

Annual Audit and Inspection Letter

March 2008



Annual Audit and Inspection Letter

District of Easington

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles.

- Auditors are appointed independently from the bodies being audited.
- The scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business.
- Auditors may report aspects of their work widely to the public and other key stakeholders.

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Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports

This report provides an overall summary of the Audit Commission's assessment of the Council, drawing on audit, inspection and performance assessment work and is prepared by your Relationship Manager.

In this report, the Commission summarises findings and conclusions from the statutory audit, which have previously been reported to you by your appointed auditor. Appointed auditors act separately from the Commission and, in meeting their statutory responsibilities, are required to exercise their professional judgement independently of the Commission (and the audited body). The findings and conclusions therefore remain those of the appointed auditor and should be considered within the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission.

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- prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission; and
- addressed to members or officers and prepared for the sole use of the audited body; no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

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Key messages

- 1 The key issues arising from our performance work, including Direction of Travel and inspection, are:
 - The Council has given priority during the year to tackling an ambitious programme of improvement, maintaining a focus on key issues. With its partners and community, it continues to address the challenging task of social, economic and environmental regeneration through the 'making the district great' programme, aligned to nine key corporate objectives.
 - The Council's priorities are focused on improving the quality of life of local people and improving wider community outcomes. It has made progress on all of its priorities, but performance is mixed in some. It has continued to improve areas of poor performance.
 - The Council has good plans for further improvement. It strengthened its corporate and service capacity in 2006/07 and this is now starting to deliver significant outcomes.
 - In common with councils across Durham, the Council has implemented good regeneration projects. However, the councils are not working together well enough to close the gap between economic prosperity in Durham and the rest of the country.
- 2 The key messages arising from the audit, as reflected in the above judgements where appropriate, are as follows.
 - We were able to give an unqualified opinion on the Council's accounts.
 - The Council considered stakeholder views when deciding not to produce an annual report.
 - The medium term financial strategy provides better links between corporate priorities and the budget.
 - Progress has been made in relation to managing the asset base but plans in this area are not yet fully introduced and embedded.
 - Risk management arrangements have been further strengthened by embedding arrangements whereby risks relating to significant partnerships are considered about the management of those risks.
 - The Council has made significant progress in a number of areas in terms of costs reduction and improved performance. This however is not consistent across all key services with housing performance being the biggest area where investment is not yet matched with outcomes and consistently strong performance.

3 Other key messages:

- The Government has decided to take forward the option of local government reorganisation in County Durham. The Council will demise next year and its functions will be transferred to a new unitary council that will cover the whole of County Durham. Early indications are that the Council is making a positive contribution to making a success of the new council but this early impetus needs to be maintained over the coming months.

Action needed by the Council

- 4 The Council should continue its focus on improvement, ensuring that all performance indicators (not just those identified for detailed review and monitoring) are scrutinised to achieve the Council's objective of increasing the number of indicators at top quartile performance.
- 5 The Council should continue to build on its recent work to support improvement in the performance of East Durham Homes, in particular to accelerate progress towards meeting the Decent Homes Standard and improving housing services.
- 6 The Council and the new County Durham Council should work within the framework provided by the County Durham Economic Partnership to progress our recommendations in the county-wide inspection of Regeneration. In summary, these were to take steps to strengthen the coherence of regeneration activity and collaboration amongst stakeholders by:
 - starting and maintaining a public debate on the future of Durham's economy;
 - aligning regeneration strategies and strengthen collaboration amongst partners to match the pace of external change, without regard to local government boundaries;
 - considering with partners how the importance of skills and aspirations can be embedded in the culture of County Durham;
 - ensuring that housing strategies align with economic strategies and opportunities and with transport strategy;
 - strengthening leadership on regeneration activity;
 - providing independent capacity to develop and deliver strategy; and
 - reviewing how resources are used to lever in private funding in order to maximise their impact.
- 7 The key actions needed to further strengthen arrangements are as follows.
 - Review the medium term financial strategy to ensure that joint plans agreed with partners and other stakeholders are described in financial terms.
 - Continue to embed the backlog maintenance plan and develop a set of local performance measures in relation to assets that link asset use to corporate objectives.

- 8 In order to provide a smooth transition to the new unitary council for County Durham the Council should:
- prioritise making a positive contribution to transitional working designed to establish the new council;
 - set aside or secure sufficient resources to make the above contribution; and
 - ensure that attention is given to maintaining key public services during the period of transition.

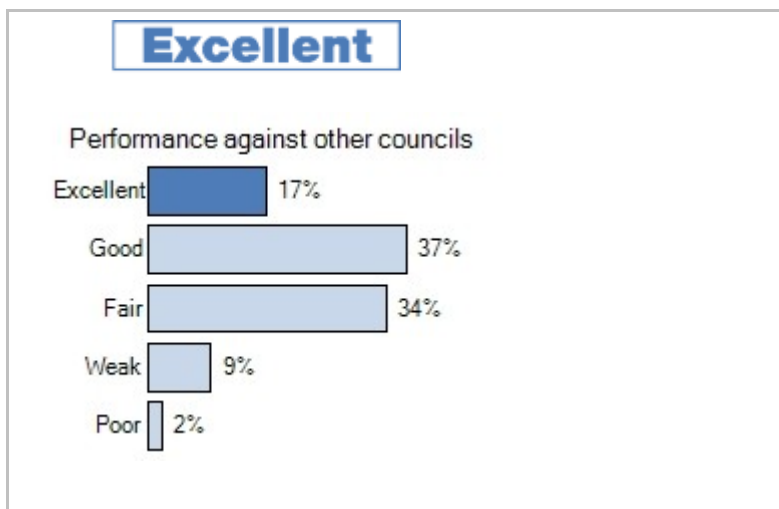
Purpose, responsibilities and scope

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

How is District of Easington Council performing?

- 15 District of Easington Council was assessed as Excellent in the Comprehensive Performance Assessment carried out in 2003. These assessments have been completed in all district councils and we are now updating these assessments, through an updated corporate assessment, in councils where there is evidence of change. The following chart is the latest position across all district councils.

Figure 1 Overall performance of district councils in CPA



Source: Audit Commission

The improvement since last year - our Direction of Travel report

- 16 The Council has given priority during the year to tackling an ambitious programme of improvement, maintaining a focus on key issues. With its partners and community, it continues to address the challenging task of social, economic and environmental regeneration through the 'making the district great' programme, aligned to nine key corporate objectives. The Council has continued to improve areas of poor performance.

- 17 As measured by the Audit Commission's Direction of Travel basket of performance indicators (PIs), the performance of the Council's services is improving.
- Over the last three years 47 per cent of PIs have improved compared to the average of 55 per cent for district councils.
 - In the last twelve months a strong focus on poorly performing PIs has led to 70 per cent of performance indicators (PIs) improving, well above the district average of 58 per cent.
 - 34 per cent of PIs are in the top quartile, just above district council average of 33 per cent. However, the number performing in the worst quartile has risen to 38 per cent from 32 per cent.
- 18 The Council's focus on improving areas of poor performance is producing very positive results. Its performance monitoring shows that of 11 poorly performing PIs in 2006/07, all have improved and most are exceeding the Council's own targets for 2007/08.
- 19 The Council's priorities are focused on improving the quality of life of local people and improving wider community outcomes. It has made progress on all of its priorities, but performance is mixed in some.
- 20 The Council has made progress in developing **sustainable jobs for everyone**. Regeneration projects completed or in development have or will provide an estimated 7,400 jobs; 5,000 of these have been created since 2006 as a result of investment of over £425 million into a range of developments across the district. Easington is now the centre of a UK cluster of companies and research organisations designing, manufacturing and installing geothermal energy and other micro generation systems to businesses, schools and domestic customers. There are now more than double the number of new business start-ups than in 2006, mainly through LEGI funding.
- 21 There is still slow progress to achieve **decent homes for all**. In 2006/07, 81 per cent of the Council's homes did not meet the Government's Decent Homes Standard. East Durham Homes, the Council's Arms Length Management Organisation for its housing stock, failed to achieve the necessary two star inspection rating needed to release substantial resources to tackle the problems. However, good progress has been made on tackling homelessness with a reduction from 726 in 2004/05 to 232 in 2006/07. In recognition of this work the Council has been awarded regional champion status. Over 1,600 new houses have been built across the district, mainly on brownfield sites. The proportion of tenants who were satisfied the overall service provided improved from 66.3 per cent in 2005/06 to 72 per cent in 2006/07.

- 22 The Council has made substantial improvements on **clean, tidy communities**. The Pride in Easington initiative has delivered significant service improvements such as a reduction in the percentage of areas with heavy levels of litter from 32 per cent to 15 per cent with high satisfaction levels for refuse collection 90 per cent and street cleansing 69 per cent. A significant reduction in the amount of unacceptably littered land or graffiti was achieved resulting in increased public satisfaction with street cleanliness and refuse collection.
- 23 Improvements have been made in recycling and composting and the percentage of households served by kerbside collection, both of which are top quartile performance when compared to other districts. The Council now has one of the highest recycling levels for north east councils. The amount of waste collected per head of population has increased and remains in the bottom quartile of performance.
- 24 The Council continues to support **better transport for local people** through the continuance of its concessionary fare scheme, which is beyond the statutory government scheme. The Council has worked hard to pursue new transport links; this work is now coming to fruition in the County Council's commencement of the provision of a link road connecting the A19 to the A1M which will support key regeneration projects in the district.
- 25 Improving the street warden services by integrating them with police beat teams and Community Support Officers has led to progress in **making the district safe** by creating speedier response rates to reported incidents. The work of several street wardens has been recognised through national awards for their work with their communities and the youth of the district. This has improved public perception and local communities are aware of what the Council is doing to tackle ASB. However there has been a rise in overall crime, with criminal damage and wounding showing significant increases over baseline levels. Levels of crime in other categories including domestic burglaries, violent crime, robberies and vehicle crimes, have all declined.
- 26 The Council is working with partners on many initiatives to build **a healthy community**. Key indicators of health are all improving and the cancer mortality rate is showing a reduction in the gap against the national level. However, the number of teenage pregnancies remains high.
- 27 With partners, the Council is providing **learning opportunities for all** through a variety of initiatives and events. The Council has extended its Modern Apprenticeships programme, focusing on the skill areas of trade crafts and administration to help maintain young people in education, training or employment. This complements work carried out in partnership through East Durham Business Service, including support for a district wide apprenticeships programme which resulted in 46 new apprenticeships in 2007. During 2007 the Council worked with Durham County Council on the implementation of Building Schools for the Future in East Durham, to help ensure that investment in schools supports wider community and neighbourhood renewal agendas including increasing skills and attainment levels.

- 28 The Council has taken action to provide **quality services for all our people**. The 'Pride in Easington' scheme is delivering significant improvements particularly the environment and community safety, bringing together enforcement, education and community engagement work.
- 29 Progress on **striving for excellence in the work place** has been good. The Council has exceeded its efficiency targets. A new corporate value for money framework has been introduced which includes a programme of review activities. Service delivery methods have been changed resulting in significant improvement to services. Days lost through sickness absence have shown a slight improvement to 8.6 days.
- 30 Access to services is improving, particularly for those who are disadvantaged or previously excluded. For example, investment in improving access to culture and arts events and other activities is encouraging people from excluded groups to participate and learn new skills across a range of cultural activities such as samba and African drumming. Increases in the percentage of public buildings accessible by disabled people and the level of electronic transactions capable of electronic delivery have contributed to improved access to services. The Council has continued to improve opportunities for the public to engage with the council through local councillors.
- 31 The customer services team was shortlisted for North East Customer Service Centre of the Year. Ninety two per cent of customers are satisfied with the service they receive from the centre. In October 2007 a national survey found the Council's website to be the most accessible in the country. Extensive online information and services, including self calculation and on line application for benefits, are available. The same systems provide a number of community organisations with their own websites. Improvement to IT systems such as Customer Relationship Management and the location of street kiosks across the district allows the public easy access to a range of information on services including free emails to everyone in the district.
- 32 The Council performs at level 2 of the Equality Standard for Local Government and is undergoing an intensive programme of equality impact needs assessments across all services to enable it to meet its target to achieve level 3 by April 2008. There is still some work to be done in engaging with all minority groups within the community. Specific initiatives can be identified for youth, families and the elderly but less so for ethnic minority groups.
- 33 The consolidation of the district's voluntary and community sectors into the East Durham Trust is helping develop the voluntary and community sector. It has increased access to Council services for the sector and is enabling the Council to provide a more focussed service to local voluntary and community organisations. This has improved partnership working to deliver local services.

- 34 The Council provides adequate value for money (VFM). Overall it still spends at a higher level than other authorities. However, investment in poorly performing services, rationalising services and changing service delivery models are now resulting in significant savings and delivering significant improvements in performance. The Council has more than achieved its annual Gershon efficiencies.
- 35 The Council has good plans for further improvement. It strengthened its corporate and service capacity in 2006/07 and this is now starting to deliver significant outcomes. It continues to embed improvements in performance management, service planning, scrutiny and in building community capacity. It has recently revised its scrutiny arrangements and is introducing the 'community call for action' scheme to improve community engagement. It continues its approach to identifying weak areas of performance and developing robust action plans to address them. A new basket of the most significant indicators will be the focus of performance reporting and monitoring in addition to eight indicators identified for additional focus by performance improvement teams.
- 36 Relationships between the Council and partners for the commissioning and delivery of services are being developed further, supporting the voluntary sector in tackling community issues. Innovative work with the Probation Service is delivering significant improvements in environment schemes. Grounds maintenance contracts with five of the town councils are also increasing the Council's capacity to improve local services. All of these developments demonstrate the Council's commitment to building its capacity to deliver more co-ordinated and delegated services.
- 37 The Council has sufficient financial capacity to deliver its plans. It is extremely successful in attracting external funding and puts this to good use to address its priorities. There are no significant weaknesses in governance.
- 38 However, as local government reorganisation progresses it may result in key staff leaving the Council; this may impact on its ability to maintain and develop its core functions and services. At the same time the Council needs to be making a positive contribution to making a success of the new unitary council for County Durham. The Council will need to plan to ensure that essential services are maintained and that appropriate resources are identified to secure this outcome and to input into planning for the new council.

Service inspections

East Durham Homes

- 39 We carried out a second inspection of East Durham Homes, the Council's Arms Length Management Organisation (ALMO) for its housing. The ALMO needed to achieve a 'two star' inspection result to access significant funding from the Government to improve local homes. The inspection judgements were 'a fair (one star) service with uncertain prospects for improvement'.

- 40** The inspection found that while East Durham Homes had made some encouraging progress, there was more to do to ensure that all service areas deliver positive outcomes for tenants. Performance in some areas had worsened since our 2005 inspection and East Durham Homes had not made the progress we expected to see. It has not yet reached the standard required to access the Government funding.

Regeneration

- 41** During 2007 we carried out an inspection of Regeneration, covering all eight local councils in County Durham. The report was published in August 2007. The key findings were:
- Councils are providing good regeneration services individually. However, in spite of much external funding and considerable resource contributions of their own, they are not collectively closing the gap in prosperity between Durham and the rest of the country. There is also little evidence that the gaps between the most disadvantaged and rest of region are closing;
 - strategic leadership on the economy in Durham has been weak. When councils and partners work together then making good progress and identify and develop some real opportunities, but there are not enough examples of this. Councils tend to work within their own boundaries rather than across geographical areas (this is in part driven by external funding arrangements);
 - while there seems a general acceptance that part of the solution is to work at city region scale to widen and deepen markets, County Durham does not seem clear on its relationship to the two City Regions of Tyne and Wear and Tees Valley; and
 - identification of local needs is weak: there is a lack of engagement with key stakeholders and little sharing of information about local needs. This includes insufficient engagement with, and understanding of, businesses and their needs eg for skills development. Intelligence and data are not shared between councils.

The audit of the accounts and value for money

- 42 Your appointed auditor has reported separately to the Council on the issues arising from our 2006/07 audit and has issued:
- an audit report, providing an unqualified opinion on the Council's accounts;
 - a conclusion on your VfM arrangements to say that these arrangements are adequate; and
 - a report on the Best Value Performance Plan confirming that the Plan has been audited and published in accordance with the statutory requirements.

Use of Resources

- 43 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).
- 44 We have assessed the Council's arrangements for use of resources in these five areas as follows.

Table 1

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

(Note: 1 = lowest, 4 = highest)

- 45 The Council's performance demonstrates that it has continued to actively improve its performance in this area, which overall is consistently above minimum requirements and performing well.

The key issues arising from the audit

- 46 The key issues arising from the audit, as reflected in the above judgements where appropriate, are as follows.
- We were able to issue an unqualified opinion on the Council's accounts and conclude that adequate arrangements were in place to secure value for money.
 - The Council considered stakeholder views when deciding not to produce an annual report.
 - The medium term financial strategy provides better links between corporate priorities and the budget.
 - Progress has been made in relation to managing the asset base but plans in this area are not yet fully introduced and embedded.
 - Risk management arrangements have been further strengthened by embedding arrangements whereby risks relating to significant partnerships are considered about the management of those risks.
 - The Council has made significant progress in a number of areas in terms of costs reduction and improved performance. This however is not consistent across all key services with housing performance being the biggest area where investment is not yet matched with outcomes and consistently strong performance.
- 47 The key actions needed to further strengthen arrangements are as follows.
- Review the medium term financial strategy to ensure that joint plans agreed with partners and other stakeholders are described in financial terms.
 - Continue to embed the backlog maintenance plan and develop a set of local performance measures in relation to assets that link asset use to corporate objectives.

Local risk work

- 48 A key component of the Audit Commission's national strategy for improving the impact of local audit and performance work, and delivering strategic regulation, is to carry out integrated reviews which cut across a number of public bodies and help improve the quality of life for local people. Work has been included in audit and inspection programmes across the North East for 2006/07 on two key cross-cutting themes, health inequalities and regeneration.

Health inequalities

- 49 Partnership working is helping to improve the North East's health outcomes but more needs to be done to close the gap between the North East and the rest of England. Life expectancy is lower, rates for sickness and disability are twice the national average, and smoking mortality rates are among the highest in England. There is also a high prevalence of obesity, increasing sexual health infection rates and serious alcohol and substance misuse issues.
- 50 Tackling health inequalities is a high priority for the Government, which has been increasingly encouraging health trusts to work in partnership with local public bodies and the voluntary sector to improve health and reduce inequalities through a number of initiatives, targets and legislation. The factors causing health inequalities are complex and can best be addressed through agencies working together.
- 51 The Audit Commission, Deloitte and PricewaterhouseCoopers have reviewed how organisations across the North East are working together to address health inequalities, culminating in a workshop in October 2007 for 200 representatives from the NHS, local government and the many voluntary sector agencies involved in tackling health inequalities, where we identified seven key challenges:
- Challenge 1: Develop arrangements to evaluate projects and ensure continued funding of those that deliver tangible outcomes, and to embed this learning in project planning and performance management systems.
 - Challenge 2: Gather intelligence on where gaps in services exist and a profile of those accessing services. Target services at those areas and individuals where there is unmet need and develop strategies to target hard to reach groups.
 - Challenge 3: Ensure local area agreements contain a breadth of targets to reduce health inequalities, across all sectors and ensure health and wellbeing strategies are translated into local delivery plans that contain sufficient detail and local targets to monitor progress.
 - Challenge 4: Spread awareness of priorities and services on offer and provide networking opportunities and information sharing systems to improve the links between service planners and service providers. Cascade messages and targets to front line workers such as teachers, health professionals and social workers.

- Challenge 5: Use the Regional Health and Wellbeing Strategy to provide direction for the North East and link national, regional and local policies. Develop networking opportunities and support to share good practice to achieve the aim of transforming the North East into the healthiest region in the country within a generation.
 - Challenge 6: Give community and voluntary sector organisations increased certainty over funding with agreed delivery targets and simplify commissioning arrangements to make it easier for them to bid for the provision of services.
 - Challenge 7: systematically seek community views to influence how and where services are provided.
- 52** A report summarising the work to date was distributed widely to inform future development and improvement. We will be building on this work in the coming year, focussing in on specific areas, identifying good practice and helping to identify and overcome barriers to improving health outcomes in the North East.

Looking ahead

- 53 The public service inspectorates are currently developing a new performance assessment framework, the Comprehensive Area Assessment (CAA). CAA will provide the first holistic independent assessment of the prospects for local areas and the quality of life for people living there. It will put the experience of citizens, people who use services and local tax payers at the centre of the new local assessment framework, with a particular focus on the needs of those whose circumstances make them vulnerable. It will recognise the importance of effective local partnership working, the enhanced role of Sustainable Communities Strategies and Local Area Agreements and the importance of councils in leading and shaping the communities they serve.
- 54 Even though the Council will demise from 31 March 2009 it still has a key role in establishing the foundations of the new council and enabling it to respond to the future challenges of both new local area agreements and public expectations of service improvements leading to a better quality of life that will be assessed under CAA.

Closing remarks

- 55 This letter has been discussed and agreed with senior officers. A copy of the letter will be presented at the full council on 3 April 2008. Copies need to be provided to all Council members.
- 56 Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued to the Council during the year.

Table 2 Reports issued

Report	Date of issue
Audit and inspection plan	March 2006
Annual Governance Report	September 2007
Opinion on financial statements	September 2007
Value for money conclusion	September 2007
Final accounts memorandum	November 2007
Inspection of East Durham Homes	July 2007
County-wide inspection of regeneration	August 2007
Direction of Travel report (within the Annual Audit and Inspection Letter)	March 2008
Annual Audit and Inspection Letter	March 2008

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

Availability of this letter

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

Sarah Diggle
Relationship Manager

Steve Nicklin
District Auditor
March 2008