

Annual Audit and Inspection Letter

February 2008



Annual Audit and Inspection Letter

Gateshead Metropolitan 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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Key messages

- 1 Gateshead Council is improving strongly, and we have classified the Council as 'four-star' in its current level of performance.
- 2 Gateshead has recorded one of the best levels of improvement in England and a strong rate of improvement was recorded in almost all service areas. All services are now rated as good or excellent. There are significant achievements in all of the Council's priority areas.
- 3 The Council has used the recommendations from the corporate assessment carried out in 2006 to focus and drive its improvement activity, and impressive outcomes are now being delivered for local people.
- 4 I issued unqualified opinions on the 2006/07 accounts and value for money arrangements, and on the Best Value Performance Plan.
- 5 The Council's current financial position is sound. The Council sets and monitors targets for income collection in respect of council tax and NNDR, and there have been improvements in collection rates.
- 6 During the year we carried out cross-cutting reviews on economic prosperity and health inequalities. This work emphasised the importance of strong partnership working between organisations in order to narrow the gaps between the North East of England and other regions in the country in these key areas.

Action needed by the Council

- 7 The Council needs to ensure that it achieves greater community engagement. The Council's area based approach provides a framework for this, but there have been difficulties in fully engaging with local people, including with vulnerable people.
- 8 The Council needs to deliver sustained improvements in areas where performance has not improved, for example in reducing sickness absence levels.
- 9 The Council needs to work effectively in partnership with others to deliver improvement, including narrowing the gaps in economic prosperity and health inequalities between the North East of England and other regions in the country.

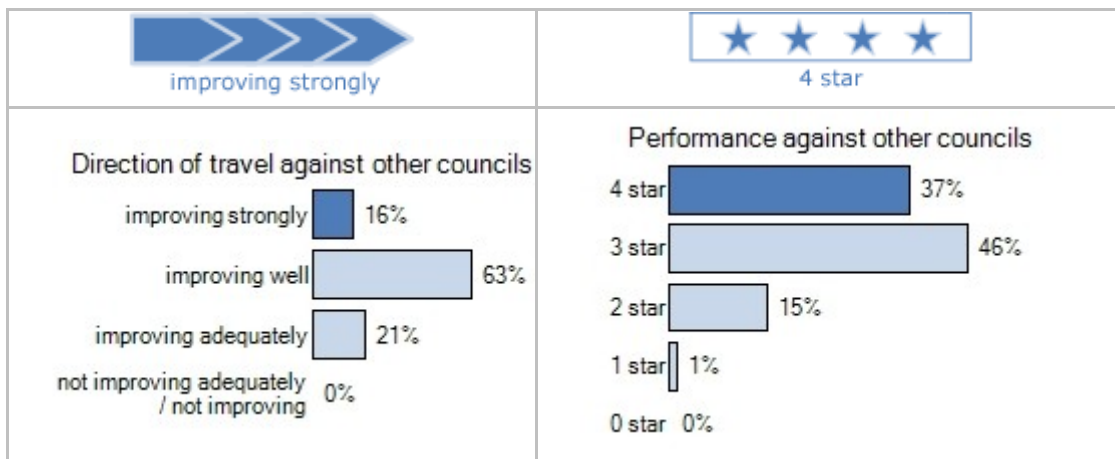
Purpose, responsibilities and scope

- 10 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.
- 11 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.
- 12 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.
- 13 As your appointed auditor I am 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, I review and report 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.
- 14 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.
- 15 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 Gateshead Council performing?

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

Table 1 Overall CPA judgement



Councils with a CPA star rating under review or with a direction of travel judgement that is subject to review are excluded from this analysis

Source: Audit Commission

- 17 The detailed assessment for Gateshead Council is as follows.

Our overall assessment - the CPA scorecard

Table 2 CPA scorecard

Element	Assessment
Direction of Travel judgement	Improving strongly
Overall	4 star
Previous corporate assessment/capacity to improve, as included in overall CPA judgement in 2007*	4 out of 4
Current performance	
Children and young people**	4 out of 4
Social care (adults)**	3 out of 4
Use of resources**	3 out of 4
Housing	3 out of 4
Environment	3 out of 4
Culture	3 out of 4
Benefits	3 out of 4

(1 = lowest, 4 = highest)

Notes:

* The Corporate Assessment was rescored in 2006, under the new framework 'The Harder Test', as 3 out of 4. However, this score was not used in the overall CPA judgement as not all authorities have been subject to this methodology. Consequently, the previous assessment score of 4 has been used.

** these aspects have a greater influence on the overall CPA score.

- 18 The Council has significantly improved outcomes for local people, achieving one of the best levels of improvement in England. Services for children and young people are outstanding, including for vulnerable children. Educational attainment has further improved, including in priority areas such as maths and English at GCSE, and is above the national average. Major regeneration developments have continued. The level of deprivation has reduced and the quality of housing has improved. Ambitious plans for the redevelopment of Gateshead Town Centre are being taken forward. The environment has improved with more recycling, less household waste created and littering in the borough reduced. Crime levels have reduced. The Council provides good value for money. Cabinet members now have specific area responsibilities and customer services access has improved.

- 19 The Council has robust plans for further improvement. A forward strategy, Vision 2030 has been produced with partners. The Council has improved planning processes, the way it monitors its progress and ensures value for money. It is working well with partners at borough and local levels.

The improvement since last year - our Direction of Travel report

Improving outcomes

- 20 Gateshead has recorded one of the best levels of improvement in England (the tenth best result out of all 388 local authorities) and a strong rate of improvement was recorded in almost all service areas. All services are now rated as good or excellent. There are significant achievements in all of the Council's priority areas set out in its corporate plan.
- 21 **Building stronger communities:** The level of deprivation in Gateshead has reduced. The regeneration of the Gateshead Quayside has continued, with, for example, a new Gateshead College campus and the relocation of the Open University regional centre. Consultation on plans for regeneration of the town centre commenced in Autumn 2007.
- 22 The **environment** is improving. There is less littering of land and levels of graffiti and fly-posting have also reduced. All homes in Gateshead now have a kerbside recycling collection. Although the levels of recycling and composting have improved, the rate of improvement is not as fast as other similar authorities. This is being addressed in the longer term jointly with two neighbouring authorities.
- 23 **Empowering children and young people:** Services for children and young people have improved further and are now outstanding. Seventy per cent of pupils achieved five or more good GCSEs, compared with an average of 57 per cent across England, and there has been particularly strong improvement in the proportion achieving good GCSEs including English and maths. Services for vulnerable children have improved in a number of areas, such as hearing impaired provision, speech therapy, and provision for emotionally and behaviourally disturbed pupils, so that fewer children are being sent outside Gateshead. The number of children killed or seriously injured in road accidents halved. A three day conference was held to equip pupils with the revision and research skills required for successful sixth form study, involving 50 local businesses and the local universities. This has been successful in motivating more pupils to stay on post 16.
- 24 **Empowering older people and ensuring healthier communities:** Adult social care services remain good. The Council has provided three additional respite care homes for older people, created Promoting Independence Teams in domiciliary care and Promoting Independence Centres that provide weekly physical activity and awareness sessions on mental health, falls prevention, arthritis and obesity and for carers. This has helped to support older people in their own homes and reduced the need for residential and nursing care.

- 25 Improving accessibility, connectivity and economic prosperity:** Job Linkage has supported 646 residents into employment through customised recruitment initiatives designed to meet the specific needs of employers. 207 people who have been on Incapacity Benefit for at least a year have been helped into employment. The Council has agreed to invest in developing a world class ICT network on Baltic Business Quarter.
- 26 Serving our customers:** Improvements have been made within the Council's new customer services call centre and levels of customer satisfaction are very high. Four local one stop shops have been opened and reception points at five district offices have been developed into customer services satellite offices.
- 27 Ensuring a sustainable Gateshead:** The Council has reduced carbon dioxide emissions by 300 tonnes per year through the use of biofuels from sustainable sources to power its fleet of vehicles and driver training to improve miles per gallon.
- 28** There are a small number of areas where service performance is poor and has not improved. These include too many children looked after by the Council who have to move placements frequently and older people having to wait too long for their needs to be assessed or their care needs provided for.
- 29** The Council provides good value for money. It ensures that a range of quality services is delivered. Whilst costs in some areas are high, these generally correspond with high quality. Areas of high spend are examined thoroughly. Progress has been made in reducing high spend in areas such as out of borough placements, transport and community centres and the Council is doing so in a way that improves and integrates services.

Progress in implementing improvement plans to sustain improvement

- 30** The Council has laid a strong foundation for future improvement. Together with its partners, it launched an ambitious strategy, Vision 2030, in May 2007, following extensive consultation. A new corporate plan for 2007-2010 was adopted in June 2007, and very thorough performance management arrangements, better focused on fewer, more strategic improvement targets have been implemented. The number of theme partnerships has been reduced from nine to four to correspond with the community strategy and take responsibility for its delivery, particularly through the local area agreement. This means that the resources of the Council and its partners can be more focused on making an impact in their agreed priority areas. The Council's three year medium term financial strategy refers to the six corporate priorities but it, and the annual capital programme, are still presented on a service basis so the relationship with the priorities is not sufficiently explicit.
- 31** The Council is making sure that scrutiny reviews have real impact and the Cabinet keeps track of progress made. The vast majority of milestones have been achieved, and the few which are overdue are reported and explained clearly. This maintains a focus on ensuring that scrutiny has a positive impact.

- 32** The Council has increased its focus on meeting the needs in different localities. Five of the Cabinet members now have a specific area remit. The Council and its partners are bringing together local data in a new electronic information system that is being used by Area Forums to prepare neighbourhood plans. However, public engagement at area level is sporadic. The Council has reorganised its environmental services with multi-skilled teams organised on a local basis, providing a quicker more responsive service. It is now well placed to use this approach more broadly, and with its partners, to address those issues which are of most concern to local people.
- 33** Consideration of value for money has become a more established feature of the Council's day to day management and it has set up new senior level arrangements to examine in more depth how it can further improve value for money. A more flexible and imaginative approach to procurement has been adopted, which has started to deliver significant cost savings.

Service inspections

- 34** There have been no Audit Commission inspections during the year.
- 35** An important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators who also review and report on the Council's performance. Relationship Managers share information and seek to provide 'joined up' regulation to the Council, and assessments received during the year from other regulators have been reflected in the scorecard and Direction of Travel assessments shown above.

The audit of the accounts and value for money

- 36 As your appointed auditor, I have reported to the Audit Committee on the issues arising from our 2006/07 audit and I have issued:
- my audit report, providing an unqualified opinion on your accounts;
 - my conclusion on your VfM arrangements to say that these arrangements are adequate; and
 - my report on the Best Value Performance Plan confirming that the Plan has been audited and published in accordance with the statutory requirements.

Accounts

- 37 The Council complied with new accounting requirements and produced a comprehensive set of financial statements for 2006/07.
- 38 Although our work did not identify any weaknesses that could lead to a material error, we recommended that the Council should:
- review the provision for bad debts for council tax and NNDR and improve the processes for writing off bad debts;
 - review accounting policies in relation to fixed assets; and
 - further improve working papers in some areas.
- 39 Ongoing discussions with officers suggest that appropriate action is underway to secure improvements in these areas for future years.

Use of Resources

- 40 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).

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

Table 3 Use of resources judgements 2007

The overall use of resources judgement is at level 3 which means 'consistently above minimum requirements – performing well'

Element	2006 Score	2007 Score
Financial reporting	2	2
Financial management	2	3
Financial standing	3	3
Internal control	3	3
Value for money (VfM)	3	3
Overall assessment	3	3

(Note: 1 = lowest, 4 = highest)

- 42 The Council is continuing to improve year on year, and is performing well in most areas of the use of resources assessment. The Council has continued to embed arrangements and make further improvements, with improved scores in some areas reflecting this. The main improvements are set out below.
- The score for financial management has increased, reflecting improvements in the Medium Term Financial Strategy and increased focus on high risk and volatile areas in budget monitoring.
 - Financial standing is sound and there have been improvements in income collection rates for business rate and Council Tax levels.
 - Improvements in internal control are evident in risk management and through the development of the Local Code of Corporate Governance.
 - The Council is engaged in a range of activity to demonstrate and improve value for money.
- 43 We have discussed various opportunities for further improvement, including:
- improving the working papers supporting financial reporting;
 - developing the annual report, and including the accounts for the current financial year;
 - developing the strategic risk register to enable the Audit Committee to monitor the management of strategic risks; and
 - using service plans and the annual report to show how well the Council achieves value for money.

Data quality

- 44** Arrangements for ensuring data quality overall are effective and some 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. Areas of strength included application of policies in practice, data champion arrangements, and using performance data to inform action.
- 45** The Council has a well integrated process of performance reporting, action and target setting. There are appropriate arrangements for reporting on performance to top corporate management (Strategy Group), Cabinet and Overview & Scrutiny. Data is used well for planning and management purposes. There is evidence of effective action to address issues identified through performance monitoring. Target setting has become more robust.
- 46** Our spot checks of specific performance indicators found that they were all fairly stated, although one indicator did require amendment.

National fraud initiative

- 47** The National Fraud Initiative 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 Internal Audit. To date, frauds of £12,874 have been identified and recovery action is in progress.

Local risk work

- 48** 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. We assess progress through our regular liaison with officers, and in some areas we carry out specific reviews.
- 49** As part of our current audit work, we are carrying out specific reviews to assess the:
- delivery of improvements in the strategic planning framework and improved performance management arrangements; and
 - delivery of improved outcomes through partnership arrangements.

The outcomes of these reviews will be reported in due course.

- 50** A key component of the Audit Commission's national strategy for improving the impact of local audit 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, economic development; and health inequalities.

Economic development within the Tyne and Wear city region

- 51** Economic regeneration is a key challenge across Tyne and Wear. There has been progress, with employment and jobs growth in some areas of Tyne and Wear and economic growth in Tyneside and Sunderland at levels greater than the national average since 2000. However, the city region economy is still less productive than the rest of the country. The unemployment rate is 6.48 per cent compared with 5 per cent nationally, which represents some 9,000 more unemployed residents than if Tyne and Wear matched the national rate. The long-term growth in employment is also weak and average incomes are below the national average. There are lower levels of self employment than nationally and less than half the national level of business start ups.
- 52** Individual councils are taking forward local economic strategies, but the achievement of their targets combined will not meet the regional aspirations for economic growth. A range of national and regional studies have demonstrated the importance of city regions for economic growth. The Five Councils in Tyne and Wear, together with Northumberland and Durham County Councils have agreed ambitious plans to work together at a city region level in response to Government policy direction. This builds on previous successful joint working in areas such as the Employment Consortium.
- 53** Our review took a strategic view of economic development in Tyne and Wear, and focussed on the developing city region, at a time of increased momentum in its development, including the appointment of a City Region Director. Our recommendations, aimed at supporting continuing development of the City Region, stressed the importance of strong leadership, good project management, and an integrated approach in driving this agenda forward. Specifically:
- there needs to be project plan to deliver the City Region Business Case with timescales to accelerate the pace of development, clearly identifying capacity requirements and how these will be met;
 - the need to build a strong analytical capacity and the development of an economic strategy and investment plan based on robust economic analysis, which identifies and prioritises major investments that deliver significant improvement in the City Region economy;
 - the city region's economic strategy and investment plan should be aligned to both the Regional Economic Strategy Action Plan, Multi-Area Agreements and established local regeneration partnerships; and
 - a strong and effective communications policy is needed to promote the benefits of the city region within authorities, partners and the public.

Health inequalities

- 54 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.
- 55 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.
- 56 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.

57 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.

Closing remarks

Looking ahead

- 58** 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.
- 59** CAA will result in reduced levels of inspection and better coordination of inspection activity. The key components of CAA will be a joint inspectorate annual area risk assessment and reporting performance on the new national indicator set, together with a joint inspectorate annual direction of travel assessment and an annual use of resources assessment. The auditors' use of resources judgements will therefore continue, but the scope will be widened to cover issues such as commissioning and the sustainable use of resources.
- 60** The first results of our work on CAA will be published in the autumn of 2009. This will include the performance data from 2008/09, the first year of the new Local Area Agreements.
- 61** This letter has been discussed and agreed with officers. A copy of the letter will be presented at a joint meeting of the Cabinet, Overview and Scrutiny, and Audit Committee. Copies need to be provided to all Council members.
- 62** Further detailed findings, conclusions and recommendations on the areas covered by audit and inspection work are included in the reports issued during the year.

Table 4 Reports issued

Report	Date of issue
Audit and inspection plan	April 2006
BVPP report	December 2006
Opinion audit plan	July 2007
Annual Governance Report	September 2007
Opinion on financial statements	September 2007
Value for money conclusion	September 2007

Report	Date of issue
Data quality report	October 2007
Use of resources	January 2008
Final accounts report	January 2008
Annual audit and inspection letter	February 2008

- 63 The Council has taken a positive and constructive approach to our audit and inspection. I would like to take this opportunity to express my appreciation for the Council's assistance and co-operation.

Availability of this letter

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

Lynne Snowball
Relationship Manager and District Auditor

February 2008