

Annual Audit and Inspection Letter

Colchester 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

- The Council received an unqualified opinion on the financial statements and an unqualified opinion on the value for money conclusion.
- The Council has been assessed as performing well in its annual Use of Resources assessment in all areas.
- Whilst the direction of travel statement shows improving performance in a number of areas, improvement in overall performance indicators in the last year is variable. The Council has improved 46 per cent of its performance indicators which is less than the average of 57 to 59 per cent for all district councils, and 29 per cent of indicators are in the top quartile (compared to an average of 33 per cent for all district councils).
- The Council is successfully implementing significant regeneration projects in the Borough. There is effective use of external funding to develop housing and create business and leisure opportunities.

Action needed by the Council

- Monitor progress and outcomes against the areas for improvement arising from the Use of Resources assessment for the Council.
- Incorporate areas for improvement as set out in the Direction of Travel Assessment into the Council's Improvement Plan, in particular to look at improving below average performance some of which is in the Council's identified priority areas.
- The Council needs to focus on areas of variable performance, such as planning and the time taken to re-let housing.
- Consider and implement initiatives to address sickness absence.

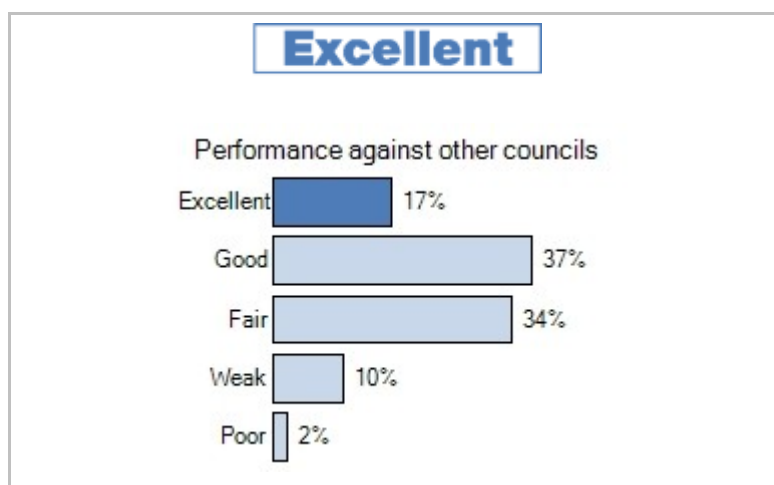
Purpose, responsibilities and scope

- 1** 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.
- 2** 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.
- 3** 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.
- 4** 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.
- 5** 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.
- 6** 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 Colchester Borough Council performing?

- 7 Colchester Borough Council was assessed as 'Excellent' in the Comprehensive Performance Assessment carried out in 2004. 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

- 8 The Council has made significant progress on regeneration projects which support the agreed priorities of the Council and its partners. Performance indicators for 2006/07 are generally improved although some service performance, notably in planning, is below average. The Council is proactive in improving the inclusion and facilities for people with disabilities and has commenced projects to support disadvantaged residents. The Council provides good value for money and residents are benefiting from some significant successes in securing external funding in support of regeneration projects. Developments completed and proceeding have started to provide business, employment, educational and leisure venues and opportunities in the Borough.
- 9 A programme of improvements to internal processes and culture within the Council has begun with the aim of improving efficiency and service effectiveness. This programme draws together all departments and ongoing improvement projects. Strategies being developed take account of opportunities such as the 2012 Olympics and key issues such as climate change.

What evidence is there of the Council improving outcomes?

- 10** The Council has made progress on the priority areas agreed by Members and local partners. This has been achieved through investment and meeting milestones in key developments and regeneration projects. Council and local partnership shared priorities are focussed on culture and business development. The Council has successfully sourced external funding working with local partners as a key means to provide significant regeneration, culture and leisure projects. These include the now completed early phases of residential and business units in the Hythe area and the Garrison developments of affordable housing. These support the aims of promoting the Borough as a premier destination, providing opportunities for all residents and development of the local economy.
- 11** Improvement in overall performance indicators in the last year is variable. The Council has improved 46 per cent of its performance indicators which is less than the average of 57-59 per cent for all district councils, and 29 per cent of indicators are in the top quartile (compared to an average of 33 per cent for all district councils). Housing indicators are mainly improved including the rate of change in decent homes. Average re-let time has improved although performance remained below average for all councils. The recycling and composting rate for the Borough has improved and is better than average. The amount of household waste collected has also improved and is in the top quartile. The Council has invested in key projects supporting leisure and arts in the Borough. Performance indicators for culture improvement are in the top quartile.
- 12** However, performance indicators for planning services deteriorated and were in the lowest quartile. Improvement in planning application processing is in part dependent on local software and national IT developments which have been delayed. Service user satisfaction, from 'best value' indicators has nevertheless improved from 66 per cent to 74 per cent in the three years to March 2007. Recent un-audited performance records show improvement, and the Council have developed a detailed improvement plan for this service. Although key service areas have shown improvement local residents continued to experience delays in planning services.
- 13** The Council has made improvements in processes to take account of the diversity of residents of the Borough. Equity assessments are now routine for all service change and policy proposals. Improvements in access to services have been made through links with libraries and parish councils, customer service centre software and staff training at these sites. The museum service has increased community engagement and the activity of PORTAL (the disability advisory access group) to include an annual conference on access to museums and related sectors. The Council is maintaining level 2 of the equality standard for local government. Staff at the Council received 'customer excellence' training during 2006/07 although the positive impact of this is difficult to demonstrate yet. Diversity is recognised by staff and in policy development. Residents have a wider range of access points to information and services.

- 14 The Council provides good value for money. Council tax has been maintained low in comparison to similar councils. Efficiency targets are being achieved through early identification of savings and improved budget monitoring. Although savings are yet to be reported, the 'Life Chances' initiative is being implemented with partners working together, to improve efficiency, on specific targets. Increasing savings through procurement are being made working through the Essex hub. Further efficiencies have been identified through contract management. The Council has implemented measures to reduce staff absence although for 2006/07 sickness absences were in the worst 25 per cent of councils. Financial plans are supporting service improvements and investments in priority areas.
- 15 The Council has been successful in gaining external funding for significant regeneration projects. These projects support the wider interests of the community in terms of education and employment and the Council's aim of positioning Colchester as a prestigious regional centre. During 2006/07 Haven Gateway Partnership growth point funding was received and projects commenced. A total of £4 million is to be received over two years to support long term projects. This and other external funding has enabled the Council to achieve milestones and complete projects this year. These include housing, the initial building phases of the community stadium and access roads, business unit opportunities and arts venues. The new visual arts facility 'Firstsite' is expected to open in 2008 as a result of project milestones achieved in 2006/07. The Council closely monitors progress on projects and costs. It was recognised that reappraisal of project funding was required by November 2007. This has been acted on promptly and working with funding partners. The Council has amended governance arrangements for the project and has secured the additional investment to maintain progress on the arts facility. The Council is a proactive member of the Regional Cities East (RCE) network which has ensured the interests of Colchester are recognised by government and regional funding bodies. The work of the Council is attracting significant external funding to enable completion of developments including longer term large scale regeneration projects.

How much progress is being made to implement improvement plans to sustain future improvement?

- 16 Core management processes have been strengthened through a programme for further improvement ('Way We Work') which has commenced. The Council has invested in and commenced a cross service project designed to draw together all transformation processes. Key principles of the programme are driving change, maintaining excellence and promoting citizen engagement. A dedicated programme manager, Board and relevant committees have implemented the first stages across four themes (People, Customer Excellence, Flexible Working and Place Shaping). A pilot is underway assessing the use of new communication technology, shared desks and home working. The Council is building capacity and capability to support the agreed improvement plans for efficiency and customer service.

- 17** Strategies for improvement are aligned closely with those of partners and supported by SMART action plans. The Council has agreed key themes in Colchester's Sustainable Community Strategy that are to be linked with the Local Development Framework, the Regional Plan and the Council's own strategic and service plans. The theme of Business and Employment in the strategy is, for example, a further development of current action plans in the Council's Strategic Plan for 2006/09 on 'Job Creation' and 'Renaissance'. Improved performance management arrangements are established. This includes a 'performance dashboard', clear traffic light indicators, and progress comments in reports. As lead partner the Council also promotes effective working of the public sector partnership with similar clear performance reporting. Implementation of improvement plans is being closely coordinated with local partners.
- 18** The Council has worked effectively in partnership on improvements for disabled or disadvantaged residents. The Public Sector Partnership (PSP) members have implemented an action plan tackling the needs of disadvantaged, vulnerable and hard to reach groups of the Borough. Targets include reducing health inequalities within the Borough on smoking prevalence and childhood obesity, and increasing employment and life skills achievement in identified wards. There is regular monitoring planned by the PSP to deliver the improvements.
- 19** The Council is effective in planning with partners to ensure developments take account of sustainability and climate change issues. Through the RCE network the growth of housing is being delivered with high brown field site utilisation and with consideration of car-based movement in urban areas. Local partners have agreed that the reduction of carbon emissions is a priority that must be included throughout all themes of Colchester's Sustainable Community Strategy although details and monitoring of this are yet to be developed. Sustainable development is a focus of partnership plans for Colchester.

Service inspections

- 20** As the Council is an 'excellent' authority under CPA, and in accordance with the Audit Commission's principle of 'strategic regulation', no formal inspections were carried out during 2006/07 or 2007/08.

Local Area Agreement

- 21** As part of the 2006/07 plan we agreed to undertake a piece of work to look at the effectiveness and governance arrangements of the Local Area Agreement (LAA) across Essex.
- 22** LAAs are three year agreements which set out the priorities for a local area agreed between central government and a local area. The local area is represented by the local authorities, PCTs, Fire and Police services, the Learning and Skills Council, Local Strategic Partnerships and other local partners including the community and voluntary sector. LAAs are based on delivering national outcomes in a way that reflects local priorities.

- 23** The first Essex LAA was published in March 2006, and set fourteen priorities. The aim was to focus on the needs of identified groups of service users and residents in a way that would lead to a step-change in the collective effectiveness of the whole public sector in Essex, particularly through more joint working between agencies at the frontline.
- 24** As the LAA is being revised in line with recent Government guidance, including the new national indicator set, we have agreed to delay this work pending the new arrangements being put in place. Partners are seeking to use the opportunity to develop a more inclusive and effective approach that better reflects local priorities and the diverse needs of Essex. The revised targets will be based on the Joint Strategic Needs Assessment. It is due to be published as LAA2 in June 2008.

Health Inequalities in the Essex audit

- 25** The purpose of this audit was to assess current arrangements across Essex to reduce health inequalities; and examine future plans to improve life chances and reduce health inequalities. The audit involved all local authorities and PCTs in Essex, as well as the Fire and Rescue Service. As well as a document review, interviews and a survey, the audit included action planning workshops, involving representatives of all the audited bodies. The main conclusions were then shared with Essex public services Chief Executives.
- 26** The audit identified four main areas to be addressed:
- strategic approach;
 - information and joint planning;
 - delivery and monitoring performance; and
 - political involvement.
- 27** Partners recognised that a range of approaches to health inequalities is likely to be the most effective. Many health inequalities are local issues, needing local solutions. However, without a common overall strategic approach, with agreed local and Essex-wide priorities and a shared view of the importance of the agenda, joint planning will remain problematic, accountability unclear and difficult to performance manage.
- 28** Elected members need to have information and an understanding of the issues involved in health inequalities in order to provide the necessary political leadership. Elected members will need to make difficult political decisions on the focus and allocation of resources.

The audit of the accounts and value for money

- 29** As your appointed auditor I have reported separately to the Accounts and Regulatory Committee on the issues arising from our 2006/07 audit and have issued:
- my audit report, providing an unqualified opinion on your financial statements and an unqualified conclusion on your VFM arrangements to say that these arrangements are adequate on 28 September 2007; and
 - my report on the Best Value Performance Plan confirming that the Plan has been audited.

Use of Resources

- 30** 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).
- 31** 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	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 = inadequate performance, 2 = adequate performance, 3 = performing well, 4 = performing strongly)

The key issues arising from the audit

- 32 The Council received an unqualified opinion on the financial statements and an unqualified opinion on the value for money conclusion. The accounts and supporting working papers were timely and prepared to a good standard and officers were responsive to audit queries facilitating the smooth operation of the audit. There were no material amendments to the accounts.
- 33 The Whole of Government Accounts (WGA) return was submitted late in the audit process. We were able to undertake audit work to meet the required deadline for WGA.
- 34 Our use of resources assessment noted that the Council was performing well in respect of financial reporting, financial management, financial standing, internal control and value for money. This level of performance has been maintained for all three Use of Resources assessments. A detailed report of our findings in respect of use of resources has been issued and Members should monitor progress against the improvement points noted within this report. The key findings from our work are noted below.

Financial reporting

- 35 The Council has prepared annual accounts in accordance with the relevant timetables and statutory guidance, and we were able to issue an unqualified audit opinion by the deadline.
- 36 The Council continues to publish the accounts, annual audit letter and committee minutes on the website. Summary financial statements are also produced. Consultation has taken place in respect of the format of the accounts.
- 37 Members did not receive a full set of financial statements when the accounts were approved.

Financial management

- 38 Overall, the Council continues to ensure its finances are delivering its strategic priorities, and is managing its performance against budgets and reviewing its asset base. The Council has both medium term and long term plans in place.

Financial standing

- 39 Budgets are set using detailed plans, are well monitored and have historically been underspent. A report is provided to Members on the adequacy of reserves. There is a policy and level for reserves. Income is monitored against budget and regularly reported.
- 40 There is detailed monitoring information to review overpayment recovery and debt recovery. Performance indicators and monthly reconciliations assist this process.

Internal control

- 41** Risk management arrangements continue to be embedded. A risk strategy is in place and approved by Members. A corporate risk register is regularly updated, and contains specific and generic risks in respect of partnerships. The Finance and Audit Scrutiny Panel now have responsibility for risk management and regularly review the corporate risk register. Project initiation contains a risk assessment.
- 42** The Council has arrangements in place to maintain a sound system of internal control. An annual review of effectiveness has been carried out and the Statement on Internal Control has been reviewed by the Accounts and Regulatory Committee. Sources of assurance have been reviewed and an action plan is in place. A project is underway to bring business continuity plans up to date at the Council.
- 43** The Council continues to have good arrangements in place to promote and ensure probity and propriety in the conduct of its business. A whistle-blowing policy is in place.

Value for money

- 44** Our assessment shows that the Council's spending per head is generally lower than other District councils and also that Council Tax remains low compared to its nearest neighbours.
- 45** Areas of higher spending are in line with the Council's stated ambitions with an agreed priorities matrix being used to appraise proposals and allocations. External funding is being utilised successfully to support some key projects. A variety of models from outsourcing to different partnership arrangements are used to achieve low costs and maintain good service quality. The Council has also been working with Colchester Borough Homes in striving for increased value for money.
- 46** The Council is implementing the 'way we work' programme aimed at culture change across staff and departments and intended to ensure clear knowledge of, and response to the needs of local communities. Councillors and officers are improving opportunities for disadvantaged groups and supporting children and young people through new public service partnership working. Proposals for service developments are assessed for their effect on equity of access and also the long term cost implications.

Looking ahead

- 47 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.
- 48 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 their scope will be widened to cover issues such as commissioning and the sustainable use of resources.
- 49 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.

Closing remarks

- 50** This letter has been discussed and agreed with Chief Executive and officers. A copy of the letter will be presented at the Accounts and Regulatory Committee on 30 June 2008.
- 51** 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	June 2006
Annual Governance Report	September 2007
Opinion on financial statements	September 2007
Value for money conclusion	September 2007
Use of Resources Report	January 2008
Interim and final accounts memorandum	January 2008
Annual audit and inspection letter	March 2008

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

Availability of this letter

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

Paul King
District Auditor and Relationship Manager

March 2008