

Performance Summary Report

Date

Last saved: 14/09/2006 09:51:00



# Local Area Agreement

**Herefordshire Council**

**Audit 2006/07**

- Audit Commission descriptor to be inserted by Publishing-

Document Control

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Filename HC LAA Draft Report v4

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## Introduction

- 1 The Government is establishing Local Area Agreements (LAAs) in local authority areas to encourage public, private and community and voluntary sector bodies to pool their efforts and financial resources in order to improve services and quality of life for local people. This initiative builds on the experience of partnership working that has developed over recent years, particularly through Local Strategic Partnerships (LSPs). Each LAA has an accountable body, which is normally the single or upper tier Council for the area.
- 2 Each agreement is made up of outcomes, indicators and targets aimed at delivering a better quality of life for local people through improving performance on priorities grouped into four blocks:
  - Children and Young People;
  - Safer and Stronger Communities;
  - Healthier Communities and Older People; and
  - Economic Development and Enterprise.
- 3 The funding arrangements for LAAs vary, but all areas receive certain freedoms and flexibilities, including:
  - the ability to pool funds from central government (in most this pooling takes place within each of the four blocks - in the rest funds are put in a single pot which can be used across all four blocks)
  - the flexibility to carry over a reasonable level of unspent resources from one financial year to another in support of outcomes included in the Agreement; and
  - a reduction in the monitoring and reporting requirements.
- 4 LAAs are negotiated and agreed in conjunction with the Government Offices. The final agreement includes a number of stretch targets which are subject to a performance reward grant which is calculated at 2.5 per cent of the upper tier authority's net budget requirement.
- 5 A number of pilot LAAs were agreed in 2005, and analysis of these has demonstrated several issues. For example, although central government expected widespread budget pooling, this did not occur. Few of the pilot agreements made explicit the 'golden thread' linking funding, activities, outputs and outcomes, and early agreements often lacked clarity about how performance management (as opposed to monitoring) will work in practice.
- 6 Consequently all LAA agreements contain risks. These risks include the effectiveness of governance and leadership arrangements, as well as the arrangements in place for sound performance and financial management.

## Background

- 7 Herefordshire Council (the Council) and its partners negotiated and agreed a single pot LAA with the government office in March of this year. In addition to a set of outcomes, indicators and targets, the agreement sets out plans to develop governance, financial management and performance management arrangements within the Herefordshire Partnership. The LAA has been developed in the context of the recently published Community Strategy which shares the same four themes and overall vision with the LAA.

## Scope and objectives

- 8 The audit was based around three main areas of potential risk for the Council - Governance, Financial Management and Performance Management. The key, high-level questions that we addressed in each of these areas are:

### Governance

- Are LAA outcomes and targets clearly defined and consistent with other local strategies?
- Is the leadership of the LAA clear and effective?
- Has the partnership got clear decision-making processes?
- Has the partnership agreed and implemented an effective approach to risk management?
- Are there strong controls to ensure accountability and scrutiny within the partnership?
- Are local people, voluntary and community organisations involved?

### Financial Management

- Do organisations involved in the LAA, particularly the accountable body, have the capacity and arrangements in place to participate effectively and develop an agreement with a sound financial base?
- Are there effective arrangements for setting and monitoring budgets and for financial reporting, both internally to partners, externally and in respect of pooled budgets?
- Are adequate arrangements in place to demonstrate compliance with LAA terms and conditions and with statutory and other requirements?
- Are there clear arrangements in place for monitoring and controlling management costs and for ensuring that efficiency savings are used to further LAA objectives?

### Performance Management

- Are partners committed at the highest level to effective joint performance management?

- Do partners use past and current performance to plan future action?
- Is the local performance management framework effective?
- Do partners regularly review the performance management framework and its effectiveness?

## Audit approach

- 9 It was agreed that the approach to this audit would be in two stages. The first stage being a high level overview of the risk areas as set out above with further detailed audit work being undertaken as appropriate once the initial work was reported. In carrying out the initial work, and agreeing any further work, it was agreed that we would liaise closely with the Government Office for the West Midlands (GOWM) to avoid duplication with their six-monthly review later in 2006.
- 10 The initial work consisted of a review of key documentation relating to the Community Strategy and Local Area Agreement, and interviews with stakeholders from the key partner agencies in the Herefordshire Partnership. This report sets out the findings and conclusions from the high-level overview of the three risk areas. It should be noted that our findings relate to the position as at the end of August 2006 and do not reflect any changes made since that date.
- 11 The rest of this report is set out as follows:
  - an overall assessment of the arrangements to develop the LAA
  - assessments of each of the three risk areas with strengths and weaknesses identified
  - a set of recommendations and areas for further development

## Main conclusions

- 12 Good progress is being made by the Council and its partners in addressing, to a greater or lesser extent, all of the issues set out above in the three key risk areas. There are no serious weaknesses or gaps in the arrangements being developed. There is clear enthusiasm among partners to make the LAA process work for the area and an obvious commitment to continuing the good work achieved to date. However, within each of the three risk areas, particularly financial management, there is still more work to do before the overall arrangements can be said to be sufficiently robust and embedded.

## Governance

- 13 There are clear links between the outcomes, indicators and targets in the LAA and the priorities and objectives in both the Community Strategy and the Council's Corporate Plan. There are good links being developed between the Community Strategy action plan and the LAA with the former being seen as the wider, strategic document and the latter being more focussed on shorter-term targets. In addition, the LPSA2 stretch targets have been clearly incorporated into the LAA.
- 14 The development of the LAA has included a good process of rationalising the outcomes, indicators and targets contained in the various plans and strategies of the key partners. This process also linked the LAA outcomes to data and information on local conditions as set out in the State of Herefordshire report.
- 15 There is a culture of strong leadership within the Herefordshire Partnership which has extended to the LAA. The partnership is seen by partners as open, participative and inclusive. Although the Council has taken the lead role in developing the LAA, other partners do not perceive the Council as dominating in the process.
- 16 The recent review of the governance arrangements within the Herefordshire Partnership has strengthened the decision-making process. The new board has a broader strategic focus with the new Chief Executive's Group acting as the more operational link to specific activities and performance.
- 17 There is, however, some continuing uncertainty around the relative roles and responsibilities for decision-making of the various groups within the partnership (e.g. the Herefordshire Partnership Board, the Council's corporate management board, the Council's cabinet and the executive and non-executive boards within the individual partners). This has not been an issue to date, but will almost certainly become one once LAA performance is reported and collective decisions need to be taken around poor or under-performance.

- 18 In addition, the ability of the individual agencies within the partnership to make collective decisions is limited by their still incomplete knowledge and understanding of each other's detailed operational activities. Although there is a commitment to achieving this position, neither the Herefordshire Partnership Board, nor the Chief Executives' Group are yet able to operate in a situation where all individual members are able to make informed decisions on all aspects of the LAA. This is important as the quality of collective decision-making is enhanced in a position where partners have a good detailed understanding of the full range of issues.
- 19 There is, within all partners, a good high-level understanding of the need to embed a risk management culture and process within the LAA. Some work has been done already on distinguishing between strategic and operational risks for the partnership, but the overall position on risk is that the arrangements are not yet fully developed. The lack of a detailed approach to risk management could lead to specific risks to achieving outcomes not being identified and resolved.
- 20 At a high-level there is a good developing approach for ensuring accountability within the LAA process. A number of stakeholders - the Theme Groups, the Council's overview and scrutiny process, the Parish Councils and the Voluntary and Community Sector (VCS), have a role to play in holding the various delivery agencies to account. In addition, reporting arrangements are being developed to ensure that these stakeholders are provided with timely information on performance against the LAA targets.
- 21 In terms of the Council however, its members have not been consistently involved in the process of developing the LAA and their role in scrutinising LAA performance is not yet fully developed. A key indication of this is the continuing uncertainty among some stakeholders around the role of the Council's overview and scrutiny process in scrutinising the performance of non-Council agencies. If this issue is not resolved it could lead to the Council's scrutiny process not being used to its full potential in reviewing LAA performance.
- 22 Finally, in the area of accountability, there is an underdeveloped approach to the issue of engaging with the public around the LAA. Although a communication plan is being developed there are, as yet, no firm proposals on either how to report LAA performance to the public or how to engage with the public in developing the wider issue of partnership working towards collectively agreed outcomes. Without such an approach, the public may become distanced and alienated from important partnership activity in key areas of community interest.
- 23 There has been, to date, a good overall approach to involving and working with the VCS within the LAA process. This has included the Council making significant investment in this sector. The LAA itself contains a detailed annex on how the VCS will be involved and there is a clear commitment from the statutory sector to use the skills and opportunities that the VCS has to offer.



- 24 However, not enough has yet been done to cascade the purpose and culture of the LAA and partnership working more generally to the front line within the VCS. Part of this should be a clarification of the VCS role in delivering specific parts of the LAA and, to support this, an identification of the resource implications for the VCS of such delivery roles. Without this more detailed approach, individual VCS agencies may not fully engage with partnership working within the LAA.

## Financial Management

### Resourcing the Agreement

- 25 The financial basis of the LAA is clearly described in the agreement. A series of aligned funds, amounting to £21,523,140 are set out against relevant outcomes. In addition, there is reference to how the small single pot of pooled funds (£355,482) is intended to contribute to specific outcomes, and the allocation of the LPSA2 pump-priming money (£926,912 ) is clearly linked to relevant targets.
- 26 There is, among partners, a good understanding of the issues around aligning mainstream budgets to meet collectively agreed outcomes, and, as stated above, there is some detail in the agreement on the nature and amount of these budgets. There is also a commitment to gradually increase the size of the single pot in future years. However, there is, as yet, no formal strategy or plan to formalise how the issue of increasing pooled budgets is to be taken forward. Without such a plan, that addresses the related governance and performance management issues around agreeing how joint funding is to be allocated and accounted for, progress on increasing the pooled budget might be limited.
- 27 Given our comments in the above paragraphs around the resourcing of the agreement, we feel that this is an area of risk for the Council and its partners, and as such we may need to carry out further work during this audit year.

### Financial management of the agreement

- 28 The Council has given the task of managing the pooled funding streams in the single pot to a principal accountant who has clear understanding of the LAA accounting issues. In addition to having the capacity to manage the current LAA financial arrangements, the Council and its partners are well placed to consider a possible expansion of the single pot in future years. This is due to previous work between the Council and partners in identifying possible single pot funding streams, and the experience that the Council has had with the PCT in managing pooled resources under section 31 of the Health Act 1999.

- 29 Within the small single pot, the Council is setting up good arrangements for the setting of budgets, and the identification of detailed spending plans for each aspect of the funding streams. The Council's own financial ledger system is being developed to enable monitoring of expenditure to take place against both individual work streams, and against the wider LAA outcomes. These arrangements should enable the Council to complete, when required, the statement of grant usage which should, in turn, enable the Council's chief executive to report to GOWM that the pooled money is being spent appropriately and properly.
- 30 We did not, as part of the work to date, investigate the financial management issues around the LPSA2 pump-priming grant. These arrangements were not referred to by Council officers, and therefore we may want to carry out further work in this area to identify whether there are any risks to the Council and its partners.
- 31 All partners have a good understanding of the need to develop arrangements within the partnership to identify and deal with efficiency savings that should come from closer partnership working. However, such arrangements are not yet in place. This is a key issue to address as without such arrangements, the partnership will not be able to demonstrate to government and service users how the LAA is improving value for money and efficiency across service deliverers.

## Performance Management

- 32 There is a clear, high-level, commitment among all partners to manage collectively the performance of the LAA. This commitment is linked to an understanding among all partners of the distinction between simply monitoring performance by the partnership and actively managing poor or under-performance. The Council demonstrates its own commitment in this area by the inclusion in its improvement plan of the need to develop performance management arrangements within the LAA.
- 33 There is a good emerging approach to developing a set of processes and arrangements to management the performance of the LAA. These are based on the Council's own performance management framework which is being modified in consultation with partners. Data collection processes are in place, with links between the Council's partnership support team and the individual partner agencies to ensure the timeliness and quality of the data. These processes are, however, not fully linked electronically which does increase the resource needed to collect the required data. The Council is committed to purchasing a new software system which should fill this gap.
- 34 There is a good reporting template that is being developed to capture all the relevant information on progress against the LAA outcomes, indicators and targets. Relevant actions from the Community Strategy action plan will also be reported using this template. Although the first proper report to the partnership is not due until September 2006, the templates have been piloted and the indications are that they will provide a good rounded picture of performance.

- 35 There is a good approach to setting terms of reference and roles and responsibilities for the various groups within the partnership in the area of performance management. The key grouping of partners - the Performance Management Group (PMG) has a clear role in receiving performance reports and dealing collectively with any poor or under-performance. Both the chair and members of the PMG are clear about this role which suggests that, once the process of reporting starts, the arrangements should provide for an effective way of agreeing remedial action in areas where targets are not being met.
- 36 Part of the overall commitment to performance management is a clear understanding among partners that past and current performance needs to be used in order to plan future action. Although, due to the fact that the first proper performance report is not due until September 2006, there is no evidence of this happening yet, the processes and systems that are being developed should enable the partnership to make decisions in this way.
- 37 Finally, in the area of performance management, there is a clear commitment to continually assessing the strengths and adequacy of the performance management framework. The partnership is using both this audit and the upcoming GOWM six-monthly review as an opportunity to improve and refine the arrangements for managing performance.

## Recommendations

<b>Recommendations</b>
<i>R1 Clarify the relative roles and responsibilities for decision-making within the various executive and non-executive groupings both within the partnership as a whole, and within the individual partners' organisations.</i>
<i>R2 Develop a programme of awareness raising for decision-makers in the key partner agencies around the key operational and strategic issues within each other's agency.</i>
<i>R3 Further develop the partnership's approach to risk management so that risks for individual LAA outcomes, indicators and targets are identified, managed and reported on as part of the overall LAA performance management framework.</i>
<i>R4 Clarify and develop the role of Council members in further developing the LAA - this might include a description of their role in the LAA refresh at the end of the first year of the agreement.</i>
<i>R5 Clarify and publicise the role and purpose of the Council's overview and scrutiny function in scrutinising performance against the full range of LAA targets.</i>
<i>R6 Develop a clearer approach to engaging with the public around the LAA - both in reporting performance and in developing the broader issue of partnership working.</i>

*R7 Develop a plan for increasing the involvement of the VCS in the LAA process - this should include:*

- cascading information on the purpose and nature of partnership working within the County to front-line workers in the VCS
- clarifying which of the specific targets within the LAA the VCS is being expected to contribute to deliver
- identifying any further resource implications for the VCS that may come with greater involvement in the LAA and partnership working

*R8 Develop a formal process for increasing the amount of pooled money in the single pot. Included in this, should be consideration of the governance, performance management and accounting issues around making collective decisions on how to allocated joint resources to meet collectively agreed outcomes.*

*R9 Ensure that pooled money is explicitly linked to LAA targets, and that decisions on the use of the this money are made collectively and in line with a formally agreed process*

*R10 Set up processes within the partnership to quantify the increases in value for money and efficiency savings made via the single pot and to agree how to distribute such savings*

*R11 Improve the data collection processes within the partnership by the collective use of a shared electronic database*

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# Appendix 1 – <heading text>

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