

26 October 2012

Members  
Herefordshire Council  
Hafod Road  
Hereford  
HR11SH

**Direct line** 0844 798 7552  
**Email** l-cave@audit-  
commission.gov.uk

Dear Member

## Herefordshire Council Annual Audit Letter 2011/12

I am pleased to submit my Annual Audit Letter which summarises my 2011/12 audit of Herefordshire Council.

### The results of my audit

Following the Audit and Governance Committee, on 27 September 2012:

- I issued an unqualified opinion on the Council's 2011/12 financial statements;
- I concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

I also completed the Whole of Government Accounts audit on 4 October 2012 and issued my certificate that the Audit is complete on the same day.

### The Council's financial statements

On 20 September 2012 I presented my Annual Governance Report (AGR) to the Audit and Governance Committee outlining the findings of my audit of the 2011/12 financial statements. In this letter I summarise the main issues.

I am grateful for the good co-operation provided by officers throughout the audit, particularly as 2011-12 was clearly a difficult financial reporting year. In 2011-12 the Council transferred responsibility for preparing financial statements to its joint venture company partner, Hoople. This meant that many of the officers involved in preparing the financial statements were new to the roles they were asked to perform.

During 2011-12 the Council also brought in a new integrated ledger system with the final phase, capital accounting, being implemented during the closedown period. This degree of change is rarely seen in a single year and adversely affected the approach I usually see at this Council.

As a consequence of the ledger implementation and change of roles, the Council did not leave sufficient time for a full quality review of the draft accounts. The first draft accounts contained numerous errors, with the main problem area being capital assets where there was incorrect disclosure of movements and inaccurate and incomplete application of valuation changes. None of the adjustments necessary had any impact on the amounts to be met from taxpayers or the contribution to earmarked reserves or the general fund balance.

Supporting working papers were issued piecemeal throughout the audit and provided an inadequate and overly-complex trail for the analysis of income and expenditure in the Comprehensive Income and Expenditure Statement and for debtor and creditor balances. A full set of working papers supporting the figures in the accounts should be made available to client officers before the accounts are authorised for issue. This will not only make the audit much more efficient but also help client officers assure themselves of the integrity of the statement of accounts.

Before I issued my assurance statement on the Whole of Government Accounts submission, the Council corrected a number of errors above £1 million and provided some supplementary data

I have since provided officers with a memorandum with recommendations to help the closedown and audit next year.

### **Key Issues for the Council in 2012/13**

I have identified four key issues, from the audit perspective, that I believe the Council will continue to need to focus upon in the coming year:

- Financial position
- Adult Social Care
- Waste disposal; and
- Health and Social Care Act

## Financial position

The Council has a well developed medium term financial strategy and is all too aware that the current and future challenges, such as an ageing local population and significant reductions in central government funding, will continue to increase the pressure on its budget. The Council currently has adequate reserves and balances, but these have fallen by about a third in three years as shown in Table 1 and are likely to continue to be under pressure.

Table 1 Herefordshire Council useable reserves

Revenue reserves and balances at 31 March	£m
2009	29.3
2010	24.6
2011	23.9
2012	19.6

In 2011/12 the Adult Social Care budget overspent by £5.5 million but this was largely balanced by underspending in other areas meaning there was a small Council overspend of £0.5 million.

The Council achieved savings of over £8 million of savings in 2011/12. The savings were made in three ways; through efficiencies, reforming some services and service cuts but the emphasis has been on avoiding cuts. Most of the savings and income generation measures taken have an ongoing effect. However, there was slippage in the delivery of some planned procurement savings which have required adjustment to the 2012-13 budget. My work over recent years and recent internal reviews point to the management of out-sourced provision as a development area for the Council. I am encouraged to see that the Council is now planning to build on the work of a recent LGA pilot project to develop a unified and more robust framework for monitoring the performance of service delivery contracts. This is important as much of the Council's service delivery is now through external providers.

The Council's governance arrangements for delivering the savings are on the whole robust and clear. Responsibility for delivering the savings is clearly defined and there are corporate arrangements for developing and critically evaluating savings plans which should help the Council make the further savings required. However review of the 2012/13 projects considered at risk (which I discuss later in this letter) indicate that there may be scope to improve how this process works in practice.

The Council's 2012-13 base budget requires Directorates to make £9.6m of savings and for centrally held budgets to save £1.2m. However, slippage in the delivery of 2011-12 budgeted savings in Adult Social Care and procurement added a further £7.1m to the savings required making a total of £17.9m of savings to be delivered in 2012-13.

Information up to the end of August 2012 indicates that actions have already been taken that will deliver £6.2m of these savings and of the balance of £4.1m is rated as “red risk.” The most recent report to Cabinet forecast an overspend of £2.3 million based on the position at the end of July 2012. More significant savings are required for 2013/14 and this year could be challenging due to funding changes and additional service pressures.

Given the scale of the financial challenge, it is important to regularly review the method and frequency of financial reporting to Members. In last year’s audit letter I recommended some areas where your sound processes could be further enhanced to deal with the more demanding financial environment you are now in. This included increasing the frequency and timeliness of reporting to Members. The Council is currently reviewing financial reporting arrangements and intends to report to Members progress against savings targets as well as providing stronger links between financial reporting and performance. Members now need to consider whether the frequency, timing and content of financial reports is sufficient for this more challenging financial environment. I also believe that there is scope to provide Members with clearer information about the amounts being planned to be taken out or added to general and specific reserves each year.

### **Adult Social Care Services**

In my previous Audit Letters I drew attention to the continuing overspending in Adult Social Care. As mentioned earlier, in 2011/12 this service overspent by £5.5 million including an element of roll over from previous years. Table 2 shows how the overspending has risen over recent years.

Table 2 Overspending on Adult Social Care

	£m
2008-09	0.75
2009-10	2.73
2010-11	4.35
2011-12	5.54

Meanwhile demand for these services is predicted to sharply rise in future years due to demographic trends both nationally and locally. In my experience the way to address this overspending involves three elements;

- continuing to challenge and reform the way services are provided
- ensuring financial management is fit for purpose: and
- ensuring that the budget is challenging but realistic.

The Service has enjoyed a period of stability in leadership in the last 18 months. This has helped in allowing the service to draw up plans to change the way the service is provided. My review of the savings plans for 2011/12 and 2012/13 has indicated that a greater proportion of planned savings are recurring in nature than previously. However, the delivery of planned savings slipped by £5.6m in 2011/12 and the slippage has been added to the 2012-13 required savings increasing the total needed to about £8m in 2012-13. Monitoring information up to the end of August 2012 indicates that actions have already been taken that will deliver £1.5m of these savings and of the balance about £5m is reported as at risk.

In the initial phase of a root and branch review of Older People, the Council has reviewed current plans for the transformation of the service and carried out some valuable benchmarking of service activity and costs. The review identified that the Council has a significantly lower client contribution to the costs of residential and nursing care and has higher unit costs for residential care, direct payments and domiciliary care than average. The Council fully appreciates it needs to concentrate now on changing the pattern of demand including further development of preventative approaches e.g. adaptive technologies. This may mean continuing to move from "buildings based" provision to community based provision.

The Council asked its internal auditors to review the financial management arrangements in Adult Social Care in 2012. This review painted a picture of an adult social care finance function which was performing its basic traditional responsibilities adequately but was not sufficiently involved in key decisions. The Council has recently taken action to bolster financial management and has appointed a more senior finance officer to the team. The 2012 Strategic Delivery Plan for transforming Adult Social Care attempted to make a clear link between objectives and the activities, finance and savings to deliver them. I consider that this is going in the right direction by further embedding financial management into service decision making. In last year's audit letter I re-emphasised the need to ensure that there is commitment accounting so that there is a full picture of care packages already agreed by the Funding panel. I understand that commitment accounting in Adult Social Care is now being implemented.

The continuing overspending in this Service indicates in my view that the current budget is unrealistic. It is understandable that the Council would not want to increase service budgets without evidence of necessary reform. However an unrealistic target can reduce the incentive for officers to keep within budget. The Council should reconsider the Adult Social Care budget and this may mean some more difficult decisions need to be taken in other areas. The Council is currently analysing information from a survey by the Association of Directors of Adult Social Care Services on levels of funding to meet budget pressures to re-assess the local approach. Members need to monitor this area closely and be prepared to make some difficult decisions.

## **Waste disposal**

As I reported in last year's Annual Audit Letter, the Worcestershire and Herefordshire Waste Private Finance Initiative contract with Mercia Waste Management Ltd (Mercia Waste) was set up in December 1998. It was predominantly based around a waste to energy facility for which planning permission was subsequently refused. In the last fourteen years alternative technologies and ways forward have been explored. The contract includes an option to terminate on a 'no fault basis' as at March 2002 in the event that planning permission is not granted. This clause was suspended whilst the Councils and contractor tried to find an alternative solution and therefore the contract has continued to operate as originally intended.

In July 2012 permission was finally granted to Mercia Waste for a waste to energy plant in Hartlebury, Worcestershire. There are now complex issues for the Councils to consider in relation to:

- achieving overall value for money from the contract and potential variations to the contract, or any alternative waste disposal provision;
- considering, within this context, the impact of PFI credits and changes to the government policies on landfill (LATS penalties);
- taking into account, and balancing, the views and interests of taxpayers; and
- ensuring any variation is within the legal powers of the Councils.

From my ongoing work I am satisfied that the Councils are taking the necessary and appropriate advice and are planning to undertake the required work to ensure the eventual decisions are taken in accordance with the law and provide value for money. In February Cabinet approved a set of criteria, including financial parameters, which must be met before a variation is approved. Herefordshire Council is also commissioning a separate review of whether a revision to the contract is the right approach for itself as well as the partnership.

## **Health and Social Care Act**

The Health and Social Care Act 2012 conferred new responsibilities on the Council which included:

- A duty to improve the health of the population
- A duty to provide population healthcare advice to support NHS commissioning
- A duty to ensure that the population is protected against communicable diseases and other threats to health.

The Council will have a very important role through its new responsibilities for public health as well as its existing responsibilities for social care, the economy and the environment.

The Council's transition plan was developed using good project management (Prince 2) methods. A progress statement to the July Cabinet reported good progress. This plan has been rated "green" by the Department of Health and all key project milestones had been achieved to date.

**Closing remarks**

I have discussed and agreed this letter with the Chief Officer Finance and Commercial Services. While this has been a challenging year for the Council I wish to thank the finance staff for their very positive and constructive approach they have taken to my audit. I also wish to thank senior management and the Audit and Governance Committee for their support and co-operation during the audit.

Yours sincerely

Elizabeth Cave  
*District Auditor*