

Annual Audit and Inspection Letter

North Norfolk District Council

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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 report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the findings and conclusions from the audit of the Council and from any inspections that have been undertaken in the last year. The letter includes our review of how well the Council has progressed (our Direction of Travel report) and the auditor's assessment of how well the Council has managed its finances (the Use of Resources scores). These latter components will be an important feed into any future decision regarding the potential for a rescoring of the Council's Comprehensive Performance Assessment (CPA) category.
- 2 The report is addressed to the Council, in particular it has been written for councillors, but is available as a public document for stakeholders, including members of the community served by the Council.
- 3 The main messages for the Council included in this report are:
 - Both services and plans for improvement continue to improve. Priority services such as benefits, planning and recycling have significantly improved and are now performing well. Community engagement and partnership working continues to deliver community benefits. Local people are benefiting from more responsive and accessible services, although the Council is unsure of the extent to which all communities are experiencing improvement. Value for money, while remaining adequate overall, is improving.
 - The Council's good understanding of its improvement challenges now benefits from a thorough, robust and well-supported corporate and organisational development plan ('Changing Gear'). There has been some slippage because of capacity shortfalls, combined with a front-loaded and ambitious set of improvement targets. However, since April 2006 the leadership of the Council has provided a clearer direction, renewed vigour and an enthusiasm for change. This has given impetus to all in the Council to work together to improve services for local people. Some long-standing corporate weaknesses are now being addressed with increased pace. While capacity to maintain the pace of improvement remains stretched, the Council is actively managing shortfalls. Prospects for continued improvement therefore remain promising.
 - However, progress on addressing equalities and diversity issues has until recently, been 'poor' and current targets for improvement, in contrast to other areas in 'Changing Gear', are not stretching.
 - We issued an unqualified audit opinion on the 2005/06 financial statements and certified the completion of the audit.

- We concluded that, in all significant respects, the Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006, except for the failure to put arrangements in place to maintain a sound system of internal control and manage of its asset base. Our subsequent 2007 Use of Resources assessment indicates that many of these issues have now been addressed, although further work is needed in terms of ensuring that comprehensive procedure notes are available for all key financial systems.
- We assessed the Council as performing at level 2 in our 2007 Use of Resources assessment. This represents an adequate level of performance.

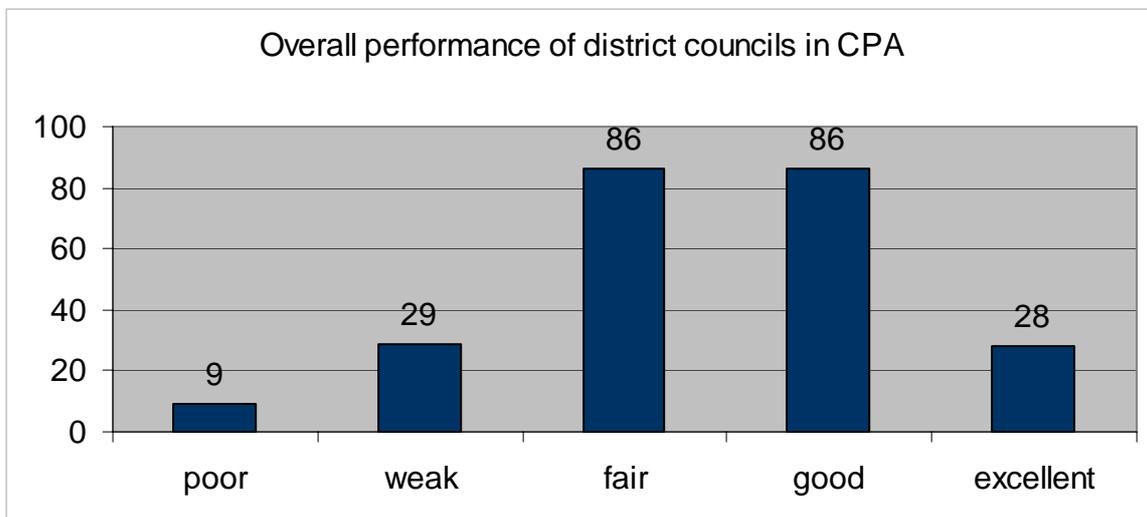
Action needed by the Council

- Continue to deliver the actions identified in your organisational development plan 'Changing Gear' and ensure that you have sufficient capacity to meet key milestones;
- focus on improving your approach to equality and diversity, ensuring that all local people are getting equal access to services;
- ensure that the recommendations made in the Appointed Auditor's Annual Governance Report are addressed; and
- address the issues necessary to further improve the Council's Use of Resources assessment.

How is North Norfolk District Council performing?

- 4 North Norfolk District Council was assessed as 'fair' in the Comprehensive Performance Assessment carried out in 2003. These assessments have been completed in all district councils and we are now starting to update 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

What evidence is there of the Council improving outcomes?

- 5 In 2005/06 the Council improved 65 per cent of its performance indicators (PIs), which was above the 58 per cent average for district councils. The number of PIs among the best performing 25 per cent of councils is slightly above average at 32 per cent. 2006/07 has seen this strong improvement trend continue. At the end of the third quarter, key improvement priorities such as benefits, planning, and waste management were all performing well. Progress on private sector housing is more mixed. Affordable housing completions are above target and better prevention work has resulted in a significant drop in the number of homeless people, and fewer are in temporary accommodation. However, until recently, progress has been slow on implementing the housing strategy improvement plan, particularly in addressing equality issues, and on improving the number of private houses brought up to a decent standard.
- 6 Recent community research has identified employment and training, and leisure as added priorities. A North Norfolk Business Forum and the Skills Forum are in place to help strengthen the local economy and better target learning and skills to employees needs but it is too early to gauge the impact of this work. Our inspection of leisure in 2006 resulted in a 'fair' service with promising prospects for improvement. Since then internal management arrangements have been overhauled and a review of delivery arrangements for the service started. But delivery of the improvement plan agreed after the inspection is behind target. The Council envisages that significant progress will not be made until the new cultural services manager is in post in March 2007.
- 7 The Council continues to work hard to contribute to wider community outcomes. Community and democratic engagement is being strengthened through area forums, 'candi-dating'¹ and a Norfolk communities grants fund set up with the Norfolk Community Foundation, to allocate community development grants. The Council has worked through the local strategic partnership to develop its seven evolving local area partnerships and tie these structures in with the safer communities' teams. Benefits emerging from this work include successful use of CCTV in tackling anti-social behaviour, and setting up the theatre wardrobe social enterprise project and the Mo community resources centre at Sheringham.

¹ A quick fire interview method to enable residents to get to know their local councillors better, based on a 'speed-dating' concept

- 8 Access to and the quality of services is improving but the Council is not in a good position to evidence how far its services are meeting the needs of all its communities. As highlighted in our 2006 work on electronic government, electronic access to services is good and improving, web-site links to other public bodies are seamless and customer contact points are responsive. Increasing use is made of INTRAN, a translation and interpretation service. Consultation increasingly ensures plans for improving access reflects local need such as locating travellers sites, the mobile gym and the benefits home visits and advice team. Reports and policy developments now routinely address equality issues. Work carried out under the nine organisational development themes is raising issues of access and equality of delivery across all services. Work on the local development framework (LDF) has challenged discriminatory behaviour over finding travellers' sites head on.
- 9 However, the Council recognises progress on equalities issues, until recently, has been poor, although work has been undertaken across the organisation regarding disabilities and preparation for the introduction of a gender equality scheme in April 2007. For example, it has been slow to address equality-based recommendations from various external reports. The public has little appreciation of what standards of services it can expect from the Council or how well it performs against them. The Council remains at equality standard level one, and expects to reach level three during 2008. As of January 2007, services have undertaken no equality impact assessments. Reports on performance carry little analysis of the equity of service provision. Analysis of services' contact with users and use of complaints to inform service design and delivery is underdeveloped. 'Changing Gear' seeks to address these issues but improvement work is at an early stage. However, the Council is aware of the need to invest in this area and recognises that it must close the gap to ensure that performance matches other corporate improvements.
- 10 Value for money (VfM) remains satisfactory overall and is improving adequately. Costs remain comparatively low while service quality and customer satisfaction is improving and complaints falling. Low costs and high delivery in some services such as planning and waste management represent good value for money. Efficiency targets are being exceeded. Resource allocation is being tied ever closer to the delivery of corporate priorities such affordable housing. The Council is now debt free and a new approach to asset management is aligning its use of assets to the delivery of corporate priorities. Work to improve procurement and embrace shared services offers scope to increase capacity and optimise VfM over the next few years.

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

- 11** The Council's good understanding of its improvement challenges, now benefits from a thorough, robust, well-supported organisational development plan. However, capacity is stretched and in part, dependent upon business process re-engineering delivering efficiencies to provide resources to support the action plan. 'Changing Gear' provides a clear and researched based set of priorities and a thorough and stretching set of targets to improve services for local people. This SMART nine-theme plan seeks to improve the governance of the Council, integrate and improve customer services and deliver process efficiencies. It also seeks to get the best from its partnerships, its staff, its communication and branding of services with the public. Management boards are in place to ensure delivery. With mechanisms to track implementation of external audit and inspection reports, this plan provides a firm foundation on which to sustain improvement.
- 12** Service based improvement planning is delivering better services to local people. With some exceptions, such as paying invoices, delegation of planning decisions, staff sickness and delivery of business support, improvement planning is delivering to target. This is in part because of the good work the Council has put in to improve its line management of staff, individual objective setting, performance reporting and service planning. The organisational development plan is largely on track, with lack of progress in certain areas such as business process review and customer service integration being mostly down to unavoidable delayed recruitment of key staff. Follow up work undertaken by the Audit Commission during the early part of 2007 highlighted the good progress the Council is now making to improve procurement, risk management, performance management and secure greater benefit from its partnership working.
- 13** Capacity to deliver the Council's plans remains stretched as delivery of 'Changing Gear' requires a significant amount of work delivered in the first year of the three-year plan. However, while staff feel stretched they also feel motivated, well-supported and clear about what needs to be done. New staff, a dynamic corporate management team (CMT), an empowered third tier management group, and focused senior councillors, have brought an enthusiasm, vigour and 'can do' attitude to the delivery of 'Changing Gear'. A thorough, well-thought-out and resourced people strategy that covers councillors and staff, seeks to support everyone delivering the plan.
- 14** In order to ensure it has the capacity deliver its ambitions the Council seeks to secure benefits from joint working with other councils, find suitable partners agencies for shared services and projects and deliver its internal efficiencies. This is a testing challenge but one the Council is positioning itself to achieve. Therefore, while slippage on milestones may continue, the prospects for delivery of the objectives in 'Changing Gear' remain promising.

Service inspections

15 An inspection of the Council's approach to cultural services took place in early 2006 and the report was published in June 2006. The Audit Commission findings were as follows:

- North Norfolk District Council provided 'fair' cultural services which had 'promising' prospects for improvement.
- The Council supported and directly provided a range of cultural services which enhance the quality of life for local people. Service delivery was based on a broad understanding of local needs and was responsive to requests for support for community initiatives. However, equality and diversity were insufficiently taken into account in the design and delivery of services.
- There has been effective community engagement in major projects and feedback is used appropriately to improve services within some facilities but this approach was not consistent and co-ordinated across all cultural services and there has been insufficient use of available information to tailor services to the needs of all groups within the whole community.
- Performance management was at an early stage, but being progressively introduced although this was hampered by the absence of clear strategic priorities for cultural services. Service planning was generally weak with the exception of the arts and the new 'active communities' plans which included measurable targets and some expected outcomes.
- There was some information on costs but this was not used with evaluation of service quality or outcomes to monitor the value for money being achieved. The Council was not consistently achieving value for money across all services, but had delivered on major capital projects that enhanced cultural service provision and appropriate action was taken to ensure value for money from these investments and from contracted out services.
- There was cross-party support for cultural services and acknowledgement of the importance of these services in the delivery of corporate objectives. Cultural services featured strongly in budget prioritisation and appropriate resources were in place to enable the delivery of service plans.
- The Council was seeking to improve its enabling role, and by working effectively in partnerships and encouraging community involvement, increase its capacity to promote and support cultural services.
- As reported earlier in this letter, progress on planned improvements has been slow and is unlikely to begin in earnest until the new cultural services manager is in post.

Performance Reviews

16 North Norfolk District Council took part in a Norfolk-wide review of E-Government and Customer Access during 2006. The review sought to better understand the complexity of electronic service delivery and access to services across Norfolk, and to gain assurance that improved access to services and efficiency gains were being delivered. It found:

- the Council is reviewing and re-engineering all Council business processes;
- in October 2006 the Council approved the business case for implementing a customer service integration project that will include a contact centre;
- there is some close partnership working on customer access provision through, for example, the customer information centre, Fakenham Connect and a walk-in centre operated in partnership with Norfolk County Council; and
- the Norfolk Connect Partnership (of which the Council is a member), has clear objectives and has delivered a number of projects since it began in 2001, for example the Norfolk Connect on-line portal benefited from Partnership strategic procurement decisions.

However:

- at the time of the review the Partnership lacked a clear direction and had suffered from a loss of impetus; and
- overall, there have been missed opportunities to develop and procure joint customer access related systems or solutions, which may have offered improved customer services and efficiency possibilities.

A number of joint recommendations were made to enhance Norfolk-wide customer access and improve outcomes and value for money across the Norfolk Connect Partnership. Members should note and consider the recommendations from these reports.

Financial management and value for money

- 17 Your appointed auditor has reported separately to you on the issues arising from the 2005/06 audit and has provided:
- an unqualified opinion on your accounts;
 - a conclusion on your value for money arrangements to say that these arrangements are adequate for the year ending 31 March 2006 except for:
 - the failure to put in place arrangements to maintain a sound system of internal control; and
 - the failure to put in place arrangements for the management of its asset base.
 - a report on the Best Value Performance Plan confirming that the Plan has been audited.
- 18 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).
- 19 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	2
Financial management	2
Financial standing	3
Internal control	2
Value for money	2

Element	Assessment
Overall assessment of the Audit Commission	2 out of 4

(Note: 1=lowest, 4=highest)

- 20** The key issues arising from the audit, as reflected in the above judgements where appropriate, are described in the following paragraphs.
- 21** Overall the Council has achieved a level 2 score for its use of resources, which is consistent with the previous year's score and represents an adequate level of performance. We have assessed that performance over the past year has been maintained for financial reporting, financial management and value for money. However, the Council has shown an overall improvement in its financial standing and internal control arrangements.
- 22** Financial standing has improved sufficiently to reach a level 3 score. Improvements have been observed in the consideration of the risks impacting on reserve levels, in part due to improved risk management arrangements overall, and by further strengthening the arrangements for monitoring and recovery of debts. However, the arrangements should be further embedded and improved particularly in terms of the transparency of the risk assessment set out within the Council's medium-term financial strategy (MTFS), and the inclusion of the potential impact of forecast budget gaps on reserves.
- 23** The improved risk management arrangements have been the primary driver of the move to an adequate overall assessment for internal control arrangements. However, the arrangements in place to maintain a sound system of internal control, which forms part of the overall assessment, are not yet considered adequate and require further improvement. The Council needs to ensure that comprehensive procedure notes are available for all key financial systems, an issue acknowledged in the Council's 2005/06 Statement on Internal Control. The Council also needs to develop and review its business continuity plan and ensure that it has appropriate governance arrangements in place for its significant partnerships. These are recognised and incorporated within the Council's improvement plan.
- 24** The financial reporting assessment is predominantly determined by criteria relating to the annual financial statements. Relevant comments were reported in the Annual Governance Report, prior to the issue of our 2005/06 audit opinion. Whilst performance is adequate, there remains scope for further improvement in qualitative aspects of the financial statements, and in the preparation of working papers for the annual audit, and we are continuing to work with the finance staff through the year to assist in bringing this about. Further action should be taken to promote external accountability through consulting stakeholders regarding their requirements in respect of the publication of summary accounts and producing an annual report. Summary financial information that meets the needs of a range of stakeholders should be published.

- 25 Whilst financial management remains adequate overall we have noted improvements in the way the Council's MTFS, budgets and capital programme are based and designed to deliver its strategic priorities. The Council has made progress in updating a number of strategies which has informed the MTFS development process, although the linkages could be made clearer within the MTFS itself. The production of project appraisals, business plans and affordability tests for new policy and capital developments have shown marked development. However the Council needs to do more to actively communicate the key messages from the MTFS to staff and stakeholders.
- 26 There have been significant developments in asset management during 2006, which had previously been assessed as inadequate. A new department has taken responsibility for asset management and a new capital strategy and asset management plan have been completed. The Asset Management Board, which includes councillor representation, became operational in March 2006. These developments have resulted in our assessment of the arrangements as adequate. The Council now needs to further develop and embed these relatively new arrangements to be assessed as performing well in this area.
- 27 Our Direction of Travel assessment, which is included earlier in this letter, has indicated areas of improvement which influenced our assessment of the value for money (VfM) theme.
- 28 The Council has relatively low council tax and spend levels with generally improving performance indicators. Service standards are clear. It is investing in what are seen as priority issues, and its MTFS and corporate strategy are aligned to the agreed community strategy. There is an awareness of factors affecting costs such as rural and coastal nature of the area and there is close monitoring of spending by the Performance and Risk Board and Cabinet. The Council has established a process for submission of the Annual Efficiency Statement with required checks and authorisations. The Council's ongoing business process review is aimed at embedding a culture of VfM throughout the organisation.
- 29 There is a need to improve cost comparisons with other councils and develop integrated monitoring of costs and performance, through implementation of the performance management framework. There has only been limited use of benchmarking to enable comparison of the cost and effectiveness of services compared to others to date. There is also a need to assess a baseline and monitor progress of performance in partnerships to ensure that partnerships are improving value for money. Modern procurement practices need further development and implementation, although good progress is being made. The achievement of efficiency initiatives has been inconsistent although overall the Council has exceeded its target.

Conclusion

- 30 This letter has been discussed and agreed with the Chief Executive and Strategic Director, Resources. A copy of the letter will be presented at the open meeting for councillors on 2 April 2007.
- 31 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 their assistance and co-operation.

Availability of this letter

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

Sue Jewkes
Relationship Manager