

Annual Audit and Inspection Letter

June 2007



Annual Audit and Inspection Letter

Leeds City Council

The Audit Commission is an independent body responsible for ensuring that public money is spent economically, efficiently and effectively, to achieve high-quality local services for the public. Our remit covers around 11,000 bodies in England, which between them spend more than £180 billion of public money each year. Our work covers local government, health, housing, community safety and fire and rescue services.

As an independent watchdog, we provide important information on the quality of public services. As a driving force for improvement in those services, we provide practical recommendations and spread best practice. As an independent auditor, we ensure that public services are good value for money and that public money is properly spent.

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

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

© Audit Commission 2007

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

Contents

Our overall summary	4
Council performance	4
The Accounts	4
Data Quality	4
Use of Resources	5
Action needed by the Council	5
How is Leeds performing?	6
The improvement since last year - our Direction of Travel report	7
How much progress is being made to implement improvement plans to sustain future improvement?	11
Service inspections by the Audit Commission	12
Financial management and value for money	13
Value for Money conclusion	14
Audit of 2005/06 accounts	14
Conclusion	15
Availability of this letter	16

Our overall summary

- 1 This letter is presented by Paul Lundy, the Audit Commission's Relationship Manager and the Council's appointed auditor Adrian Lythgo of KPMG LLP. It provides an overall summary of the Audit Commission's assessment of the Council's performance and improvement, drawing on the audit and inspection work over the last year, together with information provided by other regulators and inspectorates, and from published performance indicators. The letter is later than in previous years to accommodate the national and local timescales for finalising inspection work.
- 2 It is addressed to the Council and is written, in particular, for councillors. It is also available as a public document for stakeholders, including members of the community served by the Council.
- 3 The main messages can be summarised as follows.

Council performance

- 4 The Council is continuing to improve in its priority areas, and has been marked as 'improving adequately' under the Audit Commission's annual 'Direction of Travel' assessment.
- 5 The Council's overall Comprehensive Performance Assessment (CPA) score for 2005/06 had reduced to 3 stars from the previous level of 4 stars. This reduction is almost entirely attributable to a drop (from 4 to 2) in the score for the 'Culture' block which, in turn, was triggered by changes to the scoring system rather than by a significant deterioration in actual performance from the previous year.

The accounts

- 6 The annual audit of the accounts and financial systems was completed in line with national timescales. KPMG LLP issued an unqualified audit opinion on 27 September 2006.
- 7 Only one of the issues arising from the accounts audit had a bottom line impact on the financial statements, namely a reduction of £¼ million in the housing revenue account reserves. Several reconciliations at the year-end did however have unidentified differences marked as 'requires further investigation'.

Data Quality

- 8 During May to July 2006, KPMG completed the first review of data quality at the Council, following a methodology developed by the Audit Commission. The overall conclusion was that the Council has adequate arrangements for quality - assuring the data that it collects and uses to inform management decisions about the Council's performance.

Use of Resources

- 9 As well as giving an opinion on the Council's accounts, the auditor also has to reach a conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as 'the value for money (VFM) conclusion. KPMG reported on 27 September 2006 that their conclusion was unqualified, indicating that the Council has achieved the criteria specified by the Audit Commission.
- 10 Separate reports have already been issued, and summarised in KPMG's Annual External Audit Report (January 2007), on those parts of the Council's activities have been reviewed in depth, as determined by the risk assessment that supported the Annual Audit and Inspection Plan for 2005/06.
- 11 The overall score under the auditor's Use of Resources assessment for 2006 was 3. This is the same as last year, although there have been improvements in some of the elements that contribute to the overall score.

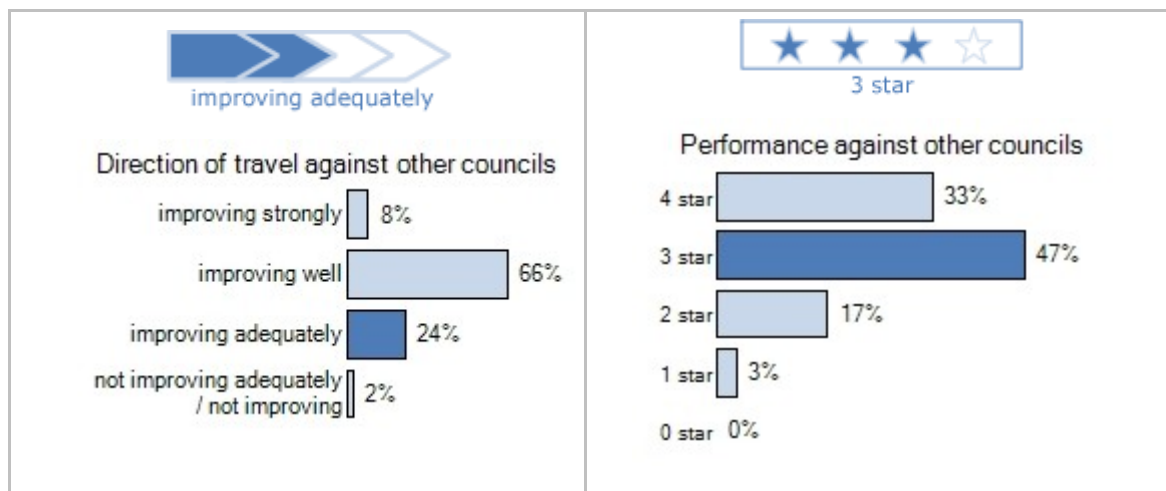
Action needed by the Council

- 12 The overall theme of this year's letter is that the Council has generally sustained or improved the good level of performance described in previous letters. The council has a clear understanding of the areas in which further improvements are possible or necessary to meet its own, or nationally prescribed, objectives. As such there are no specific actions that we need to recommend.

How is Leeds performing?

- 13 The Audit Commission’s overall judgement is that the Council is improving adequately, but that its performance classification under the Comprehensive Performance Assessment (CPA) framework will fall from four to three stars. These assessments have been completed in all single tier and county councils with the following results.

Table 1



Source: Audit Commission

- 14 The overall CPA assessment derives from various judgements made about the Council during the year, by the Commission and other inspectorates. These are shown in the following ‘scorecard’.

- 15 Our overall assessment - the CPA scorecard (NB will need to get final version inserted).

Table 2 CPA scorecard

Element	Assessment	
Direction of Travel judgement	Improving adequately	
Overall	3*	
Current performance	Out of 4	
	Last time	This time
Children and young people	3	3
Social care (adults)	3	3
Use of resources	3	3
Housing	3	3
Environment	3	3
Culture	4	2
Benefits	3	3
Corporate assessment/capacity to improve (assessed in 2004)	3 out of 4	3 out of 4

(Note: 1 = lowest, and 4 = highest)

The improvement since last year - our Direction of Travel report

What evidence is there of the Council improving outcomes?

- 16 We have assessed the Council as 'improving adequately'. This is a 'rounded judgement' that flows from a substantial volume of evidence provided by the Council or derived by the Audit Commission from nationally available data. The following paragraphs summarise briefly the information that we have taken into account in reaching the view that the Council is improving outcomes in a demanding local context.
- 17 The economic performance of the Leeds city area has continued to grow in recent years, largely as a result of investment and the strength of its commercial base. However, in common with other major cities in the UK, historically it does not compare well with cities in mainland Europe in terms of innovation, productivity, infrastructure or skills. It also suffers from great imbalance in the distribution of the benefits of the wealth that has been created. Nearly one fifth of the Leeds population lives in the 10 per cent most deprived areas of the country.

- 18 The principal challenges for the Council and its partners are therefore to improve its international competitiveness and to 'narrow the gap' between the most disadvantaged communities and the rest of the city. The Council has set its corporate and service priorities to address these challenges whilst reflecting what is important to local people. These priorities are:
- safe, green, clean and well maintained neighbourhoods;
 - communities that are thriving and harmonious places where people are happy to live;
 - children and young people who are healthy, safe and successful;
 - people who, at each stage of life, are able to live healthy, fulfilling lives; and
 - Leeds as a highly competitive, international city.
- 19 There has been a rise in the proportion of residents who think that the way the Council runs things has improved over the last three years. However, broadly in line with the national trend, overall satisfaction has declined and the Council's satisfaction level has dropped into the second 25 per cent (quartile band) of councils nationally.
- 20 Overall the national 'Best Value Performance Indicators' show a steady improvement. Comparing with 2004/05, 71 per cent of indicators improved whilst 21 per cent declined; 55 per cent of indicators either met or exceeded their target for 2005/06. There was success in important areas for local communities such as waste management, strategic housing, road safety and some aspects of crime. The Council is in the top 25 per cent nationally for the proportion of household waste recycled or composted and is achieving overall reductions in the amount of waste that households generate. Planning performance is in the lowest 25 per cent and only improving in part.
- 21 The Council with its partners is having a mixed impact on crime reduction. The historically high levels of burglary, vehicle crime and anti-social behaviour are being reduced, but the trends for robbery and violent offences are not improving. Many of the problems with violence are alcohol-related but, at the time of our fieldwork, a funded alcohol harm reduction strategy had still to be approved.
- 22 Community safety performance in some areas of greatest deprivation is, however, improving better than that of the city as a whole, with the exception of domestic burglary which, as a result of such measures as target hardening, is now broadly in line with the city generally. By effectively co-ordinating multi-agency approaches the Council is improving the overall performance in the most deprived wards. It is using intensive neighbourhood management to reduce crime, joy riding and vandalism which has led to corresponding improvements in voids, security costs, increased rental income and local house prices.
- 23 Other 'liveability' targets are well on the way to being met or have been achieved. Road safety conditions have improved, and fewer adults and children are now being killed or seriously injured. The cleanliness and appearance of the district is improving in line with projections.

- 24** Education attainment across Key Stages 1 to 4 continues to be variable. Standards at Key Stages 1 and 2 remain static but are broadly satisfactory. The Council has seen encouraging improvements in attainment at secondary level in line with, or better than, the national trend although these are still below national averages. In 2005 49.3 per cent of pupils achieved the equivalent of 5 GCSEs at grades A*- C although 4 schools (a proxy for priority neighbourhoods) fell below the 25 per cent target. The attainment of looked after children improved with 14 per cent gaining 5 or more GCSE A* to C grades and there was an increase from 18 per cent to 23 per cent for those pupils receiving free school meals. There are currently no schools in Leeds in special measures. Where the Council has focused its improvement efforts it has seen positive impacts, contributing to the Council's aim of reducing the variations in performance between different parts of the city.
- 25** In other areas that focus on children and young people the Council is contributing strongly to its priorities of being healthy, making a positive contribution and economic wellbeing. For example, the Council with its partners, is engaging with young people and encouraging their participation in areas that affect them. It is also assisting those who are in conflict with the law and reducing the impact of youth crime on communities. Youth offending rates have reduced, for first offences by 7 per cent and re-offending by 4.5 per cent. Numbers in full-time education have increased by 2 per cent over the period between 2004 and 2005. The numbers of children and young people not in education, employment or training reduced to 8.3 per cent. The Council has done some good work in combating exclusion and child poverty by supporting working parents in the areas of greatest disadvantage through childcare provision and an award winning early years service. Work is required to improve the safeguarding arrangements for children, which have only been judged as adequate. The Council continues to provide good social care support for children and families.
- 26** In adult social care the Council has again been rated as 'serving most people well', with 'promising' prospects for improvement. It has achieved good performance in promoting independence for older people, people with disability and with mental health problems. The Council is effective in supporting people at home. Admissions to long-term care are comparatively low for most service groups - older people, learning disabilities and for those people with sensory and physical disabilities or mental health problems. Services to support carers and to ensure that people are not unnecessarily delayed in hospital continue to be priorities for the Council and its partners.
- 27** Reductions in mortality rates from circulatory diseases broadly reflect the national trend and are showing positive progress. This is more so when comparing the ward with the highest rate and the city as a whole, where the margin has reduced by 21.7 per cent from the baseline year. Teenage pregnancy has reduced from the baseline period by 7.7 per cent but, if the current trend continues, the target reduction of 55 per cent by 2010 will not be met. The Council is performing well in comparison with similar councils in addressing the problems associated with drug misuse. The number of people accessing drug treatment services has doubled in last year.

- 28 The Council has recognised the contribution that improving the city's, and the city region's, transport infrastructure can make to competitiveness and international reputation. Following the government's rejection of Supertram in November 2005, a business case for a bus-based option has recently been submitted to the Department for Transport. The Council is also working with the West Yorkshire Passenger Transport Executive on the city region's long term transport investment plan.
- 29 Activity and investment to reduce overall worklessness have not produced significant results. On some indicators the gap between the priority neighbourhoods and the rest of the city appears to have increased slightly, although the picture is not conclusive.
- 30 The Council has maintained standards in its benefits service which is rated as good. It met 5 of the 12 performance measures, as last year. It reached performance levels in the top 25 per cent for processing new claims quickly, addressing problems it had had the previous year, and reduced the number of new claims outstanding over 50 days, demonstrating its commitment to tackling disadvantage.
- 31 The Council is improving access to services but the picture is not entirely consistent. Services for children are widely accessible, including to people from black and minority ethnic backgrounds. Harder to reach groups are well served, for example, the Council has established a dedicated team linked with the police and immigration services, to meet the increasing demands of unaccompanied and asylum seeking children. It has improved access to a wider range of benefits for more people. Benefit take-up has improved, increasing people's capacity to live independently. The proportion of older people receiving prompt delivery of services is improving, but there is room for further improvement in assessing their needs, and in providing a statement of their needs and how they will be met.
- 32 The Council has made infrastructure improvements that have led to better access for service users as well as generating efficiency improvements and savings for the Council's operations. Examples include the opening of the Corporate Contact Centre, and procurement practices that use technology to improve supplier and contract management.
- 33 The Council has kept council tax increases low, and compares favourably overall in terms of levels of spend whilst providing good standards of service. Areas of high spend are being reviewed and challenged in the light of the Council's priorities eg Social Services, Waste collection, Youth and Community. The Council has delivered cumulative efficiencies of £30.87 million against a target of £15.34 million and between 2003/04 and 2006/07 it had released £61 million for realignment to priorities. The Council introduced its service prioritisation model earlier this year under which it anticipates that further amounts will be made available on a systematic basis.

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

- 34** The Council has a sustainable approach to future improvement.
- 35** It has a robust planning framework to deliver its community outcomes. Plans are aligned under the community strategy and are supported by detailed actions and measures extending over a three-year timescale to 2008. This enables the Council to maintain its focus on what is important to local people and to align resources and effort.
- 36** The Council takes a strategic view of its finances by linking financial plans to what the Council is trying to achieve. The medium term financial plan (MTFP) takes account of national and local priorities and reflects the strategic direction of the Corporate Plan. It sets out a clear financial strategy for the Council and its departments to follow. Business and financial planning is now more integrated. The financial strategy identifies cost pressures and strategies for dealing with them in order to maintain a balanced budget and appropriate levels of reserves. The budget allocates funding to support the priorities. THE MTFP also takes account of other strategies, eg IT and People Strategy, and is widely communicated amongst staff.
- 37** The Council has been effective in co-ordinating a multi-agency approach towards delivery of local priorities. It has a council-wide regeneration plan and has now developed its first district level plan to address issues of social cohesion in a key area of deprivation (east and south east Leeds). The plan is designed to support structured and more sustainable methods of communication and engagement with indigenous communities. By improving cohesion, intelligence and reassurance, and improving services the aim is to reduce tensions whilst being better able to respond to community concerns and hate crime.
- 38** The Council is performing well in meeting government targets for waste recycling but needs to make a step change to achieve target levels by 2010. It has approved a 30 year waste strategy (to 2035) and identified a preferred technical solution in the form of 'energy from waste'. In this respect the Council is ahead of the majority of waste disposal authorities in determining the technology which will treat and provide final disposal for Leeds' municipal waste.
- 39** The city's first Children and Young People's Plan was launched in July 2006. It recognises the gaps that the Council and its partners need to address and sets out agreed outcomes and priorities for involvement and service improvement. An already established 'Children Leeds' partnership, a strategic body of city-wide partners, gives vision for children and young people and focuses on improvement of services for them. Overall capacity to improve services for children and young people is good. The Council has established some interim structures that allow for implementation of the new agenda, and is considering ways to develop a strategic and commissioning approach with both its internal and external partners. Plans include proposals for Children's Trust arrangements.

- 40 The Council with its partners has a strategic approach to tackling health inequalities in the district and work is ongoing to develop meaningful targets. Under the LSP it has engaged relevant partners, whose medium term plans have a clear set of outcomes against priority action areas. Links are being established through other strategies eg Older People's strategy 2006/11. Whilst the focus and direction is clear, the absence of specified milestones or targets means that, at this stage, partners are not in a position to assess whether progress is being achieved at an acceptable rate and consequently whether performance needs to be addressed.
- 41 The Local Area Agreement (March 2006) provides a complementary delivery framework that brings together existing strategies and plans, and aligns funding streams towards the key goal of narrowing the gap between the city's most deprived communities and the rest. The LAA builds on well established partnership arrangements which have recently been strengthened through the formation of five district partnerships. These bring together public service agencies and representatives of voluntary and community organisations, to provide a more local focus to the city-wide priorities.
- 42 The Council is creating additional capacity at strategic and service manager level supported by coherent plans that are linked through to corporate objectives and other strategies. The next phase of its organisational change and development programme has been devised to improve empowerment and accountability and to re-orientate the culture to become more outcome focused. The People Strategy provides common priorities that are supported by appropriate plans, activities and concrete measures of performance that will enable the Council to monitor delivery.

Service inspections by the Audit Commission

- 43 As the Council had a 4-star CPA rating in 2005/06 it was exempt from any service inspections by the Audit Commission.

Financial management and value for money

- 44** The appointed auditor has reported separately to the Corporate Governance and Audit Committee, on the detailed issues arising from audit of the Council's 2005/06 accounts. They were able to give:
- an unqualified ('clear') opinion on the Council's accounts;
 - a conclusion that the Council has adequate arrangements to secure value for money; and
 - confirmation that the Best Value Performance Plan for 2006/07 had been audited.
- 45** The significant matters arising from that work were referred to in the 'Report to Those Charged with Governance' issued in September 2006. There are no further matters to draw to your attention in this letter.
- 46** 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).
- 47** The Council's arrangements in these five areas have been assessed as follows.

Table 3

Element	Assessment
Financial reporting	3 out of 4
Financial management	3 out of 4
Financial standing	3 out of 4
Internal control	3 out of 4
Value for money	3 out of 4
Overall assessment of the Audit Commission	3 out of 4

(Note: 1 = lowest, and 4 = highest)

- 48 The Council achieved a score of three for the second year running and there have been positive improvements in four of the sub-themes. The detailed findings of the assessment KPMG have already been reported separately to the Council.

Value for Money Conclusion

- 49 The appointed auditor also has to issue a conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion. The judgement flows from consideration of the Council's arrangements for:
- monitoring and scrutiny of performance;
 - maintaining a sound system of internal control;
 - managing its significant business risks;
 - managing and improving value for money;
 - ensuring that it's spending matches its available resources;
 - managing its performance against budgets; and
 - promoting and ensuring probity and propriety in the conduct of its business.
- 50 The Council has adequate arrangements in place in relation to all of the above criteria.

Audit of 2005/06 accounts

- 51 The Corporate Governance and Audit Committee approved the 2005/06 financial statements on 29 July 2006, and KPMG were able to give an unqualified ('clear') audit opinion on 27 September 2006. This was before the statutory deadline, and a month earlier than last year.
- 52 The key issues arising from the accounts audit included:
- only one of the audit differences had a bottom line impact on the financial statements. This had the effect of reducing the housing revenue account reserves by £¼ million;
 - several reconciliations at the year-end had unidentified differences marked as 'requires further investigation'; and
 - the quality of working papers provided by the Council has significantly improved from the previous year, both in quality and timeliness.

Conclusion

- 53 This letter was discussed and agreed with senior officers during May 2007. A copy of the letter will be presented at the Corporate Governance and Audit Committee in June 2007 and copies will be provided to all members.
- 54 Further detailed findings, conclusions and recommendations on the areas covered by our audit are included in the reports issues to the Council during the year. These are listed in the following table.

Table 4

Report	Actual date of issue
Audit Plan	June 2005
Risk Management	May 2006
Abby and St Ann's Mills Kirkstall	May 2006
Audit Memorandum – Report to those charged with Governance	September 2006
Area Based Working	November 2006
Use of Resources Auditor Judgements	November 2006
Data Quality Findings	January 2007
Annual External Audit Report	January 2007
e-Government Benefits	March 2007
Direction of Travel Assessment	April 2007
Building Capacity	May 2007
Annual Audit and Inspection Letter	May 2007

- 55 I would like to take this opportunity to thank the Council for its assistance and co-operation during the course of the audit.

Availability of this letter

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 Lundy
Audit Commission
Relationship Manager

Adrian Lythgo
KPMG LLP
Appointed Auditor

May 2007