

Annual Audit Letter
**Stockton-on-Tees
Borough Council**

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DISTRICT AUDIT

Reference:	ST021-15-2002 AAL
Date:	January 2003

KEY MESSAGES

Comprehensive Performance Assessment

A major effort was required by both Members and officers to respond to the Audit Commission's Comprehensive Performance Assessment. The Council's overall score was 'good'.

Provision of council housing

The Council was successful in getting approval to participate in a Government initiative to establish an ALMO (Arms Length Management Organisation), Tristar Homes, to deliver the day-to-day management and maintenance of the housing stock.

The initiative also gave the Council the opportunity to access an additional £44.5m in capital resources to improve the housing stock. This was achieved following a reinspection of housing in October 2002 which rated the service as 'good'.

The Council entered into an outline agreement with Tristar Homes in April 2002 on the delivery plan and the working arrangements continue to be developed into formal more detailed arrangements. Given the success in attracting the additional capital funding the Council will need to ensure that Tristar Homes uses these funds effectively to deliver the capital improvements.

Housing Revenue Account

Although the Council has been successful in obtaining additional capital resources, there is a substantial deficit on the Housing Revenue Account (HRA) which needs to be recovered. As part of the arrangements with Tristar Homes the Council retains the ownership of the housing stock and is still responsible for the HRA. For the year ended 31 March 2002 there was a cumulative deficit on the HRA of £659,000.

A recovery plan has been produced and officers are projecting a surplus will be achieved. Members will however, need to monitor progress closely to ensure that the HRA is in balance at 31 March 2003.

Scrutiny

The Council recognises that effective decision-making, overview and scrutiny arrangements are essential in ensuring effective corporate governance. The new political arrangements introduced in October 2001 have been evaluated after the first six months of operation. The key outcome from the review was the need to strengthen scrutiny through appropriate officer support, together with training and guidance for Members. A project plan has been prepared to implement the findings from the evaluation exercise and Members need to ensure expected outcomes are achieved.

The purpose of this Letter

This Annual Audit Letter summarises for Members the more important matters arising from our audit for 2001/2002, and comments on other current issues.

We have produced separate reports throughout the audit year on different aspects of our work and details are listed at the end of this Letter for Members' information.

The Audit Commission has circulated to all audited bodies a statement which summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.

Context of the audit

During the year as well as meeting the challenge of the Comprehensive Performance Assessment the Council has embarked on a number of major developments in the way services are provided including:

- undertaking an extensive review of the organisational structure and the way support staff are organised
- transferring responsibility for the management and maintenance of Council houses to an ALMO, Tristar Homes
- progressing the development of a partnership with North Tees PCT to integrate health and social services
- transferring the responsibility for running Leisure centres to Service Stockton.

Audit objectives

Audit work is based on the significant financial and operational risks that the Council faces and is structured around three main elements.

EXHIBIT 1 THE THREE MAIN ELEMENTS OF AUDIT OBJECTIVES



Accounts

- Opinion
- Core financial processes

Financial aspects of corporate governance

- Legality of financial transactions
- Financial standing
- Systems of internal financial control
- Standards of financial conduct, and the prevention and detection of fraud and corruption

Performance management

- Use of resources
- Best Value Performance Plan
- Best Value Performance Indicators

Our audit has addressed the requirements of the Code of Audit Practice and we have worked with the Authority to maximise the benefits of the integrated audit approach. We have reviewed your arrangements for dealing with risks and we have undertaken more detailed work in selected areas of higher audit risk.

Our key findings and recommendations in respect of each area are summarised in the following pages.

Accounts

The financial statements present fairly the financial position of the Council.

Opinion

We gave an unqualified audit opinion on the Council's Statement of Accounts on 17 December 2002.

The opinion was delayed until matters relating to the charging of revenue expenditure to capital were resolved resulting in an increase in the Housing Revenue Account deficit.

Core financial processes

The core financial processes for the production of the accounts consist of:

- the main accounting system
- budgetary control
- closedown procedures.

Our review and related additional testing confirmed that satisfactory controls were in place during 2001/2002.

Financial aspects of corporate governance

The Council implemented new political structures in October 2001 and has now evaluated the arrangements to identify areas for improvement.

Evaluation of the new constitution

The new political management structures introduced in the Local Government Act 2000 represent a major organisational and cultural change for local authorities. They are part of a wider democratic renewal agenda which is seeking to make councils more transparent and to engage local communities. Effective decision making, overview and scrutiny arrangements

are also key to ensuring effective corporate governance.

The new Constitution was introduced in Stockton-on-Tees on 1 October, 2001 at which time Members agreed that it would be subject to a comprehensive evaluation six months after implementation, to commence on 1 April 2002. The majority of the new structure was considered to be working well and the evaluation concentrated on improving the scrutiny process.

A Members Advisory Panel was established to oversee the evaluation. The approach was wide ranging and included focus groups, questionnaires, observation at meetings, an assessment of information provided and comparison with good practice.

We assisted in the evaluation through providing a structured assessment for the observation of Cabinet, Scrutiny and Select Committee meetings and participated in the observation process. The assessment was used to ascertain the outcome and effectiveness of meetings.

The key outcome from the review was the need to strengthen the scrutiny role through officer support for Members and Member training and guidance especially for the chairs of the scrutiny and select committees. We have held a facilitative workshop for Members which was designed to develop the scrutiny skills.

The Council will have new responsibilities in terms of health scrutiny in 2003. We will be considering the Council's arrangements to meet this new challenge in the forthcoming audit.

Legality of financial transactions

There are no matters for Members' attention arising from our review of arrangements for ensuring the legality of transactions with financial consequences.

We have reviewed the Council's overall arrangements and there are no issues to report to Members.

Financial standing

The Council has a healthy level of general fund balances. However, the Housing Revenue Account has a significant cumulative deficit which needs to be recovered by 31 March 2003.

The Council continues to operate in a restricted financial climate and each department is responsible for managing its budget in accordance with the Council's financial regulations. The outturn for 2001/2002 shows a general fund working balance of £7.211m (equivalent to 3.9% of general fund expenditure). This balance includes departmental managed transfers already committed.

The Council is in the process of updating its Medium-Term Financial Plan in response to the Government's spending review and the need to re-align budgets to reflect the internal re-structure.

The budgetary control process for 2002/2003 has also been reviewed in anticipation of the Government's new proposals for closer monitoring of local authority finances. We understand that quarterly monitoring reports are to be presented to both Cabinet and the Performance and Audit Select Committee.

Housing Revenue Account (HRA)

The Council originally budgeted to break-even in-year on the HRA in 2001/2002. At month 11 officers' budget projection indicated an in-year loss of £389,000 leaving the HRA with a small surplus. However, during the closure of the accounts the in-year loss was increased to £715,000 due to:

- £180,000 income lost on rechargeable repairs not recovered
- £100,000 reduction in housing subsidy due to rent income being understated
- £46,000 loss of notional interest receivable because of the low HRA balances.

Officers agreed to prepare a recovery plan and this was reported to Members in August 2002.

During the audit of the accounts we identified that expenditure in relation to the painting of Council houses had been charged to capital and not to revenue. The correction of this practice

resulted in the cumulative deficit increasing by a further £359,000, to £659,000. A revised recovery plan was presented to Members, and officers are now projecting that a surplus will be achieved.

Members need to monitor the recovery plans to ensure that the required savings are made so that the HRA is brought back into balance by 31 March 2003. We will also continue to track progress on the achievement of savings.

Systems of internal financial control

No issues have arisen for the attention of Members.

Our assessment of Internal Audit's performance against CIPFA's Code of Practice found good compliance against required standards. We conclude that reliance can be placed on the work of Internal Audit for our requirements.

Standards of financial conduct and the prevention of fraud and corruption

The Council has completed a self-assessment of governance and implemented an action plan. No issues have arisen from our work that need to be brought to Members attention.

The Council's arrangements have been assessed through:

- completion of the CIPFA/SOLACE self assessment checklist
- specific reviews including registers of interest, gifts and hospitality.

CIPFA/SOLACE checklist

As part of the preparation for the CPA assessment we produced a self assessment checklist on Corporate Governance based on the CIPFA/SOLACE framework. Officers produced an action plan to further improve procedures following completion of the checklist. We will continue to track progress against the action plan.

Gifts and hospitality

Registers of interests, gifts and hospitality play an important role in ensuring high standards of financial conduct.

The results of our review show that the Council has appropriate systems in place but that these are not always reinforced by effective monitoring especially for officers. Officers have agreed to review the monitoring procedures.

Risk management arrangements

The Council's Risk Management Strategy is to be fully implemented by January 2003 to ensure robust arrangements for identifying and dealing with risks.

The Council recognised that it did not have a systematic method for the assessment of business risk and decided to review processes and procedures, to ensure a more consistent and comprehensive approach.

The Council developed an approach to Risk Management during the summer which is being rolled out to all departments. The Risk Management Strategy is expected to be in place by January 2003, and we understand that guidance has been issued to inform the development of the Council's service delivery plans for 2004.

Performance management

Best Value Performance Plan and Performance Information

Best Value Performance Plan

Our work on the Council's published Best Value Performance Plan confirmed compliance with statutory requirements and guidance. We issued an unqualified opinion in December 2002 and did not make any statutory recommendations requiring a formal Council response.

Performance information

The review of performance indicators included 15 indicators which fed into the CPA process. Our review confirmed that significant improvements have been made to ensure that systems are in place to accurately record performance information.

Use of resources

Comprehensive Performance Assessment

The Audit Commission's Comprehensive Performance Assessment of all upper tier local authorities was based on:

- Corporate Assessment Team site visit
- inspection outcomes
- scored auditor judgements
- national PI data.

Authorities were placed in one of five categories, excellent, good, fair, weak and poor. The final assessment for Stockton-on-Tees Borough Council was good.

The Corporate Assessment Team's report identified the Council as very ambitious and has developed a number of building blocks to enable it to deliver a demanding improvement agenda. The Council is responding with actions identified to take forward its agenda.

We will be working with the Council over the coming months as it implements its improvement planning arrangements. Inspection and performance work will be reduced in view of the Council's 'good' rating on CPA. We will however continue to focus our audit approach on a risk assessment basis.

VFM reviews

Our reviews in specific areas also support the Council in improving services. Outcomes of our work is summarised in Exhibit 2 overleaf.

EXHIBIT 2 USE OF RESOURCES – KEY FINDINGS**Management of housing through an ALMO**

In April 2002 the Council transferred the management and maintenance of its 13,760 council houses to Tristar Homes Limited, a newly established Arms Length Management Organisation, following tenant support for this option through a ballot. The housing stock remains in the Council's ownership and it has to continue to prepare a Housing Revenue Account (HRA), claims for housing subsidy and key housing performance indicators.

The Housing Inspectorate has assessed the service as good thereby giving the Council access to some £45m of capital to improve the housing stock. However the revenue position on the HRA remains critical especially as the deficit has to be recovered. The Council is therefore reliant on Tristar Homes delivering improved performance while having to meet tighter financial controls. The Council should:

- consider housing staffing structures for retained staff to ensure they reflect the revised workload
- introduce a rigorous quality assurance system covering the collection and reporting of performance information
- ensure that the risk management strategy recognises the issues associated with using the ALMO to deliver key services
- review financial monitoring and ensure that Housing finance knowledge is vested in more than one officer.

Social Services – developing strategic partnerships in health

The Council and North Tees PCT have clear aspirations for the integration of health and social care in Stockton. A partnership is planned with the aim of planning, commissioning and ensuring the delivery of all health and social care services across the borough. A Touchstone Group, comprised of representatives of both organisations, has been established to project manage the integration process. Our aim was to provide a benchmark so that future progress could be clearly measured.

We presented our findings to the Touchstone group but acknowledged that the partnership is an evolving process as it is bringing together organisations with different cultures. The key challenge is to ensure there is a consensus on what needs to be achieved and how it will be done within both the Council and the PCT. Officers in both organisations expressed concerns that while they were fully committed to integration, their understanding of what this would mean differed. The Touchstone Group can facilitate a better understanding through having:

- a timescale for the proposed communications plan to ensure everyone involved is kept informed of developments
- a more detailed project plan to demonstrate project management and to develop key measures for "what success will look like".

Review of project management arrangements for the customer management project

The Council's Customer Management Project will provide the IT infrastructure for development of customer focused electronic service delivery. It is a potential high-level risk area with many interfaces to internal and external functions and systems. Our review concentrated on how the project was being managed.

Initially the project suffered from the loss of key personnel and the failure of an external supplier to deliver expected outcomes. The project was re-launched in January 2002 and project management was strengthened. Our overall evaluation from reviewing the project management arrangements is that the project is now well managed, with appropriate arrangements and controls in place. Phase 1 of the project is completed and a new website has been developed.

The Council has:

- adopted project management methodology for all major IT projects work and refined the project documentation
- extended the use of a standard Project Management methodology to other areas
- introduced Project Management training as part of the staff development programme.

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Leisure management arrangements

Leisure is a non-statutory service but contributes to the Council's Community Plan in areas such as healthy lifestyle and regeneration. Overall the annual net expenditure for revenue and capital on the provision of the five leisure facilities within the Borough is some £3.2m. The current leisure centres are in need of refurbishment and require additional repairs and maintenance which will lead to higher costs.

The Council has made substantial changes over the last six months to the way in which leisure activities are managed. The direct management of leisure facilities has been moved to 'Service Stockton' however, the responsibility for the strategic direction, sports development and school sports provision are retained within the Education and Cultural Services (ELDS) department. There are a number of other initiatives which could directly affect Leisure Centres including the regeneration of Billingham and Thornaby town centres.

The Council is developing an overall strategy for Leisure which should ensure that there is a corporate approach to providing sport and recreation within the Borough and that the various initiatives are complementary to the overall approach. In developing the strategy the Council should consider the sort of facilities it wants to provide taking into account the cost of provision and how the social objectives of sport and recreation provision contribute to the Community Plan. A decision has been made in principle to seek alternative methods of delivery and investment for the leisure centres.

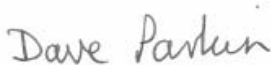
Future audit work

We will shortly be reviewing current financial and operational risks for the Council to identify audit and inspection work for 2002/2003 and 2003/2004. This process will be integrated with your improvement planning for CPA.

The Audit Commission is realigning its operational year to match local authority financial years. We will be seeking to agree plans for our work and fees to cover the period 1 November 2002 to 31 March 2004.

Closing remarks

I would like to take this opportunity to express my appreciation for the assistance received from officers during the course of our work. Our aim is to provide a high standard of audit and inspection service that makes a practical and positive contribution to the work of the Council. We recognise the value of your co-operation and support.



David Parkin
District Auditor
January 2003

Status of our reports to the Council

Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to Members or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party.

Reports issued during the Audit

Accounts

Final Accounts Memo (December 2002)

Corporate governance

CIPFA/SOACE self assessment (May 2002)

Corporate Governance Arrangements (July 2002)

Gifts and Hospitality (October 2002)

Best Value

Interim Report on BVPP (May 2002)

Other performance work

IT Strategy (May 2002)

ALMO (October 2002)

Seminar for Members on the Role of Scrutiny (September 2002)

Social Services (presentation December 2002)

Leisure (December 2002)

Review of Scrutiny arrangements (joint work with officers and Members)

Other audit outputs

2001/2002 Audit Plan (February 2002)

Statutory Report on the Best Value Performance Plan (December 2002)

Annual Audit Letter (by 31 January 2003)