

Annual Audit and Inspection Letter

February 2008



# Annual Audit and Inspection Letter

Herefordshire Council

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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.

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## Key messages

### Performance Issues

- 1 Our direction of travel assessment found that Herefordshire Council is improving adequately. Performance has improved in most priority areas. Children's services remain adequate overall with some improvement in exam results and arrangements for looked after children. Progress in adult social care has been steady with more vulnerable people helped to live at home. Tax collection and benefits administration have improved, along with the speed of planning applications, street cleanliness and recycling levels. However, it costs more to collect waste and there has been limited progress on the Council's business transformation programme.
- 2 The Council continues to contribute to improvements in road safety, regeneration initiatives and better health for children and vulnerable adults through working in partnerships. Value for money is reasonable but is not measured consistently. Progress is being made on most improvement plans but the overall picture is not being reported clearly. Further improvements are expected to result from the new managers of adult social care and a joint head of Human Resources with the PCT. Some significant weaknesses in the governance of ICT have been recognised by the Council and plans agreed to address them.
- 3 The Council, alongside the local Primary Care Trust (PCT) have demonstrated good community leadership by recently appointing a joint Chief Executive. This offers significant opportunities to improve joint working, obtain efficiencies and break down artificial barriers in the delivery of local services to the public. The new Chief Executive is currently revising plans relating to the scope and timetable for future joint working relationships. We are pleased that these plans are now intended to clarify the intended benefits to service users of such an approach and how this will be achieved.

### Other accounts and governance issues

- 4 The Section 151 (Director of Resources) Officer's report in September described serious flaws in ICT procurement and in governance arrangements such as expense claim reimbursement and the registering of gifts and hospitality. We are satisfied that the subsequent external investigation carried out by the former Chief Executive of Buckinghamshire County Council, Ian Crookall, was thorough, transparent and independent and the Council has started to respond to the recommendations in both these reports.
- 5 Accounts production was good and timely. We were able to issue an unqualified audit opinion by the deadline of 30 September 2007.

- 6 Changes to the waste management PFI agreement, which is being negotiated in partnership with Worcestershire County Council, are slow and still not agreed. There continues to be a risk of contract termination.
- 7 The overall financial position of the Council was sound at the 31 March 2007, with the accounts showing a £2.5m under spend and £27.8m of overall balances. The Council has a good track record of keeping expenditure within budget. The Council's pension fund deficit reduced significantly to £88m, but as with most other councils, is still a cause for concern.
- 8 The ambitious business transformation programme Herefordshire Connects continues to be developed. Our work earlier in the year has highlighted strengths in terms of project and risk management arrangements. It also emphasised the need for more clarity in how the project will deal with new joint working arrangements with the PCT and highlighted the short timescale for the successful implementation of the business-critical social care system. The project has subsequently been put on hold for some time and the social care system element has now been called in for scrutiny. This could impact on the Council's ability to deliver improvements.

## Action needed by the Council

- 9 Members need to take the following actions.
  - Re-focus and clarify the purpose, outcomes and actions of Herefordshire Connects. This should include formally considering in a short paper what other options are still open to the Council including the costs, benefits and risks of each option. It should also set out how the programme fits with the new joint working arrangements with the PCT.
  - Set out a clear vision of what are the scope, timing and benefits of the new joint working arrangements with the PCT.
  - Implement successfully the recommendations from the Section 151 and Crookall reports and in so doing further develop the ethical governance and anti-fraud culture within the Council.
  - Monitor the development of corporate approaches to procurement.
  - Ensure that the necessary changes to the waste management contract are resolved promptly.
  - Revise the corporate performance management framework to include a systematic review of value for money (VFM) which will measure and manage improvement in value for money in a consistent way across the Council. This will involve benchmarking costs and performance in a consistent way and setting targets for efficiency and VFM.
  - Ensure that actions recommended by our recent culture inspection report are delivered.
  - Clarify the arrangements for improvement planning and increase the impact of the reporting.

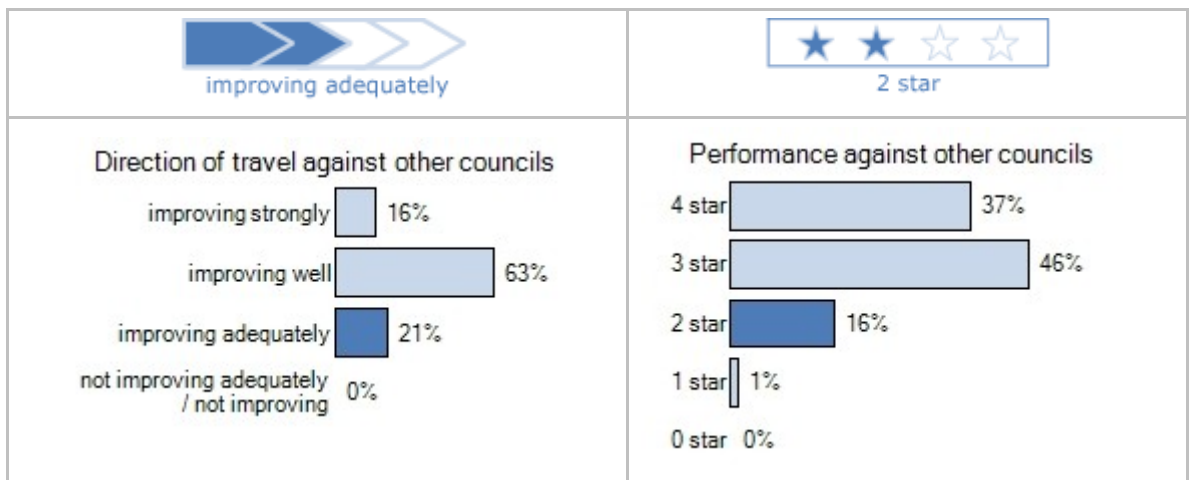
## Purpose, responsibilities and scope

- 10 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.
- 11 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.
- 12 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](http://www.audit-commission.gov.uk). [In addition the Council is planning to publish it on its website].
- 13 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.
- 14 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.
- 15 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 Herefordshire Council performing?

- 16 The Audit Commission's overall judgement is that Herefordshire Council is improving adequately and we have classified Herefordshire Council as two-star in its current level of performance under the Comprehensive Performance Assessment. These assessments have been completed in all single tier and county councils with the following results.

**Figure 1**



*Councils with a CPA star rating under review or with a direction of travel judgement that is subject to review are excluded from this analysis*

*Source: Audit Commission*

17 The detailed assessment for Herefordshire Council is as follows.

### Our overall assessment - the CPA scorecard

**Table 1 CPA scorecard**

Element	Assessment
Direction of Travel judgement	Improving adequately
Overall	2 star
Corporate assessment/capacity to improve	2 out of 4
Previous corporate assessment/capacity to improve, as included in overall CPA judgement in 2007	3 out of 4
Current performance	
Children and young people*	2 out of 4
Social care (adults)*	2 out of 4
Use of resources*	2 out of 4
Housing	1 out of 4
Environment	3 out of 4
Culture	3 out of 4
Benefits	3 out of 4

(Note: \* these aspects have a greater influence on the overall CPA score)  
(1 = lowest, 4 = highest)

## The improvement since last year - our Direction of Travel report

### What evidence is there of the Council improving outcomes?

18 Overall improvement of outcomes across the Council for the year 2006/07, when measured by a basket of performance indicators, has been strong, with 73 per cent of indicators improving – well above average when compared to other authorities. There has also been an increase, from 18 per cent to 26 per cent, in the number of performance indicators in the best quartile, bringing the Council closer to the national average.



- 19** Performance has improved in most of the Council's priority areas. In children's services, the annual performance rating by OFSTED remained at 'adequate' although there was an increase in the attainment score. This was due to some good exam results in most areas in 2006, except Key Stage (KS)2 where three of the four results worsened. Unratified data for 2007 indicates that KS2 results have improved along with most KS3, but GCSE scores have dipped. The Council has made progress in further strengthening safeguarding arrangements and outcomes for looked after children have improved with better placement stability and a higher number of children achieving GCSEs.
- 20** The health of young people is improving with the Council leading on programmes to tackle obesity, substance misuse and sexual health. In addition, good progress has been made on the provision of a comprehensive Child and Adolescent Mental Health Service. Some good initiatives in homelessness have resulted in a reduction in the number of families with children who were in both B&B and in hostels for long periods. However, the impact of this has been to worsen some of the performance indicators measuring length of stay in temporary accommodation resulting in a drop in the star rating for housing from two to one (leading, more significantly, to a drop in the Council's overall star rating from three to two).
- 21** Improvements in the provision of services to vulnerable and older adults have been steady but sustained in 2007. The annual assessment score from CSCI remained the same but there was recognition of improvements in helping more people live at home rather than in residential centres and in signposting and information schemes across the client groups. In addition the Council has increased the speed at which new assessments are carried out and the speed of delivering equipment into people's homes. The Council has also done some good work on analysing the future needs of vulnerable and older adults in the County and is improving its systems and processes to deal with service demand.
- 22** Progress in the Council's priority of securing efficiencies and streamlining processes has been generally good. Rates of collection for Council Tax and non-domestic rates have improved, along with the speed of processing benefits claims which was recognised by the increased score from the BFI this year. One of the big targets for the Council this year, delivering the Herefordshire Connects programme, has been put on hold to enable priorities and affordability to be reassessed. However, progress has been made in procuring a system for adult social care, where a preferred supplier has been identified.
- 23** Improvements have been made in the Council's priorities covering communities and the environment. The speed of planning applications has increased along with improvements in environmental health, trading standards, recycling and street cleanliness. The Council is succeeding in reducing the amount of waste collected from households, but the cost of this has increased.

- 24 The Council has been working well in partnership to improve wider community outcomes. It has set up robust arrangements with partners to deliver the LAA targets and the LSP received a green rating from Government Office for the 2006/07 year. The Council's own data suggests that most of the 89 targets in the LAA are on track for 2007/08, with 15 assessed as likely to fall short. Key partnership outcomes include a reduction in the long-term rate of people killed or seriously injured on the roads, helped by the Council working in partnership with the police in the road safety group. The community safety and drugs partnership has been successful in implementing most of the recommendations in its action plan and there has been an increase in the number of joint projects with the PCT, particularly in the area of adult social care. Finally, the Council is making steady progress in its two key community regeneration projects. In the Rotherwas project the link road is being constructed and a number of industrial units are being planned. However concerns about the Unitary Development Plan have led to it being subject to a judicial review. No application for planning permission has been made. Selection of a preferred partner for the retail quarter of the Edgar Street Grid project is currently underway.
- 25 The Council has continued to improve access to its services, both by telephone and in person. The key event in the past year has been the opening of the Garrick Centre in Hereford which is a multi-agency information point where residents can access both a range of Council services, including viewing planning applications, and a number of voluntary sector agencies including the Citizens Advice Bureau. The Council's telephone information service has continued to receive an increasing number of calls, as have the contact centres located in the market towns. The Council has improved its approach to equality and has now achieved level two of the Local Government Equality Standard. It has improved its overall approach to promoting race equality and dealing with racial incidents. There is a good awareness at the Council of the increasing number of eastern European people arriving in the County seeking work although the approach to assessing the impact of this is at an early stage and the Council has employed a specialist to assist in doing this. In contrast to the steady improvements in most service areas, satisfaction with most parts of the Council is not improving with the overall satisfaction rating worsening, putting the Council in the worst quartile. The Council has been slow in responding to these findings, but work is in hand to better understand the reasons for poor user satisfaction.
- 26 The Council's overall performance on providing and managing value for money has been adequate. Most of the Council's services are relatively low cost and there has been good progress at taking further costs out and improving performance. However, not enough is yet being done to measure and manage improvement in value for money in a consistent way across the Council. Progress is being made in the area of procurement, with some savings being made in the way the Council engages temporary staff and in its telephone and postage operations. The Council has had good success in the past year in meeting its Gershon efficiency targets and reductions in sickness absence are also helping to improve value for money.

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

- 27 The Council's approach to improvement planning has been steadily improving during the past year. The previous high-level improvement plan has given way to a number of service specific improvement plans, which are monitored by various boards and groups. The Council addressed this transition well with a robust risk analysis of the new plans to ensure that progress would be made. The result of this is a series of plans covering adult social care, cultural services, lifelong learning, the CYP forward delivery plan, a high-level environment improvement plan and a plan to improve performance management. These plans are monitored individually but there is no overall summary of progress to enable the Council to see what has been achieved. In addition, the Council has a set of broad plans with the PCT for joint service provision over the coming years, which has already started with the appointment of a number of joint posts including the new Chief Executive. Awareness of, and monitoring arrangements for this new suite of plans is, however, not fully developed, but the most recent information indicates that progress is being made in most areas. Improvements in performance management include the appointment of the performance improvement managers and changes to the corporate performance report which provide a sharper assessment of progress against priorities. In addition, most of the targets in the adult social care and cultural services improvement programmes are being met by the agreed dates.
- 28 The Council is making reasonable progress across a number of areas in developing its capacity to further improve. The annual assessments in children's and adults assessed capacity as adequate and uncertain, respectively, but much has been done in the past six months to improve this situation. New managers have been appointed in adult social care, including an interim head of service and a change manager. In children's the Council appointed a new director in April 2007 and most of the social work vacancies are being filled. The Council has produced a Pay and Workforce Development Strategy which adequately addresses some of the key issues and is being improved by the interim head of HR. Staff morale at the Council is improving, with results from the latest employee opinion survey showing increased scores in nearly all areas. Finally, the Council is progressing its corporate approach to staff accommodation. A review has taken place of current accommodation needs and there has also been work carried out on identifying possible sites for back-office functions. Cabinet has been briefed on this but is waiting for the new Chief Executive to become established before making a decision.

- 29 Some significant governance weaknesses were identified by the Council in 2007 following an investigation into certain ICT procurement exercises. The Council's own investigation highlighted specific failings in its procurement processes and an external review, carried out at the Council's request, identified a series of wider weaknesses in cultural and organisational issues at the Council. These weaknesses included a culture that was too consensual and lacking in challenge. In addition, although the Council has a number of processes in place, the review concluded that there was insufficient sanction for non-compliance with these processes. The Council responded well to the initial discovery of the procurement problems and has accepted the wider weaknesses and put in place an action plan to address them. Given this situation, it is unlikely that the issues highlighted in the report will prevent improvement levels being sustained. The other significant issue around governance for the Council has been the need to improve the quality of overview and scrutiny. Steady improvement is being made in this area, with a new set of scrutiny chairs being appointed following the May 2007 elections. Work programmes have been developed and training and information provision has been improved. This has resulted in a better level of challenge and scrutiny around performance issues and a broader approach to the agenda of overview and scrutiny, exemplified by a number of external bodies, including RSLs and the ambulance trust, being called to give evidence to the committees.

## Culture inspection

- 30 Herefordshire Council provides 'fair' cultural services that have 'promising' prospects for improvement.
- 31 The Council offers a broad range of cultural services including libraries, sports, tourism and arts development/activities, creative industries, leisure facilities, parks and open spaces, conservation, archives, heritage and museums and tourist information centres. It also supports delivery of the Courtyard Centre for the Arts in Hereford. It spends approximately £7.3m annually on these services which equates to £40.82 per head of population.
- 32 The Council recognises the potential of cultural services in contributing towards many of its priorities but has not transformed this into clear high level outcome targets. It is developing good intelligence about the cultural needs of the community and ongoing consultation is strong. This is influencing the way cultural services are delivered.
- 33 The Council delivers and enables some positive initiatives to promote access in cultural services but the Council does not always know whether they are effective. Services are good at providing and enabling a range of opportunities aimed at improving quality of life, particularly for children and young people and communities delivering cultural projects. Because local indicators and measures have not been fully developed, it is not always clear how effective cultural services are in enabling access. For example, the Council does not know how successful its concessionary pricing schemes are within cultural services.

- 34 Integration of diversity into cultural services is developing. The Council achieved level two of the Equality Standard in 2006/07. It has undertaken a programme of equality impact assessments within cultural services which has led to some service improvements. However, the Council does not have a robust overall needs assessment of minority groups in the County to inform its approach.
- 35 Quality of cultural services is variable. Quality assurance and service specific standards are not in place in all areas and the standard of cultural buildings is mixed. This is reflected by national indicators which show varied perceptions and reported usage from residents. Value for money is not fully integrated into the delivery of cultural services.
- 36 During the last four years a number of cultural services facilities have significantly improved. Improvements include a new and innovative shared facility at Bromyard which integrates a library, leisure facility, tourist information centre and general access point. However, satisfaction and reported usage for cultural services is not improving significantly when compared to other authorities and the Council cannot demonstrate consistent improvements to value for money across its cultural services.
- 37 The Council has significant future plans to improve cultural services. These include a commitment to implementing its strategy towards developing shared services incorporating new library facilities at Hereford and Ledbury. Other planned improvements include a new country park visitors' centre; a £2.4m heritage lottery award to develop the Wye Valley as an area of outstanding natural beauty; and investment in local sports and play facilities.
- 38 Cultural services benefit from an experienced, motivated and well trained work force and have a good track record of delivering improvements through partnership working. Commitment and leadership are also positive.
- 39 Some weaknesses exist in performance management within cultural services. Improvement plans are fragmented and not prioritised and outcome measurements and targets not fully developed. This extends to the two trusts delivering the operational management of leisure facilities and the Courtyard arts venue.
- 40 The Council has started to respond to the recommendations from this inspection. There has been recent progress in key projects that will improve access to and quality services for residents and visitors of the County such as the Museum Resource and Learning Centre which was completed in November 2007. The Council has established a set of outcome measures to be included in the Household Survey in response to the report. These outcomes, along with the new indicators from the performance framework and value for money indicators, will be incorporated into commissioning agreements for Halo Leisure and the Courtyard. These will be three year, rolling agreements to give the organisations that deliver the leisure and arts programmes longer term stability.

- 41 The Economic and Community Services Division, in which Cultural Services sits, has produced a Medium Term Financial and Asset Management Plan to address the management of resources. This also takes a long view (to 2017) on the use of assets. This was designed to address the fragmentation of improvement plans. Value for money is assessed in the service plan for the division and value for money indicators include tracking cost for users and residents. Specific service standards are being presented to the Cabinet Member for introduction in March 2008 in libraries, heritage centres and tourist information centres.

## Performance information

- 42 We reviewed your overall management arrangements to develop the quality of data and tested a limited number of performance indicators. There were five themes for us to consider as part of our work on Data Quality; Governance and Leadership, Policies, Systems and Processes, People and Skills and Data Use.
- 43 The Council continues to develop and improve its management arrangements for ensuring the quality of data. The Integrated Performance Reporting methodology has improved the focus of performance indicators within the Council, as the collection and reporting of performance information across the Council has led to more attention being paid to all indicators. Overall the Council has maintained an 'adequate' assessment.
- 44 There are, however, areas for further improvement. In particular there should be a formal strategy for data quality put in place which should be agreed to by Members. Specific data quality policies should be put in place to support the current ad hoc guidance and regular formalised training for relevant staff would support the Data Quality process. Of the four indicators we looked at, two were significantly misstated. To help with further improvement, we have recently produced a more detailed report containing detailed recommendations which the Council needs to address. We are planning to review more indicators next year.



## The audit of the accounts and value for money

- 45** As your appointed auditor, I have reported separately to the Audit and Governance committee on the issues arising from our 2006/07 audit and have issued:
- my audit report, providing an unqualified opinion on your accounts and a qualified conclusion on your vfm arrangements; and
  - my report on the Best Value Performance Plan confirming that the Plan has been audited.

### Use of Resources

- 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** For the purposes of the CPA we have assessed the Council's arrangements for use of resources in these five areas as follows.

**Table 2**

<b>Element</b>	<b>Assessment</b>
Financial reporting	3 out of 4
Financial management	3 out of 4
Financial standing	2 out of 4
Internal control	1 out of 4
Value for money	2 out of 4
Overall assessment of the Audit Commission	2 out of 4

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

- 48 The key issues arising from the audit, as reflected in the above judgements where appropriate, are as follows.

## Financial reporting - audit of 2006/07 accounts

- 49 We assessed the Council's production of accounts as good. The accounts were produced by 30 June and were well supported with working papers. The Council also produced a good summary annual review of the accounts for the public. To achieve further improvement the accounts presented for audit should have no non-trivial errors and analytical review needs to be further developed. We have provided further detail to your officers to help this improvement.
- 50 We are required by professional standards to report to those charged with governance (in this case the Audit and Corporate Governance Committee) certain matters before we give an opinion on the financial statements. We reported three matters.
- 51 There was still some difficulty in reconciling end of year balances with the PCT and there have been delays in the PCT settling invoices with the Council. The Section 75 agreement has still not been updated for the learning disabilities pooled budget agreement. This has not been updated since 2002.
- 52 We found three significant errors in the statement of accounts which the Council subsequently corrected for. The first related to a primary school incorrectly taken out of the balance sheet, the second revenue expenditure incorrectly classified as capital and third incorrect apportionment of overheads to services.
- 53 We also discussed matters arising from Internal Audit work in the ICT section and the subsequent Ian Crookall report which are referred to in the section on systems of internal control.
- 54 The Council has completed an action plan to address all the recommendations in our report.

## Financial management

- 55 Our overall conclusion on financial management is that there are good arrangements in place but these now need to be fully embedded.
- 56 The Council has made good progress over the last year in improving the quality and reliability of financial management arrangements although there were issues in ICT which are being addressed. Particularly significant is the robust Medium Term Financial Plan which is focussed on the achievement of the Council's objectives and is updated regularly. The Council needs to continue this improvement and fully embed the new financial management arrangements. Training needs to be continued for Members and Officers. The budget reported to Members does not include a positive assurance statement and responsibility for capital and revenue budgets is not up to date.



- 57 The Integrated Performance Report (IPR) has continued to embed into the culture of the Council and the financial information supplied shows the Council's financial position. However the quality of some of the non-financial data supplied is questionable eg homelessness.
- 58 We also considered how the Council manages its asset base. The Council demonstrates some good practice in this area. The Council, in general, makes investment decisions based on a thorough and robust appraisal, however as reported previously there was not a full options appraisal on IT projects such as the IT Connects Project. The Council will need to consider all investment decisions to ensure that they comply with its own procurement processes.
- 59 The Council has taken action to improve the capacity of the Asset Management and Property Services team including recruiting a permanent head of this service. This is important given the level of input required in key areas such as the reconsideration of the Council's Accommodation strategy.

## Financial standing

- 60 We concluded that the Council's financial standing meets the minimum requirements for the Use of Resources assessment.
- 61 Achieving financial balance is an important element of financial standing and historically the Council has been successful at this. Good financial standing is also about effectively managing activities and their associated budgets to avoid significant under-spending and the non-achievement of objectives. It is also about setting aside prudent but not excessive levels of reserves in relation to risks. For the first time in a number of years the Council has not made a significant contribution to reserves. In 2006/07 revenue reserves reduced by approximately £700k. Capital reserves have increased by just over £2m to £22.4m. There is now a clear strategy in relation to the use of revenue reserves which forms a part of the medium term financial plan. Much of the revenue reserves previously held are now earmarked against specific risks.
- 62 The Council's financial position reported in the 2006/07 accounts shows revenue balances (earmarked and general) of £27.8m and a net under spend of £2.5m against budget. There were overspends in two areas, Adult and Community services overspent by £1,023k and the Corporate and Customer Services overspent by £1,415k. These overspends were mitigated by under spending in children's and young people's services (£139k), Environment (£274k), Resources (£589k) and Central Services (£374k). The most recent forecast from the Council is highlighting an overspend of £700k for 2007/08.
- 63 Schools balances remain high at £8.1m, a reduction from £8.7m at the end of 2005/06 and although this is a small drop from the previous year, it is recognised that this level of balances is high. The Council continues to suggest that it is seeking to reduce this.

- 64 The Council's pension liability (the amount liabilities exceeded assets) at the 31 March 2007 was £88.8m. This represents a significant reduction from £100m in 2005/06. The Council is not currently in a position to meet its future pension liabilities for its workforce.
- 65 Debt monitoring has continued to improve but there is still scope for further progress.

## Systems of internal financial control

- 66 The Council's systems of internal control fail to meet the minimum requirements for the Use of Resources assessment.
- 67 The Council has not progressed as quickly as they would have liked in relation to internal control issues. Although there have been improvements, the serious nature of the issues noted within the ICT section have overshadowed these leading to a reduction in the overall assessment.
- 68 Risk management has improved. The Council has a risk management strategy which has been approved by Members. The register is maintained and ownership for each risk within the register is assigned. The Member responsible for risk does not have specific terms of reference and some of the links between service areas in regards to the Departmental Risk Register and the Corporate Risk Register are unclear.
- 69 Internal Control arrangements had been progressing relatively well. The Audit and Corporate Governance Committee has shown real signs of improvement, there is positive interaction with the Chief Internal Auditor and challenge is good. We carried out a review of Internal Audit during 2006/07 and found that Internal Audit conformed with the CIPFA code of practice. We found that we could place reliance upon their work. There were only three issues to address:
- ensuring all agency staff employed have a signed declaration of interest.
  - updating the quality assurance framework: and
  - ensuring that process for reporting the number of audit recommendations agreed to be followed up by management in the audit services assurance report is accurate.
- 70 There have, however, been serious flaws within the application of your internal control arrangements within ICT that have been uncovered by Internal Audit during 2007 which we will refer to later.
- 71 In 2005/06 we reported that there were weaknesses within the gifts and hospitality arrangements within the Council. Further work has indicated that the issues found previously have improved but other weaknesses have emerged such as the receipt and giving of hospitality within ICT which was not declared. The Council has improved whistle-blowing arrangements by communicating with those parties being contracted with but it is also important to ensure an open culture where Officers, Members and contractors feel that their concerns will be dealt with without fear of recrimination.

- 72 We plan to assist the Council in developing these arrangements shortly by delivering training to Officers and Members.
- 73 There is no consolidated Business Continuity Plan. Reconciliations of significant feeder system have not occurred throughout the year but were satisfactorily reconciled at year end.

## **Value for money**

- 74 We considered both the Council's achievement of value for money and the arrangements to manage and improve value for money. Overall we concluded that both adequate achievement and adequate arrangements are demonstrated.
- 75 The Council is generally a low cost authority with a mix of performance levels. In Education, attainment is good, costs are low and in both social care areas (children's and adults) costs are low and performance is broadly average, In Environment, Planning and Transport areas value for money is reasonable. There is a mixed picture of value for money in benefits and local taxation. Costs in benefits are low but performance, although improving, is below average, There is good performance in Council Tax collection which, combined with low costs, is providing good value for money.
- 76 The Council has information on its own and comparable data, however this information is not combined with cost data to either measure value for money internally or with other authorities. There is no requirement on managers to report on value for money within the Council's performance monitoring framework. The Council is delivering on its efficiency plan and in the last nine months the Council has started to make savings as a result of improved central procurement practices. Reductions in sickness absence have also benefited the value for money profile.

## Herefordshire Connects Programme

- 77 The Herefordshire Connects project, a fundamental part of the Herefordshire Transformation Programme, is key to the delivery of the Council's medium term financial strategy. We carried out a short risk assessment in October 2006 which identified a number of issues and made associated recommendations. These included:
- further consideration of the proposed technical solution to ensure that it met organisation needs;
  - reviewing the requirements of the Public Service Trust (PST) to ensure they were sufficiently clear and robust to inform the contract; and
  - outlining the other options which were still open to the Council when presenting the preferred bid to members for consideration, with the risks, costs and benefits of each option set out.
- 78 This was followed up by a more in depth review, reporting in July 2007, including progress with the earlier recommendations, arrangements for risk management, project management and performance management and the robustness of the assumptions made around the savings that could be achieved.
- 79 Overall we felt that progress had been made with implementing the recommendations from our initial risk assessment. However, given that the development of the PST was at an early stage, it was not possible to define the requirements at this point. We also found that although the Cabinet paper identified three alternative options - total outsourcing, shared services provision and doing nothing, there was not sufficient information on costs and benefits to enable members to make an informed judgement.
- 80 We found that the Council had put in place effective arrangements for the management of the current phase of the project and that the governance and performance management arrangements for subsequent phases, which were being finalised, would be key to the realisation of the expected benefits. We highlighted some areas where arrangements could be strengthened and made some related recommendations. Of particular concern was the proposed timetable for the implementation of the social care element. Given the uncertainty surrounding the technical solution and the need to re-design business processes, it was felt that the June 2008 deadline provided a significant risk of non delivery of the anticipated benefits in this business critical area.
- 81 We were not able to examine the costs of the Herefordshire Connects programme as the Council was still assessing some aspects such as the technology, accommodation and severance. However, the Council was developing a rigorous benefits realisation process and the Council's initial cost benefit assumptions had been robustly challenged.

- 82 Recommendations covering the implementation of the social care element, risk logs and performance management arrangements were made and good progress has subsequently been made with implementing them. A technical solution has been agreed for the social care element and plans are being finalised for implementation in 2008.
- 83 However, with the exception of the Social Care element, the project is now on hold while issues of affordability and priority are resolved. This could impact on the Council's ability to deliver improvements in services and business processes.

## **Joint working with the Primary Care Trust (Public Service Trust)**

- 84 Herefordshire Council and Herefordshire Primary Care Trust (PCT) have been working towards an enhanced form of partnership working, aimed at using their joint resources to more effectively commission public services. This enhanced form of partnership working has been referred to as a Public Service Trust (PST). Because of the significant risks potentially associated with the move towards a Public Service Trust, we have undertaken a high-level, diagnostic audit, designed to identify the key issues and risks associated with the proposals.
- 85 This report issued in October sets out a range of issues which need to be resolved, particularly the precise scope of the joint arrangement. There were risks around the appointment of the joint Chief Executive and whether the joint arrangement will deliver improved services and better value for money as intended. However, in order to move forward with the PST as an innovative solution to providing services in Herefordshire, we accepted that some risks are inevitable and that new joint leadership is necessary to drive the change. Both the Council and the PCT are aware of the risks and are seeking to mitigate them. Our detailed report sets out the issues to be resolved including a number of legal issues which the Council and PCT need to resolve promptly.

- 86 The Council and the PCT have demonstrated good community leadership in starting this important and innovative dialogue about moving towards joint arrangements. There is a clear shared vision of improving service provision and making more effective use of public resources. Clarity is starting to emerge about what this means for specific services and for governance arrangements, but more clarity is needed here. Strategic capacity is under pressure in both organisations, particularly with the demanding agenda of change associated with the joint working arrangements, but also from other major programmes such as the introduction of a Children's Trust and the improvements required to existing integrated services. The appointment of a joint Chief Executive for both organisations will help to strengthen strategic leadership and support the move towards greater partnership working. We are continuing to discuss a number of issues relating to statutory roles, accountabilities and conflicts of interest. Now that the focus has changed from organisational structure to delivering joint services through Herefordshire Public Services, these issues may be less significant than when we reported in October. There has been some limited engagement of other strategic stakeholders in Herefordshire regarding the moves towards a PST.
- 87 A 'roadmap' setting out the milestones for moving towards PST arrangements was agreed by both organisations. The original timetable for establishing the PST was, we are pleased to note, extended but was still a very demanding one. It was, though, always envisaged that the new Chief Executive was likely to set out a new vision and timescales for joint working. A considerable amount of work still needs to be done to clarify and develop the interim arrangements, and then to plan for and prepare the detailed partnership agreement. This will place significant demands on capacity in both organisations. Good risk reporting arrangements are in place, but the PST Steering Group had not devoted adequate time to assessing and managing PST-related risks. This is now in hand. Project management arrangements are sound and are working well. Comprehensive public consultation on the PST proposals were carried out during summer 2007, however the Council and PCT will need to assure themselves that relevant statutory requirements on public consultation are met.
- 88 Some initial work has been carried out on the detailed implications for financial and performance management and governance, but the detailed work to underpin the joint working arrangements has yet to be undertaken. It is not clear at this stage to what extent governance arrangements will be streamlined, at least in the medium term. Some savings projections associated with the joint working arrangement have been drawn up, but these are limited in scope and are only indicative at this stage. The PCT and Council have yet to quantify how the joint working arrangement will deliver better value for money.
- 89 Some initial work has been undertaken to identify the implications of joint working arrangements for information systems in both organisations, but the detailed work has yet to be undertaken. It is not clear at this stage how the Council and PCT will address the information management implications, including the interface with national IT systems in the NHS.



- 90** A range of work has been undertaken to identify and explore the human resource and shared-service implications of the move towards a joint working, but further detailed work will be required as the programme progresses. Arrangements for staff communications are in place and both organisations are in the process of evaluating the effectiveness of these communications.

## **Crookall Report**

- 91** Following an anonymous tip-off, internal investigations have been carried out which resulted in a report by the Council's Section 151 Officer. The report itemises serious weaknesses in the procurement and implementation of a network upgrade from Siemens and an ICT back-office system from SAP in early 2005. Concerns ranged from poor value for money, project management and lack of proper approval. The report also highlighted serious abuse of expenses by the Head of IT and some of her line reports. This included regular entertainment of contractors followed by overnight stays in Hereford. Two overseas visits of questionable value have also been uncovered. As a result of these issues we have given an adverse VFM opinion on the Council's arrangements for securing value for money (the VFM opinion).
- 92** Following this report the Council invited the LGA to identify an independent and experienced person to carry out the investigation. This was necessary because the Chief Executive and Director of Corporate Services were married. The former Chief Executive of Buckinghamshire County Council, Ian Crookall carried out this investigation. This investigation was both thorough and wholly independent. The Council has been commendably open and transparent in their reporting of the investigation. The Council has also taken the report very seriously and is starting to respond robustly.
- 93** The serious findings in the ICT section exposed weaknesses in the application and monitoring of corporate procedures. However there is no evidence either to suggest that the abuse was more widespread and indeed our work and that of Internal Audit suggests it is not. There is also no evidence to suggest fraud or corruption.
- 94** Due to the thoroughness, independence and openness of the external investigation which has already taken place, we have concluded that there is no merit in a further investigation.
- 95** The Audit & Corporate Governance Committee has received regular progress reports on implementing the recommendations in the Section 151 Officer report. All the outstanding recommendations from that report plus those from the Crookall report are now being integrated into one action plan. It is important that the Council now continues to focus on improving its processes and procedures. We will continue to monitor the Council's response.

## Waste Management PFI

- 96 The Council has been seeking for several years with its partner Worcestershire County Council to vary its PFI contract for waste management which will allow both parties to meet national targets for recycling and reductions in landfill tonnages and specifically reduce the amount of biological municipal waste (BMW) which ends up in landfill sites.
- 97 The Government has set councils exacting targets for recycling which are above those agreeing for the current contract. Targets for reducing landfill have also been set. The driver for these targets is landfill tax, which is set to increase year on year providing an incentive for councils to divert waste from landfill. The consequence of not reducing landfill tonnages will be increased costs and increasing pressure on medium term financial strategy.
- 98 Councils have also been set targets for the amount of BMW which can be landfilled, these targets first impact in 2010 when BMW going to landfill needs to fall to 75 per cent of that produced in 1995. Subsequent targets are increasingly hard to meet, as by 2013 the amount permitted to be landfilled falls to 50 per cent of the 1995 amount and in 2020 to 35 per cent.
- 99 Councils have permits for BMW landfill which are aligned with these targets, failure to meet such targets will result in a cost, estimated to be in the region of £150 per tonne of additional BMW waste going to landfill.
- 100 Until the discussions with the contractor are finally concluded, there remains a risk that the contract could terminate. Contract termination could have a significant impact on the financial standing of the councils, because termination clauses in the original contract will require the councils to repay the contractors shareholder equity in exchange for bringing waste management assets and facilities back in-house. In such a situation the councils are also likely to have to enter into a new contract in order to achieve the objectives of the Waste Management Strategy. Re-procurement costs are likely to be significant and the councils would be unlikely to secure the level of government PFI funding that was made available for the existing contract.
- 101 Given the potentially long process to achieve a contract variation, the Council needs to be aware of the very significant financial implications of delay and balance this against obtaining the best long term solution for waste management.

## Grant claims

- 102 In accordance with Strategic Regulation, the Audit Commission has continued with a more risk-based approach to the certification of grant claims. We have reduced our audit of these claims but our ability to reduce further also depends on the adequacy of the Council's control environment.



- 103** The Council's arrangements for managing and quality assuring grant claims submitted for audit has changed partly as a result of a new protocol and setting up a grant claims co-ordinator. To help improve arrangements further the Council needs to use this new post to be proactive in chasing departments where claims and working papers are outstanding so that the claims audits can commence on time. A number of claims were late in 2007.
- 104** We have recently produced a memorandum following the audit of the largest of these claims, housing and council tax benefits. This is designed to improve the efficiency in auditing this large claim in the future. The audit of this claim improved this year due to significant improvement in co-operation from benefits staff and can further benefit from improved working papers to support the claim.

## Looking ahead

- 105** 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.
- 106** 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.
- 107** 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

- 108 This letter has been discussed and agreed with Chief Executive. A copy of the letter will be presented at the Audit and Governance Committee on 29 February 2008. Copies need to be provided to all Council members.
- 109 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 3 Reports issued**

Report	Date of issue
Audit and inspection plan	March 2006
Culture Inspection Report	May 2007
Herefordshire Connects	May 2007
Annual Governance Report	September 2007
Opinion on financial statements	September 2007
Value for money conclusion	September 2007
Final accounts memorandum	October 2007
Public Service Trust	November 2007
Annual audit and inspection letter	February 2008

- 110 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

- 111 This letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk), and also on the Council's website.

**Elizabeth Cave**  
**District Auditor and Relationship Manager**

February 2008