

Annual Audit and Inspection Letter

March 2008



# **Annual Audit and Inspection Letter**

**Chester-le-Street District 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; and
- 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 and 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.

### **Copies of this report**

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# Contents

<b>Key messages</b>	<b>4</b>
Action needed by the Council	5
<b>Purpose, responsibilities and scope</b>	<b>7</b>
<b>How is Chester-le-Street Council performing?</b>	<b>8</b>
The improvement since last year - our Direction of Travel report	8
CPA inspection	11
Service inspections	12
<b>The audit of the accounts and value for money</b>	<b>13</b>
Local risk work	14
<b>Looking ahead</b>	<b>17</b>
<b>Closing remarks</b>	<b>18</b>
Availability of this letter	18

## Key messages

- 1 The key messages arising from our inspection work, described later in this Letter, are:
  - The Council has continued to improve services in its priority areas and overall. The scale of the Council's improvement is now reflected in its Comprehensive Performance Assessment (CPA) category which has improved from 'poor' to 'good' as a result of a CPA inspection in June 2007. The Council was the first district council to achieve such a significant improvement in its CPA category.
  - Progress against the Council's priorities and contribution to wider community outcomes is good. There are many examples of where the Council has worked closely with residents and partners in delivering significant improvements.
  - 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.
  - The Council has good arrangements for further improvement.
- 2 The key messages arising from our audit work, reflected in the our judgements described later in this Letter, are:
  - we were able to issue an unqualified opinion on the Council's accounts;
  - the Council considered stakeholder views when deciding not to produce an annual report;
  - the Council continues to ensure that its medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities;
  - the Council has continued to improve arrangements for controlling spending and reported an overall underspend in 2006/07; and
  - the Council has improved arrangements in internal control and continues to perform well in this area.
- 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 CPA inspection recommended that the Council should progress its Local Development Framework and develop a leisure strategy. It should be mindful of the need to progress these issues in the context of the creation of a single unitary council for Durham.
- 6 Actions for the Council arising from our audit work are:
  - to ensure that it reviews its fixed assets for ownership and obtains title deeds where necessary;
  - to ensure that the accounts submitted for audit contain only a small number of non-trivial errors;
  - to develop the work started under the new Asset Management Plan and ensure all backlog maintenance is identified and reported to members with regular progress reports;
  - to co-ordinate the reporting of financial information and key financial indicators to members in order that challenging targets are set for income collection, levels of budget variances etc; and
  - to build on the work already done to expand the processes in place for the review of partnerships to include smaller level partnerships, and to continue to keep under review the arrangements of significant partnerships.
- 7 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;

## 6 Annual Audit and Inspection Letter | Key messages

- 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.

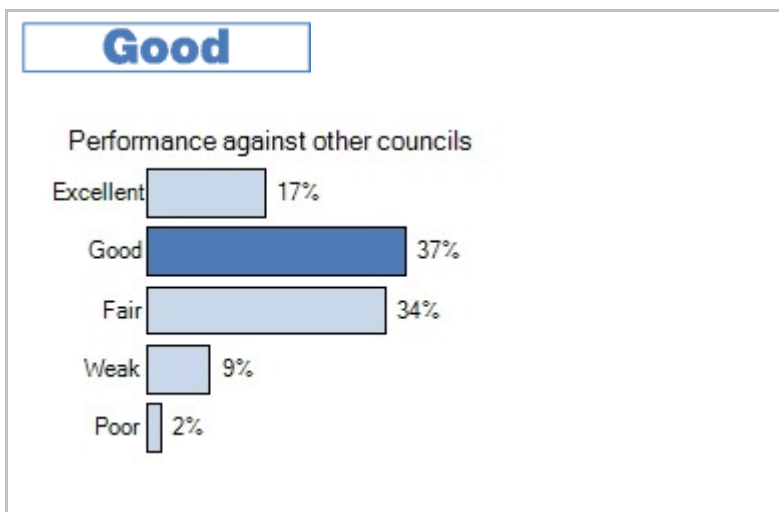
## Purpose, responsibilities and scope

- 8 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.
- 9 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.
- 10 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](http://www.audit-commission.gov.uk). In addition the Council is planning to publish it on its website.
- 11 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.
- 12 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.
- 13 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 Chester-le-Street Council performing?

- 14 Chester-le-Street District Council was assessed as Good in the Comprehensive Performance Assessment carried out in 2007. 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

- 15 The Council has continued to improve services in its priority areas and overall. The scale of the Council's improvement is now reflected in its Comprehensive Performance Assessment (CPA) category which has improved from 'poor' to 'good' as a result of a CPA inspection in June 2007. The Council was the first district council to achieve such a significant improvement in its CPA category.
- 16 This Direction of Travel assessment has used the findings of the CPA inspection together with more recent evidence of improvement and the Council's capacity to deliver against its priorities.
- 17 The rate of service improvements in 2006/07 is impressive and was faster than that of other councils. The Council is ranked 46th out of 388 for the percentage of performance indicators improving between 2005/06 and 2007/08, as measured by the Audit Commissions basket of key performance indicators (PIs) for Direction of Travel:



- Over the last three years, 64 per cent of the Council's PIs improved, compared to an average of 55 per cent for district councils.
  - In 2006/07, 69 per cent of PIs improved, against an average for district councils of 58 per cent.
  - 48 per cent of 2006/07 performance indicators were in the best quartile, compared with an average for all district councils of 33 per cent.
- 18** Progress against the Council's priorities and contribution to wider community outcomes is good. There are many examples of where the Council has worked closely with residents and partners in delivering significant improvements. The Council achieved 75 per cent of its targets last year. Performance in the first six months of 2007/08 was on track against 65 per cent of targets and 57 per cent of performance indicators were showing continued improvement (unaudited data). However there were some service areas where performance declined in 2006/07.
- 19** There has been mixed progress in meeting the decent homes standard. By focusing on housing improvement and better tenant engagement, the Council's housing services achieved a 'one star' (fair) inspection judgement during 2007. The Council secured a positive vote, by over 60 per cent of tenants, to transfer the housing stock to Cestria Housing Association and this transfer has taken place successfully. This will achieve investment plans to meet the Government target of achievement of the Decent Homes Standard target by 2010. In 2006/07 tenant satisfaction with participation significantly improved but satisfaction overall with housing services and performance around non-urgent repairs deteriorated.
- 20** The Council contributes to wider community outcomes. It has made good progress in regenerating the district. The performance of the planning service has continued to improve. Partnership working with the Primary Care Trust (PCT) and Durham City Council is promoting healthy lifestyles. The 'Lifestyle Initiative' has involved over 1,000 children in a programme of healthy eating and physical activity. The Council is working with 'Smoke Free North East' and the PCT to promote smoking cessation.
- 21** The Council has made good progress on neighbourhood management. Improvements in key services such as waste, street cleaning and grounds maintenance are reflected in performance indicators and improved customer satisfaction. Performance remains mixed in some key areas, for example despite recycling rates improving performance remains below average and satisfaction with recycling facilities has significantly deteriorated. Effective partnership working, particularly with the police and local communities has led to improved quality of life in local neighbourhoods. The 'Streetsafe' initiatives undertaken in Pelton village and Sacriston have resulted in a decrease in recorded crime and incidents of anti-social behaviour. Partnership working with communities and schools to generate better environmental citizenship has resulted in the Council being acknowledged nationally as leading best practice (Golden Green Apple Award).

- 22 The Council has made mixed progress in new ways of working in leisure. Satisfaction with sports and leisure facilities has significantly improved however the Council did not progress its leisure services options appraisal work as planned in 2007.
- 23 Improvements in access to services have continued with customer satisfaction levels for the Council as a whole and in key services improving in line with the Council's customer excellence priority.
- 24 The Council continues to improve physical access. The 'one stop shop' at the Civic Centre together with a programme of customer care training for staff and improvements to the Council's website have all contributed to this. The Council is also using text messaging to remind tenants about contractors' visits and to enable the public to report incidents such as fly tipping and suspected benefit fraud.
- 25 The benefits service is improving access to services and equality of access. This includes good access to information and facilities through the Council's website and the service has encouraged people to claim through take-up campaigns in partnership with voluntary sector. A new home visiting or 'one day claim' service was introduced in February 2007 for customers who are less mobile, are housebound or have difficulties in claiming. So far 133 customers have benefited from the service and additional benefits payments of £30,000 have been paid out in to those who were unaware of their entitlement.
- 26 There is now a better relationship between costs and the range, level and quality of services provided by the Council, but overall expenditure remains higher than other district councils and the reasons for this are not well understood. Unintended high spending is being addressed more robustly and investment has resulted in improved services in some areas. The Council has more than achieved its annual Gershon efficiencies. It achieved cumulative savings of £828,000 in 2006/07 against its 2007/08 target of £813,000. The Council's approach to securing value for money is adequate.
- 27 The strength of the Council's plans for improvement was recognised by the CPA inspection, which identified key strengths including a focus on clear priorities, improved capacity, good performance management and the provision of good services that continue to improve. The Council has moved forward in addressing the areas for improvement identified by the CPA inspection in relation to developing a Local Development Framework (LDF) but has not developed its leisure strategy. The quality of strategic plans varies with good strategies in customer excellence, regeneration and housing but not in leisure and planning policy. Service and financial strategies link well enabling the Council to move resources to priority areas.

- 28 Strategic plans are well informed by established community and stakeholder engagement mechanisms. In implementing the Sustainable Community Strategy the Council actively leads and supports the Local Strategic Partnership including its seven 'Policy Groups' which bring together stakeholders from public, private, community and voluntary organisations to determine local priorities and discuss topics such as community safety, culture and health improvement. It has also established a network of community partnerships based on geographical communities to complement parish councils, tenant and residents groups.
- 29 The Council uses action and improvement plans to good effect. It is systematically focused on improving performance. The Benefits service has been transformed over the past three years. In October 2003 the Benefit Fraud Inspectorate (BFI) assessed the service as 'poor' and made 228 improvement recommendations. It is now assessed as a 'good' service that has 'promising' prospects to improve further. The Council has secured the Investors in People award and its IT service has won a Charter Mark.
- 30 Good partnership working is enhancing the capacity of the Council to deliver its priorities. It is involved in the county-wide e-government partnership and has worked with parish councils to deliver better play areas and environmental improvements. It has also worked with community groups to deliver social regeneration through community projects including Grange Villa and Lilac House and attracted £22 million of private investment to develop Pelton Fell.
- 31 The Council has been able to sustain the capacity to deliver most of its plans. It does so by allocating resources to priority areas. Service managers, in conjunction with portfolio holders and staff, include resource bids and anticipated efficiency savings in service plans. This has ensured actions have been delivered in most priority areas but not all, for example the Council has not completed its leisure services options appraisal work because of capacity issues. Sickness absence remains high.
- 32 However, as local government reorganisation progresses it is resulting 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.

## CPA inspection

- 33 As part of the Comprehensive Performance Assessment (CPA) framework, we assess district councils from time to time and place them in one of five categories: excellent, good, fair, weak and poor. In 2003/04 the Council was assessed as 'poor'. In the light of its significant progress since then, we carried out a second CPA inspection in February 2007. As a result, the Council's CPA category rose three levels to 'good'. It was the first district council to achieve such a significant improvement in its CPA category.

**34** The assessment found that:

- The Council and its partners share an ambitious and challenging vision for the area that is clearly described in the Sustainable Community Strategy. This vision focuses on improving the quality of life for residents and visitors. Overall, the Council delivers good services that continue to improve.
- The Council had progressed by improving its understanding of the needs of local people and focussing its efforts on meeting those needs. It has clear priorities which it uses to focus on what is important to the public. This includes economic and social regeneration, good neighbourhood management, better social housing and good leisure opportunities. In each of these activities, performance and customer satisfaction had improved since 2003.
- The Council has built capacity to deliver improved services and work more effectively and efficiently. It works to secure further improvement by placing emphasis on good customer service and efficiency and through partnership working. Councillors and staff are actively involved in delivering improvement.

## Service inspections

### Regeneration

**35** 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.
- 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

- 36** 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;
  - 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

- 37** 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).
- 38** For the purposes of the CPA we have assessed the Council's arrangements for use of resources in these five areas as follows.

**Table 1**

Element	Assessment
Financial reporting	2 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)*

## The key issues arising from the audit

- 39 The key issues arising from the audit, as reflected in the above judgements where appropriate, are as follows.
- The Council considered stakeholder views when deciding not to produce an annual report.
  - The Council continues to ensure that its medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities
  - The Council has continued to improve arrangements for controlling spending and reported an overall underspend in 2006/07.
  - The council has improved arrangements in internal control and continues to perform well in this area.
- 40 The key actions needed to further strengthen arrangements are as follows.
- The Council should ensure that it reviews its fixed assets for ownership and obtain title deeds where necessary.
  - Ensure that the accounts submitted for audit contain only a small number of non-trivial errors.
  - The authority should develop the work started with the approval of the new Asset Management Plan and ensure all backlog maintenance is identified and reported to members with regular progress reports.
  - Reporting of financial information and key financial indicators to Members should be coordinated in order that challenging targets are set for income collection, levels of budget variances etc.
  - The Council should build on the work already done to expand the processes in place to review partnerships to include smaller level partnerships, and continue to keep under review the arrangements of significant partnerships.

## Local risk work

- 41 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**

- 42** 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.
- 43** 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.
- 44** 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.

**16 Annual Audit and Inspection Letter | The audit of the accounts and value for money**

- Challenge 7: systematically seek community views to influence how and where services are provided.
- 45** 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

- 46 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.
- 47 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

- 48 This letter has been discussed and agreed with senior officers. A copy of the letter will be presented at to the full Council on 27 March 2008. Copies need to be provided to all Council members.
- 49 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.

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**Table 2      Reports issued**

<b>Report</b>	<b>Date of issue</b>
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	December 2007
Comprehensive Performance Assessment (corporate assessment)	June 2007
Regeneration inspection (county-wide report)	August 2007
Annual Audit and Inspection Letter, including Direction of Travel report	March 2008

- 50 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

- 51 This letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk), and also on the Council's website.

Sarah Diggle

**Relationship Manager**

Steve Nicklin

**District Auditor**

March 2008