

Annual Audit and Inspection Letter

March 2008



Annual Audit and Inspection Letter

Sedgefield Borough Council

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.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998, the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

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.

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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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

www.audit-commission.gov.uk

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Key messages

- 1 The key messages arising from our inspection work, described in our Direction of Travel report later in this Letter, are as follows.
 - The Council has clearly identified its priorities and is generally making progress towards achieving its ambitions. It has a strong focus on community needs and priorities and revised its aims, objectives and targets in 2007, defining priority targets relating to the whole community under the themes of prosperous, healthy, attractive and strong.
 - A relatively high number of the Council's national performance indicators performed at top level in 2006/07. While improvement in its services slowed in 2006/07 compared to previous years, the Council has sound plans for future improvement. Satisfaction with the Council's services is generally at a high level.
 - 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 our audit work are as follows.
 - The District Auditor issued unqualified opinions on the 2006/07 accounts and value for money arrangements, and on the Best Value Performance Plan.
 - Our Use of Resources assessment showed that the Council has effective and embedded arrangements for financial management, governance and value for money. During 2006/07 systems of risk management and performance management were embedded at a corporate and service level.
 - However, there was a fall in the council tax collection rate; the rate of collection was the lowest in County Durham and amongst the lowest nationally in 2006/07. The Council has responded to this decrease by implementing a number of measures to improve future 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 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.
- 5 The Council should take action to address issues arising from our Direction of Travel report:
 - the Council should continue to work with partners in the LSP to improve local quality of life, in particular focusing on efforts to reduce the gap between local and national performance in health inequalities and employment; and
 - the Council should ensure that improvement plans for sickness absence, planning are closely monitored and take further action taken if performance does not improve.
- 6 In order to provide a smooth transition to the new unitary council for County Durham the Council should continue to:
 - 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 in the period up to demise.

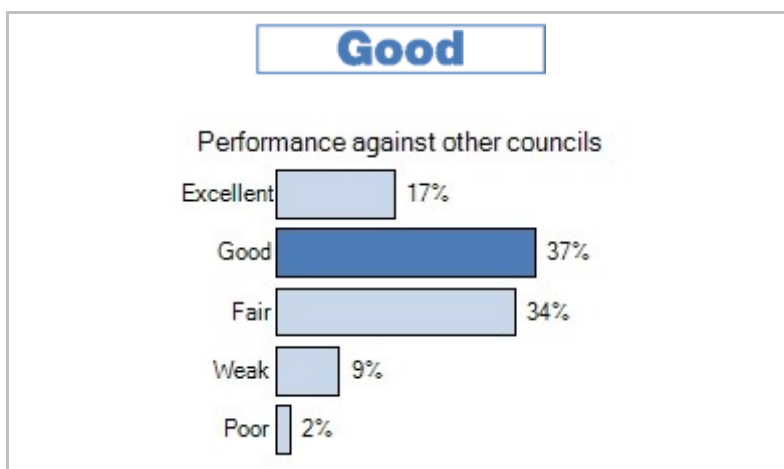
Purpose, responsibilities and scope

- 7 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.
- 8 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.
- 9 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.
- 10 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.
- 11 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.
- 12 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 Sedgefield Borough Council performing?

Sedgefield Borough Council was assessed as 'good' 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

- 13 The Council has clearly identified its priorities and is generally making progress towards achieving its ambitions. It has a strong focus on community needs and priorities and revised its aims, objectives and targets in 2007, defining priority targets relating to the whole community under the themes of prosperous, healthy, attractive and strong.
- 14 The Direction of Travel basket of Audit Commission performance indicators (PIs) shows that while many of the Council's services perform well and overall they improved in 2006/07, they did not improve as much as the average for district councils:
 - 52 per cent of the Council's PIs improved in the three years from 2003/04 to 2006/07, close to but lower than the average for district councils of 55 per cent;
 - the Council's rate of improvement in 2006/07 was slower than the average for district councils: 54 per cent of the Council's PIs improved in 2006/07 compared to the district council average of 58 per cent;

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- however, the Council had more PIs in the best quartile at 37 per cent than the average for district councils, which was 32 per cent.
- 15 In two service areas, public satisfaction improved substantially in 2006 (the latest available national data). These were satisfaction with cleanliness of public space and satisfaction with sports and leisure facilities.
- 16 The Council is making progress in its priority areas, and in doing so is contributing to improvements in community outcomes.
- **Healthy borough:** the Council is working with its partners to reduce health inequalities but with mixed results. Although the gap in life expectancy between national levels and those in Sedgefield is narrowing for men it has widened for women. However the Local Strategic Partnership (LSP) has analysed performance and identified the key improvements necessary focussing on healthy lifestyles, teenage conceptions, mental health and long term conditions. The Council has worked with partners including the County Council to help more adults with physical disabilities to live at home.
 - **Prosperous Borough:** The Council continued to realign resources to improve employability and enterprise in disadvantaged areas. There have been improvements in the employment and self employment rates, although the gap between the national and borough averages is widening.
 - **Attractive Borough:** the Council is in the best quartile for resident satisfaction with waste collection and recycling facilities and met its targets for recycling levels and reductions in the amount of waste in 2006/07.
 - **Strong communities:** the Council reduced the number of homelessness applications including those that are repeat applications or from 16-7 year olds. Domestic burglaries, violent crime vehicle crimes and racial incidents also reduced in 2006/07.
- 17 These themes are brought together in the efforts of the Council and its partners to achieve significant improvements in local areas through a comprehensive package of physical and social regeneration.
- 18 The national user satisfaction survey in 2006 showed that overall public satisfaction with the Council remained among the best in the country at 59 per cent. Tenant satisfaction (93 per cent) and tenant satisfaction with ability to participate (74 per cent), satisfaction with waste collection (89 per cent) and satisfaction with sports and leisure facilities (69 per cent) were also at a high level compared to other councils. Satisfaction with parks and open spaces (74 per cent) and satisfaction with recycling (75 per cent) were above average. Local people were generally less satisfied with the provision of museums and galleries (22 per cent satisfied), theatres and concert halls (16 per cent), but users of Locomotion are very satisfied. Almost all queries are now resolved at first point of contact with the Council which has contributed to the reduction in the number of complaints.

- 19 Services have improved in areas considered key by local communities. In particular, changes have been made to improve performance on homelessness and housing advice. Although there are still some underperforming services, for example planning, improvement plans have been put in place to ensure that progress is made. The Council includes wider community objectives in its corporate objectives, for example working with partners to reduce health inequalities and working with partners to reduce antisocial behaviour. The performance of the LSP improved significantly in 2007.
- 20 The neighbourhood wardens service is an example of a good service providing improvements in services and quality of life for citizens. It has been awarded the Warden Quality Standard with distinction and received the North East Regional Wardens Award for Excellence in Community Safety. Phase 2 of the Council's review of this service, in 2007/08, will debate improvement options with stakeholders with the aim of further improving service quality.
- 21 The majority of the Council's corporate objectives relate to tackling the inequalities present in the Borough and there are clear examples of policy and activity geared towards addressing these issues, for example community alarms, concessionary travel, concessionary pricing in leisure services, housing advice and homelessness prevention, an employability programme, youth and adult training, housing renewal programmes and the neighbourhood wardens service. All services address inequalities of provision as part of their service planning driven by a corporate impact assessment programme.
- 22 The Council has taken steps to strengthen community engagement and ensure that local priorities are addressed. Processes include a citizens' panel and the annual council tax consultation. Working closely with local communities to identify key local issues and using its analysis of local data, the Council has developed a masterplan to regenerate three local areas. Plans are well advanced and are supported by the use of capital receipts for regeneration schemes.
- 23 The Community Empowerment Network has been replaced by area forums run by locality based partnerships. The Council has devolved £1million funding to these forums and holds them to account to deliver the objectives in the Community Strategy in order to improve community-based services to tackle the priorities of health, employment and community learning. The numbers of complaints received by the council has reduced substantially by 50 per cent over the last year, which is an indication that service quality is improving. Officers are encouraged and empowered to resolve problems on first contact.
- 24 Value for money is good. The Council has achieved double the savings required to meet its Gershon efficiency targets for the last few years. These efficiencies are from departments and services across the Council. It gives priority to achieving value for money by appointing member and officer champions. Spending is in line with performance levels and there are no areas of high spending associated with low performance.

- 25 The Council has good plans for improvement. It has made significant progress in linking its priorities to local needs and aspirations, reassessing its key priorities and establishing new targets for them. The Council's Performance Management Framework is linked into that of the LSP. For the first time in 2007, the LSP and corporate annual performance reviews were integrated. The Council's transformational change programme 'Making Change Happen' led to the corporate values being revised to make them meaningful to staff.
- 26 The Council is using local data to ensure that service performance and access issues are highlighted. The LSP has sponsored a web-based Area Framework containing intelligence about each area including such information as health data, performance and user views. It will be used for planning and performance management and will be accessible by officers, members and the public. An action plan is being produced to address anomalies in provision or performance highlighted by the framework.
- 27 The Council has demonstrated that it is able to take action to improve poorly performing services, for example, in the homelessness service, where there has been significant improvement. However, sickness absence remains a weakness in the Council's capacity. Absence rates are poor and were the worst in the county for 2006/07 at 13.8 days compared to a median for Durham districts of 9.32. Improvement plans for sickness absence levels are yet to come to fruition. Over the first six months of 2007/08, the rate reduced to 13.2 days but it has risen to 13.8 over the last eight months.
- 28 Target setting has been improved this year through holding development workshops where they managers were challenged to justify targets and link outcomes to investment. This should help to embed the improvements to target setting raised in last year's annual audit and inspection letter.
- 29 The Council has robust plans for improving, although this has been affected by LGR. The Council has produced a transition plan outlining its aims and arrangements for the period until the new unitary council takes over. Existing policy commitments and priorities are backed up by thematic delivery plans, service plans and improvement plans. The Council's corporate governance arrangements are robust and provide a sound basis for continued improvement.

Service inspections

Regeneration

- 30 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 relating to the whole county were as follows.
 - 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.
- 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

- 31 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 accounts of Sedgefield Borough Council;
 - 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.

Accounts

- 32 The preparation of the 2006/07 annual accounts was extremely challenging because of significant changes to the professional guidance issued by CIPFA and the loss of key staff during the closure process.
- 33 In these circumstances, the Council did well to meet the statutory deadline for the approval of accounts and provide accounts that were accurate in all material respects. We reported to the Audit Committee some significant changes to the balance sheet regarding capital transactions, but these did not impact on the overall level of balances.
- 34 The Council under-spent slightly against its budget and reserves are maintained at a prudent level. There was a fall in the council tax collection rate however, from 95.4 per cent in 2005/06 to 95.0 per cent in 2006/07, making it the lowest collection rate in County Durham and amongst the lowest nationally. The Council has responded to this decrease by implementing a number of measures to improve future performance, notably the provision of additional staff resources to allow the Council to take a more pro-active approach to recovery.

Use of Resources

- 35 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).

36 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	3 out of 4
Overall assessment of the Audit Commission	3 out of 4

(Note: 1 = lowest, 4 = highest)

The key issues arising from the audit

- 37** The Council's overall use of resources judgement is at level 3 which means 'consistently above minimum requirements - performing well'. This is the same overall assessment as last year and reflects our view that the Council has effective and embedded arrangements to deliver strong performance across all areas subject to the use of resources assessment.
- 38** During 2006/07 systems of risk management and performance management were embedded at a corporate and service level and this should help the Council sustain an effective use of resources through the challenges created by local government reorganisation.
- 39** The Council is particularly strong at financial management and during the year we conducted a survey of budget holders that was very positive. Unusually, budget holders receive quarterly accrued management reports illustrating the impact of financial performance on balance sheet items.
- 40** We acknowledge that opportunities for further improvement may be limited in the context of the on-going reorganisation in the Durham area. Given the upcoming period of reorganisation, focus should be on ensuring that minimum requirements continue to be met.

- 41 Additional areas where the Council will need to focus attention on for the 2008 assessment include the following new 'level 2' minimum requirements:
- published information is available to the public in a timely way and in accessible formats in compliance with duties under the equalities legislation;
 - the impact of strategies is assessed for their impact to comply with duties under the equalities legislation in relation to race, gender and disabilities; and
 - preparation for the role of the standards committee in local investigations and determination.

Data quality

- 42 Arrangements for ensuring data quality overall are effective and we have seen that further improvements have been made in the last year. Sound arrangements are in place for governance and leadership, policies, systems and processes, people and skills, and data use and reporting. Furthermore our spot checks of specific performance indicators found that they were all fairly stated.

National fraud initiative

- 43 The National Fraud Initiative (NFI) is a computerised data matching exercise designed to identify overpayments to suppliers and benefit claimants and to detect fraud perpetrated on public bodies. The referrals from the current exercise were released to participating bodies in 2007, and the data matches are being investigated and followed up by the Council.

Local risk work

- 44 During the year we undertake work in specific areas of the Council's activities. This is done to inform our overall use of resources and value for money assessments; and in response to audit risks identified locally or nationally.

Computer installation controls

- 45 As part of our annual risk assessment process we identified that arising from the recent upgrading of the computer room infrastructure, it was appropriate to review computer room installation controls at Sedgefield. We found that the main physical access and environmental controls are adequate and operating in a satisfactory manner, but made some recommendations for further improvement. The Council has evaluated these recommendations and taken action to improve arrangements where appropriate.
- 46 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 plans across the North East for 2006/07 on two key cross-cutting themes, health inequalities and economic development.

Health inequalities

- 47 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.
- 48 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.
- 49 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.

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- 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.

50 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

- 51 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.
- 52 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

- 53 This letter has been discussed and agreed with Sedgefield Borough Council. A copy of the letter will be presented to the Audit Committee and subsequently to the Cabinet meeting on 24 April 2008. Copies will need to be provided to all Council members.
- 54 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	September 2007
BVPP report	November 2007
Computer room installation controls review	November 2007
Regeneration inspection (county-wide report)	August 2007
Direction of Travel report (within Annual Audit and Inspection Letter)	March 2008
Annual Audit and Inspection Letter	March 2008

- 55 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

- 56 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