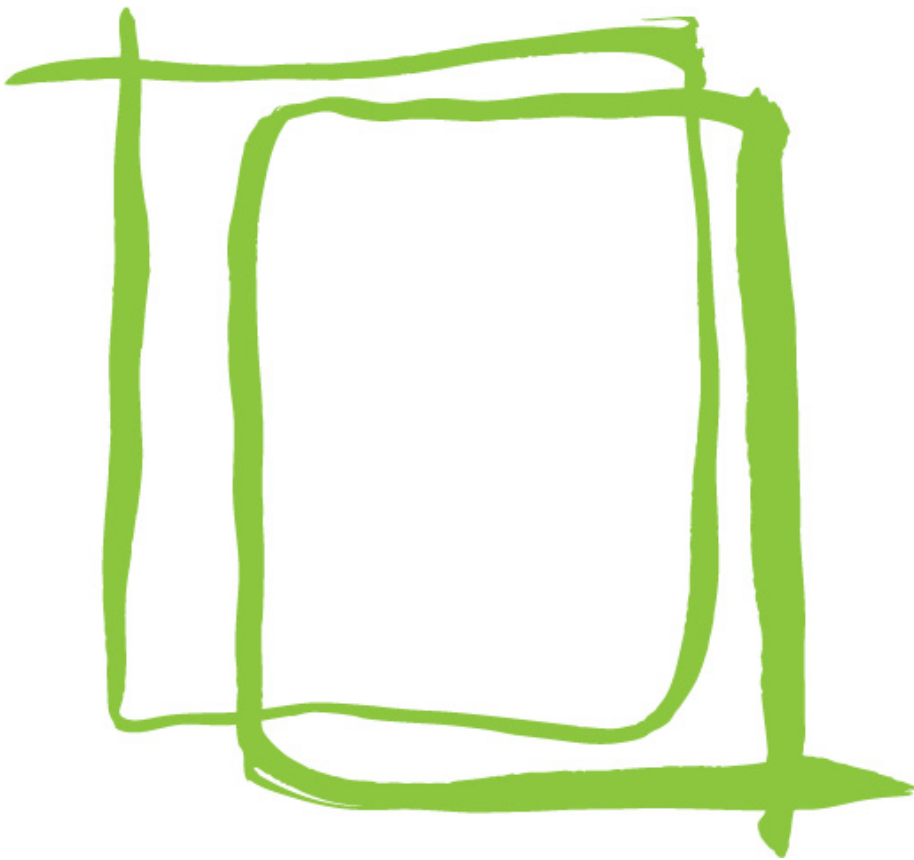


# Use of Resources

Herefordshire Council

Audit 2007/08

December 2008



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## **Status of our reports**

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# Introduction

- 1 The Use of Resources assessment evaluates how well councils manage and use their resources. This is the fourth assessment carried out at the council and is the last under the CPA framework. Next year there will be a new assessment which will form part of the Comprehensive Area Assessment. The assessment Use of Resources focuses on the importance of having strategic financial management, sound governance and effective financial reporting arrangements. These should support your Council in the achievement of its priorities and improving services, whilst delivering value for money.
- 2 This assessment relates to the financial year 2007/08 and is based on the key lines of enquiry for 2008. Changes to the criteria underpinning the key lines of enquiry were consulted on in April 2007 and the final key lines of enquiry were published in August 2007. These changes were made to:
  - reflect developments in professional guidance, legislative requirements and best practice; and
  - signal some of the changes proposed for the new use of resources under CAA, smoothing the transition to CAA.
- 3 The overall use of resources assessment is made up of five themes. Judgements have been made for each theme using the Audit Commission's scale, see Table 1 below. This scale is used across its inspection and performance assessment frameworks.

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**Table 1 Standard scale used for assessments and inspections**

1	Below minimum requirements – inadequate performance
2	Only at minimum requirements – adequate performance
3	Consistently above minimum requirements – performing well
4	Well above minimum requirements – performing strongly

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- 4 In forming our assessment, we have used the methodology set out in the Use of Resources Guidance for Councils 2008, which can be found on the Commission's web site. We have also taken account of our findings and conclusions from previous years' assessments and updated these for any changes and improvements to the Council's arrangements.
- 5 The five theme scores for Herefordshire Council are outlined overleaf.
- 6 This summary sets out our key findings in relation to each theme and key areas for improvement.

# Use of resources judgements

**Table 2 Summary of scores at theme and KLOE level-overall score 3**

<b>Key lines of enquiry (KLOEs)</b>	<b>Score 2008</b>	<b>Score 2007</b>
<b>Financial reporting</b>		
1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.	4	3
1.2 The Council promotes external accountability.	3	3
<b>Financial management</b>		
2.1 The Council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities.	3	3
2.2 The Council manages performance against budgets.	3	3
2.3 The Council manages its asset base.	3	2
<b>Financial standing</b>		
3.1 The Council manages its spending within the available resources.	3	2
<b>Internal control</b>		
4.1 The Council manages its significant business risks.	2	2
4.2 The Council has arrangements in place to maintain a sound system of internal control.	2	1
4.3 The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	2	1
<b>Value for money</b>		
5.1 The Council currently achieves good value for money.	2	2
5.2 The Council manages and improves value for money.	2	2

# Theme summaries

- 7 The key findings and conclusions for each of the five themes are summarised in the following tables.

## Financial reporting

<b>Theme score 4</b>	
<b>Key findings and conclusions</b>	
<p>The Council produces accounts to a very good standard, on time and in accordance with agreed protocols. The Council has continually monitored the standard of working papers supporting the accounts and has responded well to advice on how these can be improved. The working papers provided for this year were very good. There were no significant errors to the accounts.</p> <p>Staff availability for the audit was good, and even though the audit was carried out during holiday season, this did not impact on the quality of support provided by the Council.</p> <p>The Director of Resources provides a good commentary which supports the accounts provided to the Audit and Corporate Governance Committee and the Committee are very robust in their scrutiny of the accounts prior to adoption.</p> <p>Papers were provided to the Audit Committee to an earlier timescale, but this did not detract from the standard of the papers provided.</p> <p>The Council's website is good, with immediate access to the accounts. The Council provides a very good summary booklet which provides an annual review and summary accounts. This booklet has a wide distribution, is accessible to the public and provides easy to understand information.</p>	
<b>Improvements</b>	
<p>KLOE 1.1 The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers.</p>	<ul style="list-style-type: none"> <li>Working papers have improved.</li> <li>Staff Availability has improved.</li> <li>Final Accounts in 2007/08 were of a high quality with few errors.</li> </ul>
<b>Recommendations</b>	
	<p><b>R1</b> The Council must now maintain the improvement in the production of accounts and the supporting working papers as well as continuing to provide good support at audit.</p>

## Financial management

### Theme score 3

#### Key findings and conclusions

The Council has a good Medium Term Financial Management Strategy (MTFMS) and this is linked to key strategic objectives and is updated regularly. Budget management and monitoring of both capital and revenue budgets are robust.

There are good links between the Corporate Plan and MTFMS. The Corporate Plan takes account of stakeholder consultation. The Council needs to consider including all revenue implications of significant projects within the Corporate Plan.

The Council has continued to improve its management of performance against budgets. The budget is reported to Members bi-monthly and is part of the Integrated Performance Report (IPR) which provides both qualitative and quantitative information.

The standard of reporting of budgets to Officers is good, monthly reports are provided which allow Officers the opportunity to review and provide action plans to address possible over or under spends. Training has improved and could now be considered strong.

The Asset Management Plan has been updated during 2007/08. There are clear linkages between the Capital Strategy, Corporate strategy and MTFMS. Property reports are submitted to the appropriate monitoring committees. There is an annual programme of planned maintenance and the level of backlog maintenance has been assessed. The Council can improve the reporting of data regarding efficiency, effectiveness and running costs within its asset register.

Investment decisions are now made based on a more thorough and robust appraisal. We reported in 2006/07 that there was not initially a full options appraisal for Herefordshire Connects. The Council has taken on board our recommendations regarding Herefordshire Connects and the latest proposals include options appraisal to Members.

#### Improvements

KLOE 2.1 The Council's medium-term financial strategy (MTFS), budgets and capital programme are soundly based and designed to deliver its strategic priorities.

- The Council continues to provide sound and realistic budgets which are well monitored and expenditure comes in or close to target.
- The Council has maintained good practice in this area and this now needs to embed.

## Theme summaries

Recommendations	
	<p><b>R2</b> The Council should continue to build upon the good practice with regards to maintaining and updating the MTFMS.</p> <p><b>R3</b> The Council should consider including the revenue implications of all major projects in the Corporate Plan.</p>
KLOE 2.2 The Council manages performance against budgets.	<p><b>R4</b> There has been a marked improvement in financial training offered and the Council must ensure that it continues to train all staff involved in financial matters.</p>
KLOE 2.3 The Council manages its asset base.	<p><b>R5</b> Improvements in options appraisals should be maintained.</p>

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**Financial standing**

<b>Theme score 3</b>	
<b>Key findings and conclusions</b>	
<p>The Council has a good track record of achieving financial balance. The Council has consistently under-spent against its budget and in 2007/08 this was by only £591k. The Medium Term Financial Management Strategy (MTFMS) has improved the management of reserves with revenue reserves being more clearly aligned to specific service areas. There is a clear policy on reserves with general reserves intended to not go below £4.5m.</p> <p>Capital and Revenue reserves have reduced in 2007/08 with Capital Reserves now standing at £17.9m and Revenue Reserves £23.2m. This compares with prior year reserves of £22.4m and £27.8m respectively. The MTFMS is used as a tool to monitor reserves.</p> <p>Debt monitoring has improved. In 2006/07 we reported that there was still significant debt that was over 5 years old. There has been some movement, notably the monitoring and management of debt has improved. Aged Council Tax debt has reduced and the Council has set targets to reduce the debt further.</p>	
<b>Improvements</b>	
<b>Recommendations</b>	
<p>KLOE 3.1 The Council manages its spending within the available resources.</p>	<p><b>R6</b> Debt management should continue to improve with achievable targets set for debt reduction.</p> <p><b>R7</b> Continue to carefully monitor reserves to ensure that revenue reserves stay within the boundaries set within the MTFMS.</p>

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### Internal control

#### Theme score 2

#### Key findings and conclusions

There have been significant improvements within internal control of the Council. In last year's assessment there was significant emphasis on issues in relation to ICT. These have been addressed and the Council must now fully embed the arrangements that they have put in place.

Risk Management continues to improve and the partnership with the PCT should see risk management improving still further. Risks are linked to strategic objectives, however some consideration should be given to including all significant risks, such as the Edgar Street Grid (ESG), within the Corporate Risk Register. We have been informed that the ESG will be included in the next register produced.

The Member responsible for risk does not have specific terms of reference. Minutes from meetings where risk is discussed did not provide assurance that any discussion had taken place.

The Council has improved its internal control arrangements throughout 2007/08 and into 2008/09. The Council has a robust and challenging Audit and Corporate Governance Committee which has continued to improve. Issues addressed in the Crookhall report have also been or are being addressed through Cabinet.

The status and effectiveness of Internal Audit has continued to improve from a good base and all material systems are reviewed by Internal Audit annually. A Corporate wide Business Continuity Plan is now in place and this is embedding into Council culture.

The Council has tightened up the reconciliations of financial systems. Scrutiny needs to continue to develop. For example, the Children's and Community Scrutiny Committee made a recommendation regarding children's dental health which has not been followed through into later meetings.

The weaknesses identified in 2006/07 in relation to gifts and hospitality and the recording of them have been addressed. The Council has updated its constitution, including the Code of Conduct, Financial Procedures and Whistle-blowing Policy. The Gifts and Hospitality Register is monitored by the Monitoring Officer and there are six monthly reminders sent to all key staff to ensure that they are aware of their responsibilities. These changes will need to embed into the culture of the Council.

The Council has improved the way in which it disseminates information to staff but there are still improvements to be made. For example, the Whistle-blowing Policy is not easily accessible to staff or the public via the internet. The Council has ensured that Members and Officers are aware of their ethical responsibility. A training session was held in May 2007 and the Audit Commission's 'Your Business at Risk' tool has been used more recently to assess issues.

<b>Improvements</b>	
KLOE 4.1 The Council manages its significant business risks.	<ul style="list-style-type: none"> <li>• Risk management continues to embed into Council culture.</li> <li>• Training for all staff in risk management has improved.</li> </ul>
KLOE 4.2 The Council has arrangements in place to maintain a sound system of internal control.	<ul style="list-style-type: none"> <li>• The Audit and Corporate Governance Committee has continued to develop well and provides a robust scrutiny function for the Council.</li> <li>• The Council has developed its Business Continuity Plan to reflect Corporate needs.</li> <li>• Reconciliations of fundamental systems have improved and occur on a more regular basis.</li> </ul>
<b>Recommendations</b>	
KLOE 4.1 The Council manages its significant business risks.	<p><b>R8</b> Use the partnership arrangement with the PCT to further improve risk management.</p> <p><b>R9</b> Clarify terms of reference for the Member responsibility for risk management.</p> <p><b>R10</b> Ensure that all significant risks are included within the risk register.</p> <p><b>R11</b> Ensure that minutes adequately evidence of risk discussion.</p>
KLOE 4.2 The Council has arrangements in place to maintain a sound system of internal control.	<p><b>R12</b> Scrutiny Committees should have an effective and consistent process for dealing with recommendations.</p> <p><b>R13</b> The Business Continuity Plan will need to embed into Council culture.</p>
KLOE 4.3 The Council has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.	<p><b>R14</b> The changes to policies to ensure good conduct are good and now need to continue to bed into Council culture.</p> <p><b>R15</b> The Monitoring Officer should continue to inform staff of their responsibilities.</p>

Value for money

<b>Theme score 2</b>	
<b>Key findings and conclusions</b>	
<p>The Council remains a generally low cost authority with a mixture of performance. Areas of higher spending are broadly in line with stated priorities. In some areas this results in improved services (eg in Education). In others the Council is directing higher spending to improve outcomes (Adult Social Care) and long term resource commitment is continuing to help poor performance improve (waste disposal). There has been continued improvement in some priority areas since 2006/07. In Education - the Council's largest area of spend - overall performance compared to all councils is generally good and improving. In Environment Planning and Transport value for money remains reasonable. Spending in Children and Adult Social Care has increased as a result of in depth analysis of needs, putting both now in line with the average. Overall performance in these areas remains average with improvements being made in some services although this is not consistent yet. In Benefits and Local Taxation, costs remain low and some improvements have been made in performance. Overall satisfaction with Council services has not improved significantly</p> <p>The Council is in the process of making improvements to its arrangements to define and secure value for money (VFM) and to manage costs but these are not yet resulting in consistently improved outcomes. The Council still does not bring together the comparative data that it has with cost data to measure VFM internally or in comparison with other councils. Work to fill in the gaps and inconsistencies in benchmarking is ongoing. Processes for reviewing and improving VFM are developing but there is not yet a consistent approach to measuring and reporting VFM. The Council is improving and expanding its information on the needs and views of different community groups and this is starting to influence service planning. However its approach to collating and analysing cost information still does not yet consistently contain an analysis of equity across the community. The Council's strategy to deliver Gershon targets has been successful and targets have been exceeded. It is extending its procurement through partners and the joint working with the PCT aims to deliver improved VFM.</p>	
<b>Improvements</b>	
<p>KLOE 5.2 The Council manages and improves value for money.</p>	<ul style="list-style-type: none"> <li>Revised procurement arrangements have a high profile. Improvements in VFM have begun to be secured through their implementation.</li> </ul>

Recommendations	
<p>KLOE 5.1 The Council currently achieves good value for money.</p>	<p><b>R16</b> Ensure that additional investment in key services results in improvements in performance towards stretching targets and to user satisfaction to enable value for money to be demonstrated.</p> <p><b>R17</b> Continue to focus effort on improving cost versus performance ratio in areas of higher spend and below average performance.</p>
<p>KLOE 5.2 The Council manages and improves value for money.</p>	<p><b>R18</b> Build on the work to date to collect benchmarking cost and performance information across services by embedding its consistent use as part of performance management and target setting.</p> <p><b>R19</b> Develop a consistent approach to measuring and reporting VFM including analysis of the achievement of improved services for the range of communities and user groups.</p>

# Conclusion

**8** The Council is performing well. Given the issues identified last year, this is a marked improvement. The investment the Council has put into enhancing the overall arrangements for delivering value for money is clearly visible and this has been reflected in the increase in score across several themes as well as the overall score. Of particular merit was the very good performance in financial reporting in 2008, which lead us to award the Council the highest possible score. The Council now needs to focus more on demonstrating the positive outcomes delivered from having these arrangements which will be a key feature of the new style of assessment next year.

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## Use of resources 2008/09

- 9** From 2008/09, the auditors' assessment of use of resources will be based on new key lines of enquiry and will form part of the new performance assessment framework for local government and its partners, known as Comprehensive Area Assessment (CAA).
- 10** Key lines of enquiry for use of resources were published in May 2008 following consultation. These reflect the needs of CAA and incorporate a number of improvements including: a clearer focus on value for money achievements and further emphasis on commissioning of services, outcomes for local people and partnership working.
- 11** The assessment is structured into three themes:
- managing finances: sound and strategic financial management;
  - governing the business: strategic commissioning and good governance; and
  - managing resources: effective management of natural resources, assets and people.
- 12** The approach to use of resources will continue to be risk based and proportionate, drawing on evidence from previous years where relevant. Not all key lines of enquiry in the managing resources theme will be assessed each year. For single tier and county councils auditors will assess natural resources and strategic asset management (where there is continuity with 2008).
- 13** The Commission will specify each year in its annual work programme and fees document which key lines of enquiry will be assessed in that year.

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The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

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As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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