

Annual Audit and Inspection Letter

London Borough of Hackney

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As an independent watchdog, we provide important information on the quality of public services. As a driving force for improvement in those services, we provide practical recommendations and spread best practice. As an independent auditor, we ensure that public services are good value for money and that public money is properly spent.

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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Our overall summary

- 1 This letter provides an overall summary of the Audit Commission's assessment of the Council. It draws on the findings and conclusions from the audit of the Council, from the Corporate Assessment and inspections that have been undertaken in the last year and from a wider analysis of the Council's performance and its improvement over the last year, as measured through the Comprehensive Performance Assessment (CPA) framework.
- 2 The letter is addressed to the Council, in particular it has been written for councillors, but is available as a public document for stakeholders, including members of the community served by the Council.
- 3 The main messages for the Council included in this report are:
 - the Council has moved to two-star status under the CPA framework and is improving well;
 - we issued an unqualified opinion on the Council's 2005/06 Accounts but a qualified value for money conclusion, due to weaknesses in the arrangements for delivering the functions of an audit committee during the year; and
 - improvements in service areas and the corporate centre have been recognised in recent inspection and review scores.

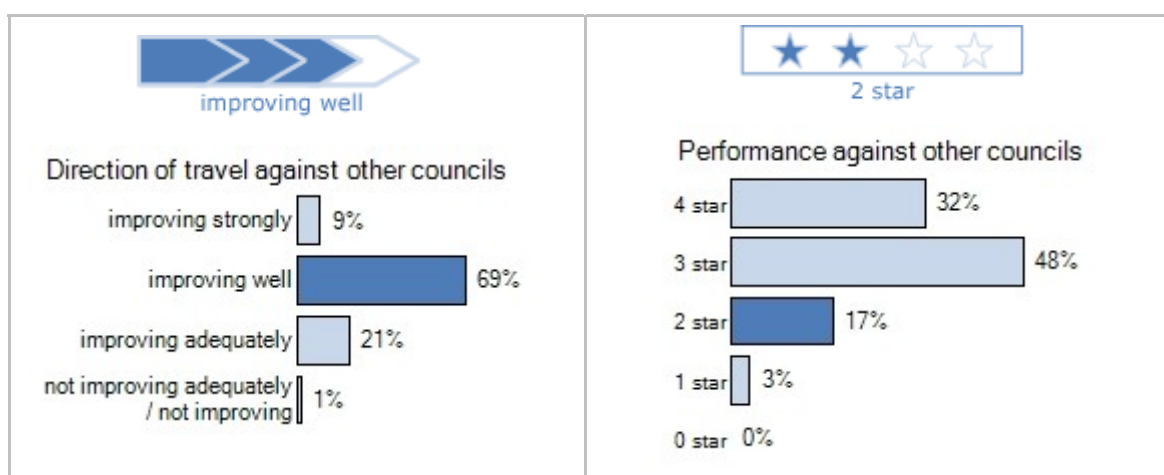
Action needed by the Council

- 4 The Council should:
 - implement the appropriate actions to address the improvement areas highlighted in the Corporate Assessment;
 - ensure arrangements for the audit committee are effective and embedded;
 - ensure there are appropriate monitoring and review processes in place to generate robust information for all performance indicators; and
 - take action to strengthen arrangements for demonstrating the effective use of resources as outlined in our assessment.

How is Hackney Council performing?

- 5 The Audit Commission's overall judgement is that Hackney Council is improving well and we have classified Hackney as two-star in its current level of performance under the Comprehensive Performance Assessment. We have completed these assessments in all single tier and county councils with the following results.

Table 1



Source: Audit Commission

- 6 The detailed assessment for Hackney Council is as follows.

Table 2 Our overall assessment – the CPA scorecard

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

(Note: 1 = lowest, 4 = highest)

The improvement since last year - our Direction of Travel report

Score 3 – Hackney is improving well

- 7 Hackney has established arrangements to support continued improvement and in some areas is among the fastest improving councils in the country. More than three quarters of performance indicators show improvement, but in a number of areas overall outcomes remain low in comparison to other local authorities, for example, the length of stay in bed and breakfast accommodation.
- 8 The Council has made good progress against its key priority areas. It has improved its services, including the cleanliness of streets. Hackney scored well in the 2006 review of services for children and young people and has provided effective community leadership which has increased civic pride in Hackney. Resident satisfaction and education performance are improving. The Council is making effective contributions to wider community outcomes, for example increasing recycling performance. The Service First programme is improving access to services.
- 9 Hackney can now continue to improve the way it works and the services it provides. It has increased its capacity to improve and there are no significant weaknesses in corporate governance. There are grounds for confidence that improvement will continue.

Corporate Assessment

- 10 The Corporate Assessment, completed in June 2006, awarded Hackney Council a score of two out of a possible four, concluding that overall, the Council was performing adequately. The assessment acknowledged the significant progress made in the past two years. It identified that the Council has recognised the long-term nature of its journey to improvement and worked hard through 'Team Hackney' to clearly define and communicate with partners its long-term vision. The assessment highlighted a number of strengths including:
 - the strong and effective community and managerial leadership demonstrated by the Mayor and Management Team respectively. As a result, the Council is well positioned to maximise the benefits of regional and national initiatives including the Olympics and housing developments;
 - the commitment to user focus and community consultation and general improvements in resident satisfaction of services;
 - there are some good examples of partnership work such as the multi-agency Safer Communities Partnership, work with the Learning Trust to develop Children's Trust arrangements and joint work with the local health trusts; and
 - the emphasis on delivering robust financial planning and control.

- 11 These arrangements have supported the delivery of improved outcomes. The Corporate Assessment also recommended further work in the following areas.
- While the Council's scrutiny function has improved it needs to develop further to challenge service performance.
 - Build on the good progress made in the Council's role as an employer by moving beyond level 1 of the equality standard for local government.
 - Embedding a culture of delivering value for money throughout the organisation, in particular, providing service managers with the capacity to assess the cost-effectiveness of the services they provide.
 - Putting in place the key systems that support improvement, including workforce planning and risk management.

Service inspections

- 12 In line with the principles of strategic regulation and the scope and depth of the Corporate Assessment, we have not conducted any service inspections this year. In March 2007, we will carry out an inspection of the outcomes delivered by the Arms Length Management Organisation for housing services and in summer 2007, we will inspect the Council's culture services.

Other inspectorates and regulators

- 13 An important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators who review and report on the Council's performance. Relationship Managers share information and seek to provide 'joined up' regulation to the Council. During the last year the Council has received the following assessments from other inspectorates.

Benefit Fraud Inspectorate (BFI)

- 14 The Council maintained its BFI assessment of providing a fair service (a CPA score of 2). However, it is one of only two London Borough councils assessed as fair or below. Although claims administration has improved from the previous year, the main reasons for the fair rating were the failure of the Council to visit its target number of claimants and the low level of data matches resolved within two months. The BFI assessment recognised that the Council has now put in place arrangements to achieve these targets.
- 15 We are aware that the Council has been successful in making improvements to its claims administration in the past year. It now has an average speed of processing new claims of 24.5 days compared with 54.6 days at the end of March 2006, well within the standard of 36 days. In addition, the average speed of processing change of circumstances has improved from 33.7 days to 15.5 days, although this is still outside the expected standard of nine days.

- 16 However, our audit work on the Council's 2005/06 Housing and Council Tax Benefit grant claim has identified a number of weaknesses in claims administration. We cover this in paragraph 33 of this report.

Ofsted/Commission for Social Care Inspection (CSCI)

Education and children's social care services

- 17 A Joint Area Review (JAR) of services for children and younger people was completed alongside the Council's Corporate Assessment. The JAR found that overall the Council and its partners are improving outcomes for children and young people in Hackney against a background of significant deprivation (a CPA score of 3).
- 18 The JAR found a coherent vision for improving outcomes for children and young people is set out in the community strategy for Hackney and is clearly reflected in the draft children and young people's plan. Partnership working is strong and there are challenging but realistic ambitions for children and young people supported by the move towards establishing a children's trust arrangement.
- 19 In addition, many services are improving outcomes for most children and young people. Almost all services in education are good and performance management arrangements are effective in identifying areas for improvement. Educational achievement has a high priority and standards are improving from a low base.

Adult social care services

- 20 CSCI's Annual Performance Assessment found that the Council achieved wide-ranging improvements to services, particularly those measured by the Department of Health Performance Assessment Framework (a CPA score of 3). Particular successes included the expansion of direct payments, but many other areas of performance were above those in similar authorities. These improvements represented a continuing steady shift in the balance of care towards a community-based service emphasising independence and choice.
- 21 The assessment also found that political and senior management leadership is strong, enabling the Community Services Directorate and Director of Adult Social Care to create the focus and capacity needed to progress the modernisation of adult social care across the Council.
- 22 The assessment also identified a number of improvement areas including:
- reducing the over-dependence on a small number of providers with only a limited presence within or near Hackney, especially for those with complex needs;
 - considering a joint commissioning-led review of services for people with learning disabilities; and
 - reducing the percentage of service users and staff whose ethnicity was not known.

Financial management and value for money

- 23 As your appointed auditor, I have reported separately to the Audit Committee on the issues arising from our 2005/06 audit and have provided:
- an unqualified opinion on your accounts and the Pension Fund;
 - a qualified conclusion on your value for money (vfm) arrangements; and
 - a report on the 2005/06 Best Value Performance Plan confirming that the Plan has been audited and the content complies with statutory requirements.

Accounts

- 24 The Council produced the accounts within deadline and at the June Audit sub-Committee Members approved them. Finance staff demonstrated a significant improvement in the quality and timeliness of supporting working papers since last year.
- 25 Our audit resulted in two material amendments which, although they did not have a net affect on the reported financial performance of the Council, affected the net cost of services. A number of other councils also made the error relating to fixed assets. The other source of error was the pension fund. We understand that for 2006/07, the Council has put in place arrangements to improve these aspects of its financial reporting.

VFM conclusion

- 26 We issued a qualified value for money conclusion relating to the Council's arrangements for maintaining a sound system of internal control. Specifically, we concluded that the Council did not have in place arrangements to deliver the core functions of an audit committee throughout 2005/06. The Council expects to deliver these core functions for 2006/07.

Data quality

- 27 Our work on data quality included a sample of 'spot-checks' on reported performance information. Our review of ten performance indicators found that only four had been fairly stated. Four indicators required amendment, one of which affected significantly the reported performance. Due to weaknesses in the Council's library stock management system, the correct performance could not be calculated for a further two indicators. Our work demonstrates that although the Council has adequate management arrangements in place to support data quality, it needs to improve monitoring and review processes to ensure that all performance information it generates is robust.

Use of resources

- 28 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).
- 29 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in these five areas as follows.

Table 3 Use of resources assessment

Element	Assessment (out of 4) 2005	Assessment (out of 4) 2006
Financial reporting	1	2
Financial management	2	2
Financial standing	2	3
Internal control	2	2
Value for money	2	2
Overall assessment of the Audit Commission	2	2

(Note: 1 = lowest, 4 = highest)

- 30 The Council has maintained its previous year's score. However, it has strengthened its arrangements across all five elements. The key issues arising from the audit, as reflected in the above judgements, are as follows.
- The quality of the financial statements and supporting working papers have significantly improved from the previous year.
 - Sound budget setting and financial management have been demonstrated for a number of years through the robust Medium Term Planning Forecast (MTPF) process.
 - Spending has been contained within budget for the last three years and the quality and frequency of reporting to Members is good.

- Debt collection continues to improve, although from a low base in some areas. The Council has done particularly well in collecting a significant proportion of sundry debtors.
 - The Council has started reporting a statement of reserves to Members. This provides supporting information for the intended use of existing reserves.
 - Ethical governance arrangements and culture are strong, with the Standards Committee in particular seen as being proactive.
 - The Council is focused on delivering investment in areas that are within its stated priorities and has already seen service improvement in areas where investment has taken place.
- 31** Moving forward, to strengthen existing arrangements, the Council needs to:
- ensure quality control arrangements produce financial statements free from material error;
 - communicate summary financial information in a format accessible to the public and other stakeholders;
 - develop the use of operational activity indicators that are lead indicators of spend;
 - build on its reserves reporting and develop a policy on its treatment of reserves including the criteria for establishing and reviewing reserves;
 - improve debt collection in areas of poor performance and continually monitor the cost of debt collection;
 - embed risk management within the Council's culture and day to day operations, including partnerships; and
 - embed the use of comparative cost and performance information to drive service delivery and development.
- 32** The Council continues to maintain a healthy level of reserves. It needs to build on the improvements already secured to its financial management arrangements. Through innovations such as the 'Best Use of Resources' projects it has the opportunity to ensure that Members and officers can increase their understanding of the impact of investment decisions on service performance and work toward demonstrating value for money.

Grant claims

- 33 The Council's arrangements for managing and quality assuring grant claims submitted for audit continue to improve. Our audit of the 2005/06 claims and returns is not yet complete and we are therefore not in a position to report the total number of claims subject to amendment or qualification. However, the work undertaken to date indicates ongoing improvement in performance. Although the overall picture is encouraging, there remain areas for improvement. Most notably, our work on the housing and council tax benefits claims continue to identify errors, which could lead to the department reducing significantly the subsidy recoverable by the Council.

Conclusion

- 34 We have discussed and agreed this letter with the Chief Executive. We will present a copy of the letter at the Cabinet and Audit Committee on 26 March 2007 and June 2007 respectively.
- 35 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.
- 36 An update on our fees is given in Appendix 1.

Availability of this letter

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

Jon Hayes

Relationship Manager and District Auditor

March 2007

Appendix 1 – Fee information

Table 4

Fee estimate	Plan 2005/06 (£)	Actual 2005/06 (£)
Accounts	412,000	412,000
Use of resources	149,000	149,000
Total Code of Audit Practice fee	561,000	561,000
Inspection	151,000	151,000
Grant claim certification*	265,000	265,000
Voluntary improvement work (under section 35):		
• raising ethical standards; and	12,000	12,000
• indicative pre-ALMO inspection	50,400	50,400
Total fee	1,039,400	1,039,400

**Our audit of the 2005/06 grant claims is currently in progress. The planned outturn fee represents a reduction on the fee for 2004/05, which was £275,000.*

- 1 The work reported in this Letter has been funded by an element of the fee covering 2005/06 and by an element of the fee covering 2006/07.