

Annual Audit Letter

Worcestershire County Council

Audit 2008/09

November 2009



Contents

Key messages	3
Financial statements and annual governance statement	5
Value for money and use of resources	6
Closing remarks	12
Appendix 1 – Action plan	13

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Key messages

This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Overall Message

- 1** The Council gives good value for money in the performance and cost of its services. It has very good arrangements for deciding its priorities and looking at how it can make things better. It takes into account the views of the public and makes sure money goes to the areas it considers important. It keeps a tight rein on its budgets and is in a currently sound financial position to face the challenges of the future. The Council has recently reported that savings of £45 million by the financial year 2013/14 are necessary. Although the Council has a good track record of making efficiencies, this is going to be very difficult. The impact of the recession will continue to present a challenge to the Council in the coming financial year and I will continue to monitor the Council's response and actions in this key area.
- 2** The Council has a strong commitment not to waste natural resources. It understands what it uses and has identified areas where it can make the best impact on the environment. It is good at sharing its buildings with other organisations such as the Police and NHS so that costs can be reduced and the public gets easier access.

Financial Statements

- 3** I substantially completed the audit of the Council's financial statements in June 2009, which is considerably earlier than at other local authorities. This was possible because a good quality statement of accounts was produced very early and Officers gave priority to ensuring the audit went smoothly. I gave an unqualified opinion on these accounts in September 2009.

Value for money

- 4** I issued an unqualified conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in the use of resources.
- 5** The new assessment of use of resources this year is broader and more demanding. Against the new criteria, I have assessed Worcestershire County Council as performing well in managing and using its resources to deliver value for money and better and sustainable outcomes for the people of Worcestershire. In relation to those areas I have reviewed previously, I consider that the Council has continued to make progress.

- 6 The future of waste disposal within the County continues to be uncertain. Whilst the Council has been involved in lengthy discussions with potential partners to try and reach a solution which will reduce the amount of waste going to landfill, a solution is yet to be finalised. As a result there continues to be a risk that the contract in place to deal with waste disposal will have to terminate. The Council has worked with its district council partners and Herefordshire Council to reduce the tonnage of waste collected, increase the amount of recyclable waste, and reduce the amounts going to landfill. However a waste treatment facility is needed to deal effectively with biodegradable waste and until this has happened, the Council will incur financial penalties. Given the potentially long process to provide the new facility and the financial implications of delay, the Council needs to do everything it can to find a solution.
- 7 The Council contributes around £62.2 million annually to budgets pooled with NHS Worcestershire. The Council has made good progress in responding to our report last year on these budgets. We found that the Council and the NHS had a clear commitment to joint working, supported by strong leadership. The partners produced an Annual Agreement setting out the priorities for each of the services covered by the pooled budget agreements but there is still scope to be clearer about what outcomes are expected particularly when new developments are planned.

Independence and audit fee

- 8 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence. The actual audit fee for 2008/09 was as planned and reported to the Audit and Governance Committee in June 2008.

Recommendations	
R1	Continue to actively pursue a satisfactory conclusion to waste management as soon as possible
R2	Ensure that the recommendations in the detailed use of resources report are delivered

Financial statements and annual governance statement

Worcestershire County Council's financial statements and annual governance statement are an important means by which it accounts for its stewardship of public funds.

Significant issues arising from the audit

- 9 The Council once again completed its accounts very early. As a consequence, I was able to complete my work prior to the deadline of 30 June 2009 for the approval of the Statement of Accounts. This is considerably earlier than at other councils and was helped by officers being very responsive to requests for additional information. I reported my findings from this audit to the Audit and Governance Committee in June 2009. Our main recommendation in this report was that the balance sheet in future years includes an estimate of the Council's non-material liabilities in relation to added years awarded to teachers by the former Hereford and Worcester County Council. I gave an unqualified opinion on these accounts in September 2009.
- 10 I did not identify any material weaknesses in your internal control arrangements. The Council has continued to put much effort into resolving previously highlighted weaknesses in the payroll system. I will assess shortly whether we can rely on the controls put in place for my 2009/10 audit opinion. The main recommendation in our interim report was to process more creditor payments through the SAP purchase ledger, where the control environment is stronger.

Pension Fund accounts

- 11 The Council administers a pension fund with over 20,000 contributors and 12,000 pensioners and with assets of around £1.2 billion in November 2009. The accounts of the Pension Fund are included with the Authority's statement of accounts and therefore I audited them at the same time. This year I issued a separate report on the Pension Fund audit for the first time to the Audit and Governance committee. The audit went very smoothly and I found few errors. Nationally much greater attention is being paid to pension funds and in particular their governance arrangements. The Government has issued a consultation document on suitable governance structures including appropriate member committee structures. The Government is consulting on ceasing the common practice of holding pension fund cash in councils' own bank accounts. Members will need to review the approach taken in Worcestershire when the guidance is finalised.

Value for money and use of resources

I considered how well the Worcestershire County Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Worcestershire County Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources judgements

- 12** In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 13** I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.
- 14** The Council's use of resources theme scores are shown in Table 1. The key findings and conclusions for the three themes, and the underlying KLOE, are summarised in our use of resources report.

Table 1 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	3
Governing the business	3
Managing resources	3

- 15** The assessment of use of resources this year is broader and more demanding. Against the new criteria, I have assessed Worcestershire County Council as performing well in managing and using its resources to deliver value for money and better and sustainable outcomes for the people of Worcestershire. I consider that the Council has continued to make progress on those areas I have reviewed previously.

Value for money and use of resources

Managing Finances including treasury management

- 16** The Council gives good value for money in terms of the performance and cost of its services. It has very good arrangements for deciding its priorities and looking at how it can make things better. It takes into account the views of the public and makes sure the money goes to the areas it considers important. It keeps a tight rein on its budgets and is in a currently sound financial position to face the challenges of the future. Financial balance is continually achieved despite having to make significant savings year on year
- 17** There is scope to incorporate best national practice such as that included in the Audit Commission's "World Class Financial Management" report in some areas. The presentation of the next medium term financial document could highlight the key risks and changes included in the plan and quantify the potential impact of changes in the key assumptions used. The reporting of performance information could be further aligned to financial reporting.
- 18** The Council investigates the implications of pressures on costs and new ways of doing things, for example Choice and Control. The management of strategic performance and budget/costs are integrated through Corporate Strategy Week. The Council uses this understanding to feed the formal decision-making process and allow the Council to make informed decisions and to commission services that deliver strong outcomes for local people and the community.
- 19** The last year has seen the country enter a significant economic recession. The consequence locally, is an increasing demand for public services and the likelihood of reduced levels of central government funding. Together, these provide a significant challenge for local councils as they seek to continue to provide services to local residents, whilst maintaining a sound financial position.
- 20** The Council has recently considered future cost and revenue pressures, such as the growth in demand for adult social care services, and has reported that savings of £45 million by the financial year 2013/14 are necessary. This is equivalent to 15 per cent of non-schools expenditure and, despite the Council's previous good track record in delivering efficiency savings, this will be very challenging. The Council has started to put in place arrangements to identify these savings and these plans will need to be carefully monitored by Members.
- 21** The impact of the recession will continue to present a challenge to the Council in the coming financial year. I will continue to monitor the Council's response and actions in this key area.
- 22** Treasury management arrangements are robust and have been adapted to the global financial crisis. The Council did not hold investments in Icelandic banks when they collapsed. Members are kept well informed including by weekly e-mails from the Director of Financial Services.
- 23** The Council has a good track record of producing final accounts which comply with the requirements of accounting standards to very tight deadlines. A draft statement was provided for audit by 21 May and the audit is substantially complete by 11 June. Officer response and availability was again excellent leading to an efficient audit.

Governing the Business including the National Fraud Initiative

- 24** The Council uses its understanding of what is needed locally to buy or provide services that give good results to local people. The Council's commissioning and procurement of good quality services is underpinned by a clear understanding of local needs and a drive to deliver excellent value for money, and strong, sustainable outcomes. A joint commissioning team has been set up with the PCT. There is increased use of IT for procurement and commissioning including the use of 'reverse auctions' which was used in commissioning transport services across the Council, one of the first times service provision has been secured using this process.
- 25** There is clear understanding by Council officers of the need to produce relevant and reliable data in supporting good performance and informed decision making that can clearly show better outcomes for local people. Good data backs up a sound performance management framework. Trends are analysed and underperformance and high spend or future pressures are managed. Good examples of this include highways, looked after children and the impact of choice and control. Our detailed testing of waste performance indicators found no problems.
- 26** Strong governance arrangements are demonstrated and high ethical standards displayed, which enable officers and councillors to focus on priorities and better outcomes for the community. Relationships are good between Councillors and officers. The Council works well in partnership, however the Council is not complacent and is reviewing its partnership governance arrangements to extend and strengthen them. There is no formal or routine review of VFM in respect of partnerships however this is being investigated.
- 27** Good declaration of interests arrangements are in place for Members and this is subject to annual review. However, the arrangements are not as clear for staff and vary between directorates. There are clear anti fraud arrangements in place and all referrals are investigated resulting in successful prosecutions and repayment of any money due but there is little proactive fraud work outside that which is done for the Audit Commission's National Fraud Initiative. The NFI involves comparing information held on many government systems to identify potential frauds and I assessed the Council's arrangements as good here. Arrangements to cope with continuing to provide the County's services in the event of a major incident (business continuity planning) are in place but are not yet fully tested out.

Managing Resources

- 28** The Council has a strong track record of making effective use of natural resources and tries not to waste natural resources. It understands what it uses and has identified areas where it can make the best impact on the environment. Since 2002 it has reduced CO2 emissions from its activities by 52 per cent. The Council can demonstrate results in reducing its negative impact on the landscape and works with wide ranging groups to learn and to spread awareness. The Council has identified the risks it faces and may face in the future, for example around climate change and flooding, and is actively managing those risks. Use of natural resources permeates all aspects of the Council's work, so that in purchasing decisions the environmental impact of goods and services is assessed and improved, and projects are clearly appraised for their sustainable impact.

Value for money and use of resources

- 29** The Council's approach to use of natural resources very closely ties into its approach to managing its assets. The Council is good at sharing its buildings with other organisations such as the Police and NHS so that costs can be reduced and the public gets easier access.
- 30** The Council has an effective corporate approach to managing its assets, which helps it deliver its priorities, make substantial savings and improve outcomes for its communities. The Council ensures that its assets minimise use of natural resources and positively benefit the environment. The Council is working with partners to develop a longer term strategic approach to asset management by all public sector bodies in the County. It works with partners to make better use of assets, look at innovative ways of transferring assets to community groups and to dispose of surplus assets where appropriate. A common asset base for all public sector partners in the County has been developed by the Council.

VFM Conclusion

- 31** I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission specifies each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body.
- 32** I issued an unqualified conclusion stating that the Worcestershire County Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Follow up of Pooled Budgets Study

- 33** Our audit of pooled budgets in 2007/08 assessed the arrangements in place to manage performance and ensure effective use of resources and integrated provision in the services covered by the pooled budget agreement. It focused on the main budgets for Older People and Learning Disabilities where funds are "pooled" between the Council and the local Primary Care Trust (PCT).
- 34** We found that the Council and PCT had a clear commitment to joint working, supported by strong leadership. A joint framework had been agreed, providing a sound basis for future joint working. To ensure that the arrangements were effective in achieving desired outcomes and securing value for money, we recommended that the Council and PCT should set clearer outcome measures and monitor progress towards these, and develop financial plans setting out how future demand, for example for older people's services would be met within existing resources. Other recommendations covered capacity and governance arrangements. Progress has been made against most of these.

- 35** The partners produce an Annual Agreement setting out the priorities for each of the services covered by the pooled budget agreements. These are supported by specific objectives, targets and outcomes which are performance managed through the Joint Commissioning Group. There is still scope to make some of the outcome measures more specific, for example by setting out the expected benefits of planned service developments. Supporting schedules for the pooled budget Framework agreement have been completed.
- 36** Governance and decision-making structures and processes are clear and transparent. Service and financial planning and monitoring for all services covered by the pooled budget agreements is managed by the Joint Commissioning Unit (JCU) and overseen by the Joint Commissioning group. Programmes and projects managed by the JCU are linked to appropriate governance structures in the Council and PCT.
- 37** The capacity to manage joint commissioning has been strengthened. The Joint Commissioning Unit has been operational since April 2009 and most posts are now filled.
- 38** The Council and PCT are working together to gain a better understanding of the market and the factors that influence demand for older people's services in order to develop more sustainable care pathways. An example is the commissioning of low level preventative services to help older people maintain their independence. There are also proposals to help manage the increasing demands and secure better quality and value for money in the integrated equipment service, and to strengthen the commissioning of carer support services to improve equity of provision and better use of existing funding. Commissioning leads are developing investment plans for all services which should be in place by April 2010.

Personalisation of Adult Social Services

- 39** I have adapted my timetable for reviewing the implementation of personal budgets in adult social care to best suit the Council's own implementation plan. The purpose of this audit is to assess the action taken by Worcestershire County Council Adult and Community Services to deliver personalisation in adult social care through Choice and Control. I am examining three key risk areas; affordability, delivering change and managing expectation. I will report my findings during January 2010.

Waste Disposal

- 40** The Council is seeking with its partner Herefordshire Council to vary its privately funded (PFI) contract for waste management which will allow both parties to meet new national targets for recycling and reduce the amount of waste which ends up in landfill sites.
- 41** The Government has set Councils exacting targets for recycling which are above those agreed for the current contract. Targets for reducing the amount of waste which ends up in landfill sites have also been set. The tax on waste going to landfill sites is set to increase year on year providing a major incentive for councils to divert waste from landfill. The consequence of not reducing landfill tonnages will be increased costs and increasing pressure on the medium term financial strategy.

Value for money and use of resources

- 42** Targets for the amount of biodegradable waste which can be sent to landfill sites without financial penalty first impact in 2010 when waste going to landfill needs to fall to 75 per cent of that produced in 1995. Subsequent targets become increasingly hard to meet and failure to meet such targets will result in significant extra costs.
- 43** The Council has worked with its district council partners and Herefordshire Council to reduce the tonnage of waste collected, increase the amount of recyclable waste, and reduce the amounts going to landfill. However a waste treatment facility is needed to deal effectively with biodegradable waste and until this has happened, the Council is at risk of financial penalty.
- 44** Given the potentially long process to achieve a contract variation, the Council needs to be aware of the financial implications of delay.
- 45** 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 finances of both Councils, because termination clauses in the contract require the council to make severance payments 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 funding that would be necessary to meet the additional costs.
- 46** I will shortly be carrying out a detailed review of waste collection and disposal arrangements in Herefordshire and Worcestershire as part of my 2009/10 audit.

Closing remarks

- 47** I have discussed and agreed this letter with the Chief Executive and the Director of Financial services. I will present this letter at the Audit and Governance Committee on 4 December 2009 and will provide copies to all Members.
- 48** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Worcestershire County Council during the year.

Table 2

Report	Date issued
Interim audit memorandum	May 2009
Annual Governance Report	June 2009
Use of Resources	November 2009

- 49** The Comprehensive Area Assessment (CAA) Lead has issued her Draft CAA together with the Draft Organisational Assessment which combines the results of our Use of Resources work with work by the CAA Lead on managing performance. These findings will be published on 9 December 2009.
- 50** Worcestershire County Council has taken a very positive and constructive approach to our audit. I wish to thank the staff for their excellent support and co-operation during the audit.

Elizabeth Cave
 District Auditor
 November 2009

Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Audit Letter 2008/09 Recommendations						
4	R1 Continue to actively pursue a satisfactory conclusion to waste management as soon as possible	3	Director of Environmental Services	Yes		August 2010
4	R2 Ensure that the recommendations in the detailed use of resources report are delivered	3	Chief Executive	Yes		April 2010

The Audit Commission

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

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

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