

Annual Audit and Inspection Letter

Isle of Wight Council

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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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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, from the Corporate Assessment 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 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 Council has made good progress over the past year. In response to the corporate assessment and joint area review of children services, the Council has developed robust improvement plans and their delivery is on track. Capacity and leadership have been strengthened and there is already evidence of positive outcomes in many service areas although there are still significant issues to be addressed in key Council priorities. Arrangements for securing effective use of resources have also improved and performance management in particular is now more embedded.
- 4 The Island's fire and rescue service has made good progress since its Comprehensive Performance Assessment in 2005 which identified its performance as poor. Work is continuing with activities and plans clearly focused on developing capacity and delivering further improvements.
- 5 During the year the Council has emerged from a period of transition to a position of relative strength; well placed to take forward a challenging improvement programme with confidence and with a clear commitment to raising the level of public confidence in the services it provides. Recent action by the Council to develop the effectiveness of its workforce through a range of training initiatives, consultation and engagement with its staff is an important step towards improving its overall performance.
- 6 This letter includes criticism of the Council on two issues relating to severance and procurement where failings in governance are currently being addressed.
- 7 The headline messages for the Council included in this report which require specific attention on the part of Members are as follows.
 - The Council needs to ensure that it remains focused on a measured and monitored implementation of corporate priorities and that its work streams are well co-ordinated and effectively project managed to ensure that planned outcomes are delivered.
 - Arrangements for securing effective use of resources have improved during the year and work needs to continue to ensure these arrangements are firmly embedded within the organisation.

- Governance arrangements need to be strengthened particularly in respect of the Council's decision making processes to ensure accountability and transparency.
- Procurement is not yet co-ordinated at a strategic level and the Council's procurement provision remains devolved, with local differences in practice.
- The arrangement with a third party for engineering work at Undercliff Drive needs to be addressed with urgency to ensure that a proper contractual arrangement is in place.
- The Council's arrangements do not provide adequate assurance over the quality of its performance data as data quality systems and processes are not being applied to a consistent standard across the organisation.

Action needed by the Council

Recommendations

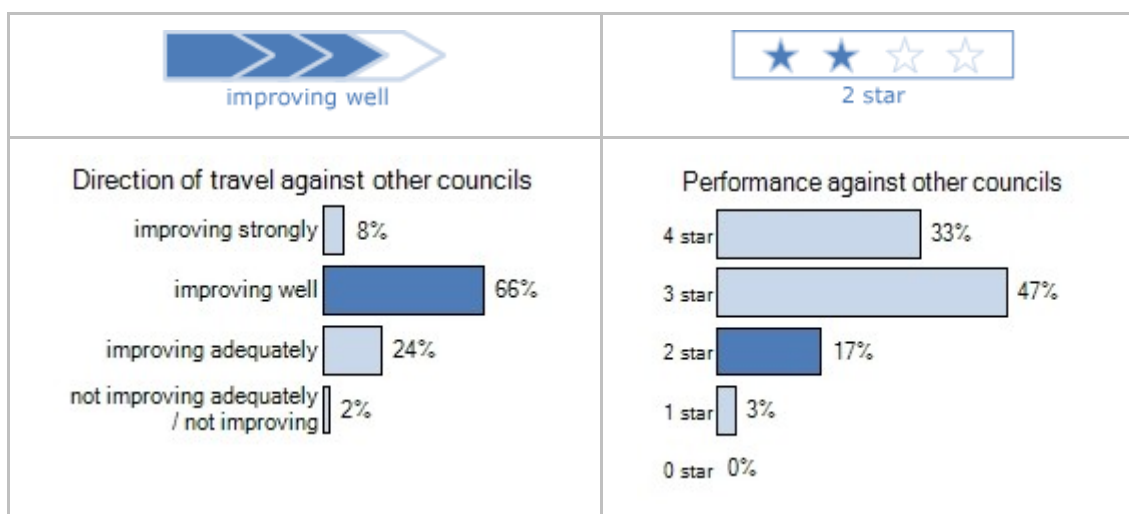
- 8 The following recommendations are presented for the attention of members.

Recommendations
<i>R1 Monitor delivery of the Council's action plan to ensure that improvements supporting the effective use of resources are implemented and embedded.</i>
<i>R2 Arrangements for ensuring the quality of performance data should be improved.</i>
<i>R3 The recommended improvements to processes relating to severance issues highlighted in my letter, which have yet to be addressed, should be formally implemented as soon as possible.</i>
<i>R4 The Council needs to develop a more strategic approach to procurement which improves the overall co-ordination of the process.</i>
<i>R5 Arrangements in respect of engineering works at the Undercliff Drive must be put on a proper legal basis as a matter of urgency and action taken to demonstrate competitiveness and risk management in relation to these ongoing contracting arrangements.</i>

How is Isle of Wight Council performing?

- 9 The Audit Commission’s overall judgement is that Isle of Wight Council is improving well and we have classified Isle of Wight Council as two-star in its current level of performance under the Comprehensive Performance Assessment. These assessments have been completed in all single tier and county councils with the following results.

Table 1



Source: Audit Commission

- 10 The detailed assessment for Isle of Wight Council is as follows.

Our overall assessment - the CPA scorecard

Table 2 CPA scorecard

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

Element	Assessment
Fire (relevant County Councils only)	2 out of 4
Corporate assessment/capacity to improve	2 out of 4

(Note: 1 = lowest, 4 = highest)

The improvement since last year - our Direction of Travel report

- 11 The Audit Commission carried out a Corporate Assessment of the Council last year. Following this, our annual Direction of Travel statement shows that the Council has made improvements to outcomes last year although there remain areas of under performance that have still to be addressed.
- 12 The Council has a track record of improvement in priority services such as adult social care services, planning, library services, housing benefits and homelessness and has made some contributions to wider community outcomes including better and more timely community consultation and engagement, serving its diverse communities better and increasing employment through developing partnership arrangements and opportunities. The Council is also providing value for money in many of the services it provides and has identified substantial annual efficiency savings.
- 13 However, there are still significant issues to be addressed in key council priorities; the Council's contribution to the education of children and young people is improving from a low base but remains well below performance outcomes nationally. The use of public transport has increased, but the condition of roads is poor and traffic congestion remains a concern. The recent residents' survey indicated that 46 per cent of local people were satisfied with the Council. This compares with 51 per cent when the survey was last done three years ago. Although this is a worsening in the position it is an improvement over the national trend.
- 14 My previous letter expressed concerns that the radical change in corporate leadership and senior management risked having a negative impact on delivery of services. Despite the focus on change which has dominated the Council's agenda over the past year this has not been the case. There is now the opportunity for stability and a focus on maximising the capacity in order to deliver planned improvements in line with the clearly stated ambition.

Service improvement

- 15 The Council has continued to deliver improvements in services during 2005/06. 40 per cent of indicators are in the top quartile of performance which is significantly above the average single tier council. The improvement analysis shows that 55 per cent of indicators improved during the year compared to 67 per cent last year. Around 21 per cent of indicators are in the bottom quartile of authorities compared to 18 per cent last year.

- 16 The Council has focused on priority areas such as education but outcomes have been mixed. We have identified measurable improvements in some key areas but there are areas where improvement or sustainable benefits to the community are yet to be demonstrated.
- 17 Performance in the provision of services for children, a key council priority, is judged to be adequate but considerable improvement is still needed. Children are well prepared for school and attainment at age seven is above the national average but this position is not maintained as children progress along the educational pathway and key stage 2 Maths and English and 'A' to 'C' GCSE results for 2006 remain in the bottom quartile. The Council is improving faster than the national average albeit from a low baseline. For example 1.9 per cent more children gained level 'A' to 'C' GCSE passes in 2006 than in the previous year.
- 18 Further improvements are evident in the Council's housing benefits service which was assessed by BFI as excellent in 2005/06. A new IT system for monitoring performance against the best value performance indicators was introduced with targets set at achieving upper quartile performance. Some indicators at the end of 2005/06 show areas of under performance but these have improved in the current year.
- 19 The Council's performance in Adult Services has continued to be very good in some important areas such as preventing delays in discharge from hospital and the timeliness of assessments. Improvements in the equipment and adaptation service have resulted in 91 per cent of requests being delivered within seven days. Adult Services have also developed a successful direct payments scheme with take up rising by 50 per cent in 2005/06. This puts the Council in the top 10 per cent performance in the country for levels of Direct Payments per 1,000 population and has lowered the cost of residential or home care. Performance management processes need to be improved still further to ensure that the quality of data is robust.
- 20 The Council maintains its good track record on waste management and continues to show improvement in the level of waste recycled or composted, with performance in the best quartile. The Planning Service has also continued to improve its performance in processing planning applications within eight weeks (81 per cent in 2005/06 compared with 60 per cent in the previous year). Performance in processing other applications similarly has improved from 88 per cent to 92 per cent with a marginal deterioration in the time to process major planning applications.
- 21 There has been an improvement in the number of households in temporary accommodation with performance now in the third quartile. The re-configuration of the homelessness team has improved performance in the average length of stay in B&B accommodation (to the second quartile) and the average length of stay in hostel accommodation to the top quartile.

- 22 Given the poor condition of Island roads and the need for substantial investment to address backlog maintenance and generate improvement, highways is a key priority area. The Council has bid for PFI funding to enable the necessary repair programme to be achieved. The outcomes of this are not yet assured and a contingency plan is recommended should the submission be unsuccessful.
- 23 The Council's Library Service has shown marked improvement since its two-star assessment in 2003. Following restructuring to meet market needs and the introduction of more robust performance and quality processes, it was assessed as a three-star service in 2005. An increased investment in stock and streamlined stock supply chain has resulted in an improved upper quartile performance.
- 24 In 2005, the Fire and Rescue Service received a 'poor' Corporate Performance Assessment rating. Since then the service has subsequently undergone significant restructuring and progress has been monitored regularly by the Council and external agencies. The Council is currently consulting island residents on the option of merger or collaboration with the Hampshire Fire and Rescue Service.

Contributions to the wider community

- 25 The Council is firmly committed to its community leadership role, playing a key part in streamlining the Local Strategic Partnership and working with major partners to deliver the Local Area Agreement targets and develop common objectives. It has a track record of increasing capacity through partnership working, most notably with health partners, through the developing Children's Trust, through economic development and investment, and with the Police.
- 26 In response to identified resident priorities, the Council has secured the provision of five Community Support Officers, to enforce environmental crime issues, and introduced initiatives to reduce levels of damage to vehicles and street violence. The introduction of the single non-emergency number for the public to report low-level anti-social behaviour and community crime has resulted in 350 reported and closed cases in the last six months. Although CDRP statistics indicate that thefts of and from motor vehicles have marginally increased, performance is still in the top quartile.
- 27 The Council takes consultation with the public seriously and has undertaken a comprehensive resident survey to ensure that communities have a real voice in shaping and improving services and their delivery. The key message from this survey is that the Council needs to improve its reputation amongst local residents and there is evidence of a strong commitment on the part of the Council to address these concerns. There has also been improved engagement with town and parish councils and the voluntary sector.

- 28 The results of the recent residents survey has indicated improved satisfaction with public transport which correlates with a significant increase in bus usage. However, there is a clear perception on the part of residents that the Council could do better. There remain significant problems with anti-social behaviour and environmental issues. Fear of crime reflects current crime statistics with domestic burglaries increasing by 2.1 per cent and violence against the person by 3.8 per cent, remaining in the worst quartile.

Improvements to both access and quality of service for all citizens

- 29 The Council is improving its approach to service users and embracing diversity in its population. It has made practical improvements so that 99 per cent of its interactions with the public are now capable of electronic service delivery, and now 65 per cent of calls are dealt with at first point of contact as compared with 53 per cent last year. Access to services has been enhanced through extended opening hours and the number of one-stop shops at council front offices, libraries and leisure centres is offering convenient local access across the Island. Extended payment options are also available. The Council has improved and updated its web site, and its residents' newsletter is seen as an example of good practice.
- 30 The Council has made solid progress on equality issues. It has a comprehensive equality plan and has undertaken training for councillors, officers and partners. It has achieved level 2 of the equality standard and is taking concerted steps to achieve raise standards further. It is exceeding the basic requirement to carry out impact assessments for race equality in all its services, extending this to cover all aspects of diversity.

Value for money

- 31 We reviewed the Councils arrangements for value for money during 2006 and concluded that they were adequate. Information on short and long term costs is now being collected and services are required to provide evidence of cost comparison. Councillors and managers are beginning to routinely review and challenge the cost of services through the Service Board and Star Chamber processes and the inclusion of more robust financial data in service plans. The Council uses benchmark costs against quality of service and in some areas lower cost services are achieving are good performance – eg street cleaning, recycling and adult social care.
- 32 A VFM framework and improvement plan is being developed which, when in place will more closely align service delivery; performance and cost but until this is embedded this correlation is not explicit in all cases. At present target-setting and tracking performance via the new performance management framework are at the early stages of development and the systematic establishment of corporate and service targets for VFM is embryonic, although the intentions to develop these are clearly stated.

- 33 The costs of all strategies are being reflected within the MTFP; and as the new performance management arrangements have only just been established there is not yet a proven track record for monitoring performance against VFM targets. Nevertheless, there has been good progress since our assessment last year and the Council's response is well documented in its improvement plan. The forthcoming new asset management strategy should provide a sound basis for delivering tangible improvements in the use of building resources in the short and long term and in partnership with others.

Improvement plans to sustain future improvement

- 34 The Council continues to make a high level of investment in the improvement agenda and in building capacity to meet current and future aspirations. The Council has radically overhauled its strategic planning framework to address shortcomings and sustain future improvements through effective performance management. The Corporate Plan sets out clear corporate objectives with prioritised outcomes, success criteria and action plans. Programmes to focus on customer needs and organisational development are about to be put in place.
- 35 Strong member support for the new strategic direction is evidenced by their commitment of £300,000 to underpin the organisational development programme for key middle managers and using external expertise.
- 36 The Corporate Plan is given further focus through identifying the 12 key cross-cutting priority projects which will be co-ordinated corporately. To ensure that this programme delivers against its targets there will be a renewed emphasis on management skills for managers throughout the authority.
- 37 A new corporate management team has now been put in place; all directors will be in post shortly and remaining Heads of Service are expected to be in place by early 2007. There has been a re-focusing of leadership at senior manager level, with action being taken to win the hearts and minds of managers and staff and an acknowledgement of the need to strengthen the workforce through an improved competency and performance appraisal framework. It is now very important that there is a measured and monitored implementation of corporate priorities that focuses on clear outcomes.

Fire and Rescue Service

- 38 The Council's fire and rescue service is improving well.
- 39 Isle of Wight Fire and Rescue Service has made good progress since its Comprehensive Performance Assessment in 2005 which identified its performance as 'poor'. The Authority developed an improvement plan which has demonstrated tangible and sustainable outcomes, especially in evolving robust risk and performance management, and developing strong partnership arrangements to enhance capacity and deliver community outcomes. All plans are now integrated and aligned effectively with corporate objectives and the wider community strategy.

- 40 The Authority has been rated as 'performing adequately' by the recent Operational Assessment of Service Delivery. The report recognised the effect of the Service restructure in providing strong leadership and political support and in securing good performance in key indicators such as reducing primary fire and preventing deaths and injuries from fire-related incidents, with 71 per cent of indicators now being among the best performing nationally. The Service was found to be performing adequately in terms of Risk Analysis, Prevention and Protection Services, Call Management and Incident support. However, it also commented that the restructure had a detrimental impact on service delivery in key areas as operational preparedness and emergency responses. The Service has already implemented action plans to drive through improvement in these areas.
- 41 The Service is now using a robust strategic partnership framework to build on previous successes in working with partners in the community and with other fire authorities. It has diverted resources from intervention to prevention activities, such as home fire safety checks, arson reduction schemes, LIFE and young fire fighter programmes and co-responder initiatives. These continue to have a notable impact on engagement with young people and high risk groups and address key areas for the wider community, such as fear of crime and anti-social behaviour. There is still more work to do in addressing equalities and diversity within the service.
- 42 Isle of Wight Fire and Rescue Service is now using financial management as the principal enabler for achieving its strategic objectives and in delivering an effective service to the community. The demographic profile and island location of the Service has contributed to the costs per head of population being the most expensive nationally. However, the Service has already driven down costs per head from £48.33 to £46.47 over the last year and is concentrating its efforts to secure robust value for money by promoting and using partnership working to increase capacity. The Service has developed a new six year medium-term financial strategy which has led to the Service securing efficiency savings of £300,000 over 2005/06. There is a better understanding of the relationship between costs and quality of service. Benchmarking is developing and effective performance management and challenge is provided through the Council's Star Chamber and Policy Commission. The Service recognises that further work is needed to ensure closer links between financial planning and outcomes.
- 43 The Authority is self-aware of capacity issues and is improving its capacity to deliver its objectives through better corporate support and partnership working. For example, work in progress on developing capacity includes a number of options for joint working. The Service has reinvested recent efficiency savings into the establishment of a full-time HR professional dedicated to embedding robust personal development and training. Managers are now fully aware of their responsibilities and Members are better engaged in decision-making processes.

- 44 The Service has made considerable strides in making itself fit for purpose and in delivering a modernised service. It has embraced the need to deliver against its improvement plan and made tangible improvements in developing a robust and integrated approach to risk and performance management, engaging with staff and its communities and addressing issues of capacity through partnership working. It recognises that there are still major areas for improvement and has acted promptly to implement action plans that have clear outcomes and that are regularly monitored and reported.

Service inspections

- 45 The Audit Commission has not undertaken any service inspections during the year owing to the fact that the Council participated in a full corporate assessment during the period, which was reported separately. However, an important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators who also review and report on the council's performance. Relationship Managers share information and seek to provide 'joined up' regulation to the Council.
- 46 During the last year the Council has received the following assessments from other inspectorates.

Table 3 Results of assessments/inspections 2006

Other inspectors and regulators	Service	Performance
Joint area review of children's services	Education	The work of all services in helping children to enjoy their education and to achieve well is inadequate.
Joint area review of children's services	Children's Social care services	Outcomes for children and young people are generally adequate or better. Children and young people appear safe.
Commission for Social Care Inspection	Adult social services	Performance continues to be very good in some important areas.
Benefit Fraud Inspectorate	Housing benefits	Improvement has been sustained and the service is now rated as excellent.

Source: Other regulator reports

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- 47** We have drawn on these assessments where appropriate to supplement our own work and inform our judgements about the Council's arrangements. More detailed commentary where appropriate is incorporated in other parts of this letter.

Financial management and value for money

- 48 As your appointed auditor I have reported separately to the Audit Committee representing those charged with governance on the issues arising from our 2005/06 audit and have provided:
- an unqualified opinion on your accounts;
 - a conclusion on your vfm arrangements to say that these arrangements are adequate with the exception of two areas; and
 - a report on the Best Value Performance Plan confirming that the Plan has been audited.
- 49 The issues that I wish to highlight from the audit are set out below.

Use of resources judgements

- 50 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).
- 51 For the purposes of the CPA I have assessed the Council's arrangements for use of resources in these five areas as per Table 4. The Council's integrated fire and rescue service has received separate assessments of its arrangements for the use of resources and these are also shown overleaf.

Table 4

Element	Assessment	Assessment
	Council	Fire and rescue
Financial reporting	3 out of 4	3 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	2 out of 4	2 out of 4
Overall assessment of the Audit Commission	2 out of 4	2 out of 4

(Note: 1 = lowest, 4 = highest)

- 52 The assessment shows an improvement in relation to Financial Reporting, Financial Management and Financial Standing compared to 2005, although this was insufficient to impact on the overall assessment.
- 53 There was no fire and rescue service use of resources assessment in 2006. However, in relation to the current year’s judgements the fire and rescue service exhibited stronger arrangements in some themes than was evident across the Council as a whole; in particular budgetary control; risk management and engagement with partners and these are referred to in the preceding Direction of Travel section of this letter. Despite these pockets of good practice within the fire and rescue service, the overall scores for the service are consistent with the Council assessment because of their dependency on corporate arrangements.
- 54 The key issues arising from the audit, as reflected in the above judgements where appropriate, are as follows.

Financial reporting

- 55 Accuracy, openness and accountability are areas where the Council has been strengthening its arrangements in recent years, and the Council is now performing well on financial reporting.

Financial management

- 56 Budget setting and day to day budgetary monitoring are sound and the Council has a good track record of managing its performance against budget The Council is developing its approach to medium term financial planning which has improved since last year.

- 57 The Council now has in place plans to improve the management of its asset base which were not in evidence last year. The challenge now facing the Council is the delivery of these plans to action to ensure better utilisation of its assets in the future. As these plans unfold there will be a need for the development of local performance measures that evaluate asset use in relation to corporate objectives and value for money criteria.

Financial standing

- 58 The Council's financial standing remains sound and its prospects of delivering its budget in 2006/07 are good. A review of the Council's policy on reserves and balances has been undertaken since our last assessment which provides a closer link with the medium term financial strategy.

Internal control

- 59 Since the last assessment the Council has significantly improved its performance in relation to the requirement to maintain a sound system of internal control in two key areas; arrangements for preparing the Statement of Internal Control and in the developing role of the Audit Committee, both of which score highly in my assessment this year. Particular mention needs to be given to the arrangements underpinning the Statement of Internal Control which I have identified as an example of 'notable' practice.
- 60 However, the Council's control environment was compromised by significant weaknesses in governance arrangements and decision making processes. I report more fully on these issues later in this letter.

Recommendation

R6 Monitor the delivery of the Council's action plan to ensure that improvements supporting the effective use of resources are implemented and embedded.

Value for money and data quality

- 61 My conclusion on the Council's arrangements for securing value for money in the use of resources was qualified last year because the Council did not have in place arrangements to monitor the quality of its published performance information. In addition I reported concerns about the management of the Council's asset base and limited progress in developing the Council's performance management arrangements.
- 62 From my more recent work I am pleased to report progress on the part of the Council in relation to its arrangements for managing and improving value for money over the longer term. In particular performance management is now well established across the organisation and plans are in place for achieving more effective utilisation of the Council's assets. Data quality remains an issue requiring members' attention.

Data quality

- 63 Arrangements for ensuring the quality of the data on which performance is measured are not well developed. Improvement in this area is a priority for the Council otherwise it could undermine the integrity of the Council's performance management arrangements which is dependent on a robust data quality framework.
- 64 It is important therefore that the Council prepares an over-arching policy on data quality, improve its systems and procedures in this area and address cultural issues through for example undertaking a skills assessment and enhanced training provision.

Recommendation
<i>R7 Arrangements for ensuring the quality of performance data should be improved.</i>

Severance payments

- 65 During 2005/06 and early 2006/07, a number of changes were made to senior posts in the Council which resulted in a series of severance packages. In view of some concerns over these matters, the audit has been held open whilst a review has been completed. This review also included consideration of information provided by a member of the public in relation to two cases. I have now concluded my review and considered whether I need to issue a public interest report under section 8 of the Audit Commission Act 1998. After careful consideration, I have decided that this is not appropriate and I am therefore reporting in this letter.

Summary conclusions

- 66 I have concluded that there were significant weaknesses in governance arrangements supporting a number of the severance payments made.
- 67 Furthermore I have concluded that the added years component of these payments totalling £115,000 plus annual recurring costs of £38,000 may have been made contrary to law as decision makers did not take relevant considerations into account. However, on the basis of the size of these payments and the action since taken by the Council, I have decided to exercise my discretion and take no further action.

Background

- 68 Between December 2005 and June 2006, a total of seven senior officers left the Council on early retirement or redundancy with severance packages in excess of the statutory minimum. The posts in question were:
- Chief Executive;
 - Director of Children's Services;

- Financial Services Manager (In 2006/07);
- Head of Property Services;
- Head of Resources (Children’s Services);
- Head of Human Resources; and
- Head of Policy and Communications.

69 The costs of the packages were as follows.

Table 5 Severance costs

Type of payment	Amount
1. Statutory entitlements in the form of redundancy payments and payments to the pension fund	£888,895
2. Ex gratia payments	£135,542
3. Added years	Lump sum payments of £115,597 plus annual recurring costs of £37,448

- 70 The total long term impact on Council tax payers is estimated to be around £1.8m which will be recovered through annual savings estimated at £254,000.
- 71 This summary focuses on the decision making processes supporting the payments in the above cases as well as the legality of the payments.
- 72 I do not believe that the public interest extends to specifying amounts paid to named individuals nor do I believe that there is merit in a lengthy consideration of each case. Therefore my summary concentrates on the generic governance failings with reference to specific cases where relevant. In adopting this approach, I am mindful that the Council has also been in receipt of retrospective advice from Counsel as well as a review paper from the Southampton City Council Monitoring Officer which both concur with my broad findings in relation to governance failings and legality.

Volume of change

- 73 The Council has powers to terminate contracts by redundancy and in the interests of efficiency of the service. However this must be done in accordance with proper practices and my review shows that it is not possible to evidence that this was the case and the Councils governance arrangements fell short of what is expected.

74 As the Council was going through a period of organisational change there was a desire to refresh the management team for future challenges including the priority need for improvements to Children's Services. This led to a number of severance cases. There was no recorded evidence of capability issues in any performance management processes and therefore all cases were redundant posts or early retirements in the interests of efficiency of the service. The retirements in the interests of efficiency with no evidenced capability issues left the Council open to the risk of challenge of unfair dismissal and therefore legal advice was properly taken and compromise agreements signed in each case. The cost of the three compromise agreements including pay in lieu of notice was £135,542. I am not challenging these payments.

Decision making processes

- 75 In all cases noted above, the decisions and negotiations regarding severance packages were dealt with by officers under delegated powers. I contend that this was not a desirable situation for senior officer posts particularly in the case of the Chief Executive where the negotiation was handled by the Head of HR, a second tier officer.
- 76 The Council's scheme of delegation allows approval by officers after consultation with relevant Cabinet Members regarding capitalised costs. The evidence that I have seen suggests that the consultation with Members was not adequate and I make my observations in the following paragraphs.
- 77 Delegated decisions require officer decision records which set out the background, financial implications, consultation processes and options. These are only available for the Chief Executive, DCS and Head of Policy (CS) which represents a serious governance weakness.
- 78 Member involvement in the other four cases is only evident through a signature on the early release of pension form and in two cases there is evidence of member authorisation dated after the event. This, in my view does not represent an appropriate level of Member consultation for such matters.
- 79 The officers decision record presented in relation to the Chief Executive post showed a substantial saving over five years as the cost of a replacement Chief Executive was not included. This was plainly wrong although subsequent costings demonstrating costs and benefits do included this cost.

- 80 In all cases, there is no audit trail setting out the rationale for the severance and there is limited evidence of member engagement and consultation except the signature which I feel is a significant weakness. The three officer decision records state that the District Auditors observations had been taken into account. This is only true in as much as my broad advice, which had been provided to officers as early as September 2005 had influenced the criteria for negotiation of terms set out on the authorisation forms. My guidance also emphasised the need for Member decisions and pointed out the need to be clear on long term costs and discretions. My comments above indicate that there is no evidence that this did happen nor was there any specific consultation on the detail of the three cases with the exception of the two DCS posts where the compromise agreements were briefly seen.

Added years enhancements

- 81 The Council has discretion to enhance a severance package through the award of added years under Part IV of the Local Government (Early Termination of Employment) (Discretionary Compensation) Regulations 2000. Under the Council's statutory policy dated 1 September 2005, it was agreed that there would normally be no enhancement of pension through the use of compensatory added years.
- 82 In every case this policy was waived and added years enhancements awarded to each individual. The lump sum total arising from this in the period was in excess of £115,000 with an annual recurring cost of around £38,000 (projected to cost £643,000 over time).
- 83 I have seen no evidence in five of the cases to indicate why there was a departure from the Council's policy and in the other two cases the documentation is limited. A proper lawful decision in such circumstances should be supported by a clear rationale for departure with a member decision, and in the absence of this, it is my view that the payments are likely to be contrary to law.
- 84 Furthermore, where the award of added years is agreed, the level is discretionary. In my view, it is important that this discretion is exercised by members and each case should be treated on its individual merits. In exercising their discretion, members must act reasonably and take into account relevant factors and ignore irrelevant factors. Relevant factors will include the following.
- What loss is the employee likely to suffer on termination of employment?
 - How likely is it that he/she will secure future employment, and at what level?
 - What are the financial implications for the council in the short term and long term?
- 85 There is no evidence from the documentation that any of these discretions were considered although my guidance dated 8 September 2005 set out the factors. A range of added years enhancements were awarded up to 6.66 years with no written rationale available in any of the cases to support the decision.

- 86 Alongside my conclusion above, this reinforces my view that the added years payments are likely to be unlawful. However, I am also of the view that had proper procedures been followed the Council was capable of arriving at the same decision.

Action recently taken and next steps

- 87 The Council has been made aware of my views and as stated earlier has sought its own advice retrospectively from Counsel and the Southampton City Council Monitoring Officer. It has acted to put processes in place so that:
- no enhancements will be paid in future unless circumstances are exceptional and justifiable in terms of the above criteria;
 - full costs will be disclosed in all future severance cases;
 - departures from the discretionary provisions policy must have approval of the Cabinet Member and the rationale must be clearly documented and verified;
 - all severance cases over £50,000 must be approved by the Leader and Chief Executive; and
 - there will be proactive liaison with the District Auditor in future.
- 88 On the basis of the appropriate action already taken by the Council, and the value of the unlawful elements of the payments in question, I have decided to exercise my discretion and take no further action. My recommendations are set out below.

Recommendations

- 89 I make the following recommendations for the Council to consider and agree.
1. Members to formally approve the above changes to severance processes and satisfy themselves that procedures are now robust.
 2. Officer decision making processes to be reviewed to ensure that there is a complete audit trail for all decisions in future.
 3. An annual report to be prepared for Members setting out the full cost including the long term impact of severance decisions in the future.
 4. Performance Review processes to be reviewed to ensure that there is robust evidence retained for all future one to one review meetings within the Councils framework.

Recommendation

R8 The recommended improvements to processes relating to severance issues highlighted in my letter, which have yet to be addressed, should be formally implemented as soon as possible.

Procurement processes

- 90 The Council commissioned an independent consultant to review procurement processes during the year and this showed that there were a number of weaknesses as follows:
- non compliance with EC procurement rules;
 - key procedures lacking;
 - no procurement strategy defining the roles and objectives in relation to procurement; and
 - weaknesses in interfaces between Procurement Unit and departments.
- 91 The Council is in the process of addressing these weaknesses in the current year.

Recommendation

R9 The Council needs to develop a more strategic approach to procurement which improves the overall co-ordination of the process.

Undercliff Drive scheme

- 92 One of the arrangements considered in the above review related to engineering works at Undercliff Drive which has also been referred to me by an elector during the course of the audit. The arrangement with the contractor, High Point Rendell commenced in 2001 with an estimated contract value at the time of £894,000. Expenditure has continued ever since and at the date of this letter, some £1,585,000 has been paid to the contractor.
- 93 It is not within my remit in the current audit to report on actions dating back to 2001 but I would like to draw certain matters to the attention of members.
- 94 The Council sought independent legal advice on the status of the legal arrangement in early 2005 which concluded that the award of the contract breached public procurement law and the Council's own Standing Orders and it was recommended that this be put on a proper basis as soon as possible. It is of concern that this did not happen and still has not happened and therefore the Council is exposed to risk. The matter does not appear to have been reported to members in 2004/05.
- 95 The independent consultant's report dated July 2005 arrived at a similar conclusion and this was reported to Members in November 2006. Again nothing happened to rectify the situation.

- 96 The new Chief Executive has been proactive in addressing this matter and commissioned a separate review from the Monitoring Officer at Southampton City Council. The report arising from this is critical of the Council and recommends once again that the contractual arrangement is put on a proper legal basis with some urgency so that the Council can demonstrate competitiveness and risk management.
- 97 Given the date of the original contract, I am not able to consider any formal action relating to the procurement and I am satisfied with the robustness of that the independent review already carried out. The Council has also acted robustly and taken the decision to suspend three senior officers with immediate effect whilst a review is undertaken to clarify why no action was taken in 2005 when the issue was identified as a significant risk. I will monitor progress with the Council to ensure that this is regularised immediately and I will reconsider my position in relation to expenditure incurred in the current year of audit.

Recommendation

R10 Arrangements in respect of engineering works at the Undercliff Drive must be put on a proper legal basis as a matter of urgency and action taken to demonstrate competitiveness and risk management in relation to these ongoing contracting arrangements.

Conclusion

- 98 This letter has been discussed and agreed with the Chief Executive. A copy of the letter will be presented at the Cabinet on 6 March 2007.
- 99 The Council has taken a positive and constructive approach to the audit and inspection I would like to take this opportunity to express my appreciation for the council's assistance and co-operation.

Availability of this letter

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

Stephen Taylor
Relationship Manager