review, structural change, and a much more focused performance regime with better co-working between managers and councillors. The Council's leadership is focused on improving the ownership and culture of vfm, which at the time of our assessment remained mixed. Key issues for improvement are:
- achieve significant budget reductions, while aspiring to stronger service quality;
 - take robust action on recommendations from service and corporate reviews; and
 - establish a much more rigorous and comprehensive culture of vfm throughout the organisation, with:
 - strong focus on achieving high quality in the Council's priorities; and
 - improved community knowledge.

Looking ahead

- 43 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.
- 44 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.
- 45 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

- 46 This letter has been discussed and agreed with Chief Executive. A copy of the letter will be presented at the audit and governance committee on 23 April 2008. Copies need to be provided to all Council members.
- 47 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 2 Reports issued

Report	Date of issue
Audit plan	April 2006
Annual governance report	September 2007
Opinion on financial statements	October 2007
Use of resources conclusion	December 2007
Opinion report	October 2007
BVPP report	December 2007
Data quality report	January 2008
Cultural strategy workshop	June 2007
VFM challenge	January 2008
Citizen engagement and access to services	August 2007
Revenues and benefits follow-up	August 2007
Health Inequalities	February 2008
Cultural Services inspection	February 2008
Annual Audit and inspection Letter	March 2008

- 48 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

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

Maria Grindley
Relationship Manager

March 2008