

Annual Audit and Inspection Letter

January 2006



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Liverpool City Council

Audit 2004-2005

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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

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Key messages

Council performance

- 1 The Council has continued to improve many of its key services, including education, children's social care, benefits, community safety and street cleaning. However there has been slower progress in other areas including housing, waste management and recycling, adults social services and in the 'Supporting People' initiative.
- 2 Good progress is being made on a range of projects to transform the City and to improve the outcomes for the wider community, including the Kings Waterfront and Paradise Street developments. With the Council's support Liverpool's economy is growing in terms of new businesses and jobs.
- 3 The Council is generally improving value for money, with costs having been reduced and levels of council tax stabilised. However, costs of services in Liverpool are still high compared with other councils and there is more to do to demonstrate good value for money by the Council.

Financial management

- 4 The financial position remains challenging, with critically low levels of balances. The Council has recognised the need to address this issue and has a policy to restore working balances.
- 5 However there are some significant pressures that could impact on the ability of the Council to improve its financial position, such as next year's settlement and some cost pressures, including settlement of external claims.
- 6 In this environment, robust medium-term financial planning supported by a sound risk management framework and a clear view of the Council's priorities will be vital.

Leadership and governance

- 7 We have commented in previous years on the strong and effective political and managerial leadership of the Council and on the impact of this on improving services in Liverpool. In the last 12 months, with the referral of the former Council Leader to the Standards Board, the leadership and governance arrangements within the Council have been negatively affected.

- 8 Whilst the Council has continued to ensure the day-to-day operation of the Council services, that effective shared vision for continuing the improvement of Liverpool has been overshadowed by the internal difficulties of the Council. The image of the Council has also been tarnished. The Council now needs to move forward with the new Leader to re-establish sound governance frameworks and effective leadership, built on the foundation of a shared vision for the City and establishing greater trust between leading members and senior officers, recognising that the recent appointment of the former Leader to the Executive Board may make the task of rebuilding relationships and trust more difficult. There is also a need to ensure that Council has sufficient senior officer capacity, given the significant number of senior staff that have recently left or are about to leave the Council.
- 9 We will continue to work with the Council and the new Leader to help secure the improvements needed, but the Council needs to ensure that its senior officers and members that can work together with a shared vision for the City.

Action needed by the Council

- 10 To achieve further improvement in services, demonstrate value for money to taxpayers, and safeguard public money the Council needs to:
 - ensure clear and effective leadership;
 - set clear priorities;
 - strengthen governance arrangements;
 - improve risk and financial management arrangements;
 - ensure working balances are maintained in line with policy;
 - ensure that there is sufficient capacity and experience at a senior officer level;
 - develop arrangements for assessing and demonstrating value for money; and
 - develop robust action plans for underperforming services and ensure they are monitored closely and milestones met.

Performance

Under the new CPA framework the Council is 'improving adequately' and is two stars in terms of performance. Although trends continue to be positive, with improvements in many key services, the Council has not made the same rate of progress in all services and a number of areas are still underperforming.

CPA scorecard

Table 1 CPA scorecard

Element	Assessment
Direction of Travel judgement	Improving adequately
Overall rating	2 star
Current performance	Out of 4
Children and young people	3
Social care (adults)	2
Use of resources	2
Housing	1
Environment	3
Culture	3
Benefits	4
Corporate assessment/capacity to improve (not reassessed in 2005)	3 out of 4

(Note: 1=lowest, 4=highest)

- 11 The CPA judgements this year have been made using the revised methodology: CPA - the harder test. As the title implies CPA is now a more stringent test with greater emphasis on outcomes for local people and value for money. We have also added a new dimension, a Direction of Travel judgement that measures how well the Council is improving. Under the new framework the Council is 'improving adequately' and its overall CPA category is two-star.
- 12 The Council has continued to improve many of its key services, including education, children's social care, benefits, community safety and street cleaning. However there has been slower progress in other areas including housing, waste management and recycling, adults social services and in the 'Supporting People' initiative.

- 13 Good progress is being made on a range of projects to transform the City and to improve the outcomes for the wider community, including the Kings Waterfront and Paradise Street developments. With the Council's support Liverpool's economy is growing in terms of new businesses and jobs.
- 14 The Council is generally improving value for money, with costs having been reduced and levels of council tax stabilised. There is still more to do for the Council to demonstrate that it provides good value for money.
- 15 The Council has some good plans in place for achieving improvement. However in some areas, such as Supporting People and adults social services, the plans are not sufficiently reliable.
- 16 The Council is making progress with its commitment to improvement. Achieving further improvement is dependent upon ensuring clear and effective leadership.

Direction of Travel report

- 17 In this section we comment on the Council's overall direction of travel and the progress it is making against its overall priorities. Our overall conclusion is that the Council is improving adequately.

Service improvements

- 18 The general direction of travel continues to be positive with more than two thirds of performance indicators showing improvements over last year. The Council still has to tackle areas of poorer performance and pick up the pace of improvement as there are now 32 per cent of performance indicators in the bottom quartile compared to 28 per cent last year, although it is likely that the overall bottom quartile has improved.
- 19 The Council compares itself with other core cities and compared to this group, Liverpool performs well in terms of environment, transport and culture but improvements in respect of social care and housing have been at a slower rate than other councils.
- 20 There continues to be good progress relating to children and young people. Progress has been made in relation to the health of children and young people; in reducing teenage pregnancies; significantly improved levels of attainment and good performance for looked after children. There are areas to improve including addressing the higher levels of surplus places, improving attendance and tackling the increasing levels of re-offending by young people.
- 21 Liverpool has focused on making improvements to the street scene and has made good improvements in the street cleaning service. An inspection of street-based services earlier this year highlighted that service quality has improved since the previous inspection in 2002 but there are still substantial issues to address. These include the increasing levels of waste and poor recycling levels along with the quality of footways. The Council is addressing these issues although progress in completing improvement plans following the inspection has been slower than expected.

- 22 Improvements to the benefits service have also been achieved. The Council is now meeting the required standards for benefits claims administration, rent allowances and accuracy. Improvements in this area have been significant.
- 23 There are areas where significant improvement is still needed. Improvements to housing services have been secured over recent years but performance is still relatively weak with most of the housing performance indicators remaining in the bottom quartiles. Rent collection, repairs performance and the number of homes meeting the decent homes standard are all in the lowest performance quartile. The Council has plans to address decency standards by establishing a mutual trust to manage housing services. Liverpool Mutual Homes (LMH) has been set up to assume responsibility for the 18 to 19,000 houses that remain in Council ownership.
- 24 Private sector housing is being tackled through the NewHeartlands Pathfinder initiative. Liverpool City Council has received an allocation of £17 million of funding in 2004/05 and £28 million in 2005/06 to restructure local housing markets in a target zone comprising 70,000 properties and deal with the problems associated with low demand, poor conditions and declining property values.
- 25 Adults' social services are a recognised area for improvement. The Council is performing well in meeting national priorities to help older people to live at home and there is positive feedback on intermediate care and rehabilitation. Joint working with the PCT is good. However, there has been a significant decrease in home care packages and assessments are slower than other areas. Older people are critical about the speed of processing assessments and the subsequent provision of services.
- 26 There is a lack of progress in terms of the 'Supporting People' service and it was still judged to be a poor service in a recent re-inspection. There are continuing weaknesses in case review and in services for vulnerable adults. The Council's service review process is only now beginning to progress and it is not clear whether the Council will deliver an effective and comprehensive review of all services to meet the ODPM deadline of 31 March 2006.

Wider community outcomes

- 27 Good progress is being made on a range of projects to transform the City of Liverpool and to improve outcomes for the wider community.
- 28 The award of the Capital of Culture for 2008 continues to drive improvements to the City's infrastructure. These include improvements to St. Georges Hall, Liverpool Museum, the Kings Waterfront development and conference facilities. An inspection of culture is scheduled for the spring of 2006 and this will assess progress.
- 29 The City is undergoing a major transformation. There is significant investment in the City, for example, the £800 million investment in the Paradise Street Retail Centre and Bertelsmann's £122 million new Gravure Printing facility in Speke Garston.

- 30 Liverpool's economy continues to grow in terms of output and new job creation. Levels of entrepreneurship are increasing, with high numbers of business start ups and a considerable decrease in the volume of business closures. The City still lags behind other major cities and has much further to travel towards its goal of having a higher value-added economy
- 31 Community safety outcomes have been positive although levels of reported violent crime are increasing. There have been reductions of over 20 per cent in burglary, robbery and vehicle crime but violent crime has increased by 45 per cent.
- 32 There is good partnership working around health with a number of initiatives in place such as 'smoke free Liverpool', 'active Liverpool' and the 'taste for health' scheme. We are reviewing partnership working around health inequalities in early 2006.

Access and diversity

- 33 Access to services continues to be strong. There is a range of options to contact the Council and access services. These include the website, customer contact facilities and the use of new technologies such as kiosk and mobile phone technology. Regular surveys of users are carried out and the new neighbourhood charters are bedding in. There is still a need to improve the use of customer feedback in a systematic way.
- 34 Good progress is being made in terms of the diversity agenda. Performance on the broader equalities agenda is strong including DDA compliance and CRE level 4. The Council is rolling out its corporate equality strategy 'Excellence through Equity 2005-2008' and met 50 per cent of its targets for the year. Services have developed plans to improve the delivery of actions to improve services to all sectors of the community.

Value for money

- 35 There is a significant challenge facing the Council in terms of ensuring that it achieves value for money.
- 36 The cost of services is still high compared to others and there are a number of challenges in terms of performance. The Council has reduced costs and has kept Council tax rises at low levels and performance management arrangements have resulted in improvements to a number of service areas.
- 37 A wide range of approaches have been used to reduce costs including reductions in staffing levels, joint ventures and partnerships, best value reviews and service re-engineering. However, these and other approaches are not always systematically evaluated and therefore the Council is unable to demonstrate specific examples of improvements in VFM for services.

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

- 38 The Council continues to make progress in many of its key areas. However, where performance has consistently been weaker, progress has been slow. Achieving further improvement is dependent upon ensuring clear and effective leadership.

Plans for improvement

- 39 The Council has acknowledged that not all plans are sufficiently detailed, resourced, agreed and widely communicated and is keen to make them more robust and better aligned with an updated medium-term financial strategy. There is also some way to go in areas where the Council is working with partners in health and other agencies to develop overarching strategic plans and join up individual plans.
- 40 Clear progress is being made in some key areas. The recent Benefits Fraud Inspectorate (BFI) annual assessment has assessed the Council as having 'excellent' performance and is very positive about performance in delivering plans and targets. Similarly, the annual performance assessment of children's services by Ofsted and CSCI identifies service management as strong. There are good plans to improve housing repairs and maintenance, and recently street-based services following the inspection this year although progress has been slower than expected.
- 41 However, there are some areas where plans are not robust. The Joint Inspection of Older People's services identified that although there has been good progress in implementing the NSF for older people, there was an absence of joined up planning to deliver older people's services. The recent Supporting People re-inspection found that the improvement plan following the previous inspection lacked multi-agency accountabilities, support and connections. The report points to weak individual and joint planning arrangements and a lack of clarity about joint targets and resources. It concludes that there has been a failure to establish delivery and monitoring systems and the service review process is only now beginning to progress.

Delivering improvements

- 42 The Council is generally delivering planned improvements which provide some confidence that better outcomes will be secured in the future. It acknowledges that it needs to improve delivery against its plans in some areas but has also had to lay the foundations for sustainable improvement in areas that were very poor and will take longer to show better outcomes.

- 43 Significant objectives and milestones have been achieved in some aspects of education, children's and adults' social services, benefits, housing repairs and maintenance and street-based services. In particular, children's services, which scored the top score for education last year and was rated as serving 'some' children well has been assessed by Ofsted and CSCI this year as consistently delivering above the minimum standards for children and young people, with social care rated as 'good' and education services as 'very good'. Similarly, housing benefits has moved from an assessment of fair performance last year to 'excellent' performance this year (scores 3 and 4 respectively) and the CSCI annual assessment for adults concludes that the Council is performing well in supporting people to live at home and steady progress in improving outcomes for older people and working age adults. The repairs and maintenance and the street-based services previously judged as 'poor' both moved to 'fair' when we inspected earlier this year.
- 44 However, the CSCI assessment for adults services remains that the Council is serving 'some' people well and the Older People's inspection highlights problems with implementing a single assessment process. The Supporting People re-inspection also assessed the Council as delivering 'poor' services with examples of where expected improvement in outcomes has not been achieved, such as reviewing cases where vulnerable adults were judged to be at risk due to inappropriate needs assessments and inadequate levels of care with support. In addition, key priorities such as the best value review of in-house services, developing 'move on' and resettlement plans for high-cost users and an accommodation strategy have not been completed.

Capacity to deliver plans

- 45 The Council generally has the capacity to deliver its plans but there is some uncertainty about deliverability.
- 46 The assessment by Ofsted and CSCI judges the Council's capacity to improve its services as 'good/promising' and our recent inspection of street-based services also judged capacity to improve as 'promising'. The marked improvement in the BFI assessment indicates that capacity issues are being addressed for the benefits service.
- 47 There are some areas where capacity to improve is less clear. Adult social services have deteriorated from 'promising' to 'uncertain' prospects and Supporting People remains 'uncertain'. The Older People's inspection identified that there is no medium-term workforce strategy, opportunities to build capacity across organisations have not been exploited and there are problems with recruitment and retention. The Supporting People programme has suffered from capacity issues and led to the use of external consultancy support which has not been as effective and focused as it ought to have been. The Council acknowledges the need to further build internal organisational capacity and, for example, is adding new service development posts for the Supporting People programme and confirming new accountable officer and lead officer roles.

Corporate governance

- 48** Our review of the use of resources has highlighted that the Council needs to make further progress by improving financial management and internal controls. Financial standing, with very low working balances, significant challenges and funding pressures leaves the Council in a vulnerable financial position and may curtail improvement levels being sustained. However the Council has made some progress by recognising the need to increase cash balances on an annual basis from an extremely poor position.
- 49** Our recent review of delegation arrangements has highlighted concerns about the decision making process and there have been reduced levels of trust between some senior officers and members at the corporate level. The Council has introduced its scheme of delegation in accordance with legislation and members and officers are attempting to create a sound foundation and a model that reflects the local context, constraints and culture of the City Council. However, there are a number of areas in relation to communication, training and development and constitutional issues where further development is needed.
- 50** We have commented in previous years on the strong and effective political and managerial leadership of the Council and on the impact of this on improving services in Liverpool. In the last 12 months, the referral of the former Leader to the Standards Board raises concerns for us about the leadership and governance arrangements within the Council. Whilst the Council has continued to ensure the day-to-day operation of the Council services, that effective shared vision for continuing the improvement of Liverpool has been overshadowed by the internal difficulties of the Council. The image of the Council has also been tarnished. The Council now needs to move forward with the new Leader to re-establish sound governance frameworks and effective leadership, built on the foundation of a shared vision for the City and establishing greater trust between leading members and senior officers, recognising that the recent appointment of the former Leader to the Executive Board may make the task of rebuilding relationships and trust more difficult. There is also a need to ensure that Council has sufficient senior officer capacity, given the significant number of senior staff that have recently left or are about to leave the Council.
- 51** At a portfolio level arrangements for continuous improvement are generally working well with positive relationships between officers and members and regular reporting through management team and select committees. The Supporting People inspection, however, concluded that the Council has failed to establish effective governance systems and highlighted that management oversight of the programme needs to be tightened and the level of ineligible funding (estimated at around £10 million) accurately assessed.
- 52** Achieving further improvement is dependent upon strengthening governance arrangements and ensuring clear and effective leadership. The Council needs to consider how it tackles these issues and consider member and officer working relationships within the wider aspects of ethical standards and good governance.

Other performance work

Performance management

- 53 The Council has continued to make good progress in embedding a performance management culture. In the last year there has been a more consistent implementation of the performance development review system (PDR) and there are clearer targets and accountabilities for delivering corporate plan priorities.
- 54 Performance management arrangements are more proportionate to risk and there is a greater focus on those service areas that have comparatively low performance. There is a good commitment to improvement at a corporate, departmental, employee and councillor level. Whilst significant improvements in performance have not yet been achieved in some areas, building blocks are being put in place in order to ensure that improvements are sustainable in the medium to long-term. The general direction of travel for service improvements is good but there are some areas that could be developed further.
- Developing and implementing arrangements to assess and demonstrate value for money for all service areas.
 - Building on good practice such as housing benefits and adult assessments and share learning throughout the Council to improve low performing service areas such as 'Supporting People'.
 - Ensuring that a consistent approach to using comparative information for housing is agreed and implemented.

Performance information

- 55 We are required by section 7 of the Local Government Act 1999 and the Audit Commission's statutory Code of Audit Practice to carry out an audit of the Council's best value performance plan. In assessing and reporting on the BVPP, we made no statutory recommendations. The BVPP was compliant in all significant respects with legislation and guidance, and we were satisfied that it was a fair assessment of the Council's performance.
- 56 Our audit of Best Value Performance Indicators (BVPIs) concluded that overall, the Council has arrangements in place to produce and report the specified performance information. The overall level of errors was low and there has been further improvement in standards for the recording of BVPI information in most areas. The Audit Commission specified ten BVPIs and ten non-BVPIs in the list of mandatory PIs for audit. We reported a reservation on one of the ten selected non-BVPIs in respect of re-let times as the system for producing the outturn did not reconcile to the supporting system and records.
- 57 We also carried out further risk-based testing on other BVPIs and recorded reservations in relation to sickness absence and families in temporary accommodation.

- 58 As the significance of performance information continues to increase it will be increasingly important to improve the data quality arrangements within the Council.

Working with other inspectorates and regulators

- 59 An important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators who also review and report on the Council's performance. These include:
- Ofsted;
 - Commission for Social Care Inspection (CSCI)
 - Healthcare Commission;
 - Benefits Fraud Inspectorate (BFI);
 - DfES; and
 - Local Government Office contact.
- 60 We share information and seek to provide 'joined up' regulation to the Council. During the last year the Council has received the assessments from other inspectorates and these are included in the Direction of Travel report above.

Table 2 Assessments from other inspectorates

Ofsted/CSCI	The Council's performance in providing children's services shows the Council as serving most children well with promising capacity for improvement. The assessment is made by the CSCI and Ofsted following a joint review.
CSCI	Social services performance rating is one-star. Serving some adults well with uncertain capacity for improvement.
BFI	Benefits service equates to excellent performance.

Accounts and governance

We have given your accounts an unqualified audit opinion but raised some important issues in our report to those charged with governance. In particular, working balances were again critically low at the end of the year and the Council faces significant pressures in the short and medium-term.

Your overall corporate governance arrangements are adequate in most key areas; however, improvements are needed in arrangements for financial management, internal control and financial reporting.

Audit of 2004/05 accounts

- 61 The published accounts are an essential means by which the Council reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources. Members approved the Council's annual accounts on 13 July 2005.
- 62 We gave an unqualified opinion on the Council's accounts on the 31 October 2005. We have not yet issued a certificate due to outstanding questions and objections which have still to be resolved.
- 63 In last year's Annual Audit and Inspection Letter we emphasised that timeliness in producing the accounts will become increasingly important over the next few years as the deadline for completion of the accounts is brought forward in line with the Government's requirement. Whilst the accounts have been prepared to meet the requirements this year, we identified some weaknesses in working papers and in the preparation of the statements which need to be addressed as the deadlines will become increasingly more difficult to achieve and will require early planning and thoughtful scheduling of key meetings next year.
- 64 We are required by professional standards to report to those charged with governance (in this case to the Accounts Committee) certain matters before we give an opinion on the financial statements. We presented our SAS 610 report to members of the Accounts Committee on 18 October.
- 65 We raised issues in a number of areas, including:
 - the low level of general fund balances;
 - the adequacy of the bad debt provision for council tax arrears;
 - valuation, recording and accounting for fixed assets;
 - risk management and identifying contingent liabilities, reserves and provisions; and
 - reconciliation of school balances.
- 66 We are satisfied that the Council is responding positively to the issues arising from our audit and we plan to monitor progress against our recommendations closely in these areas.

Financial standing

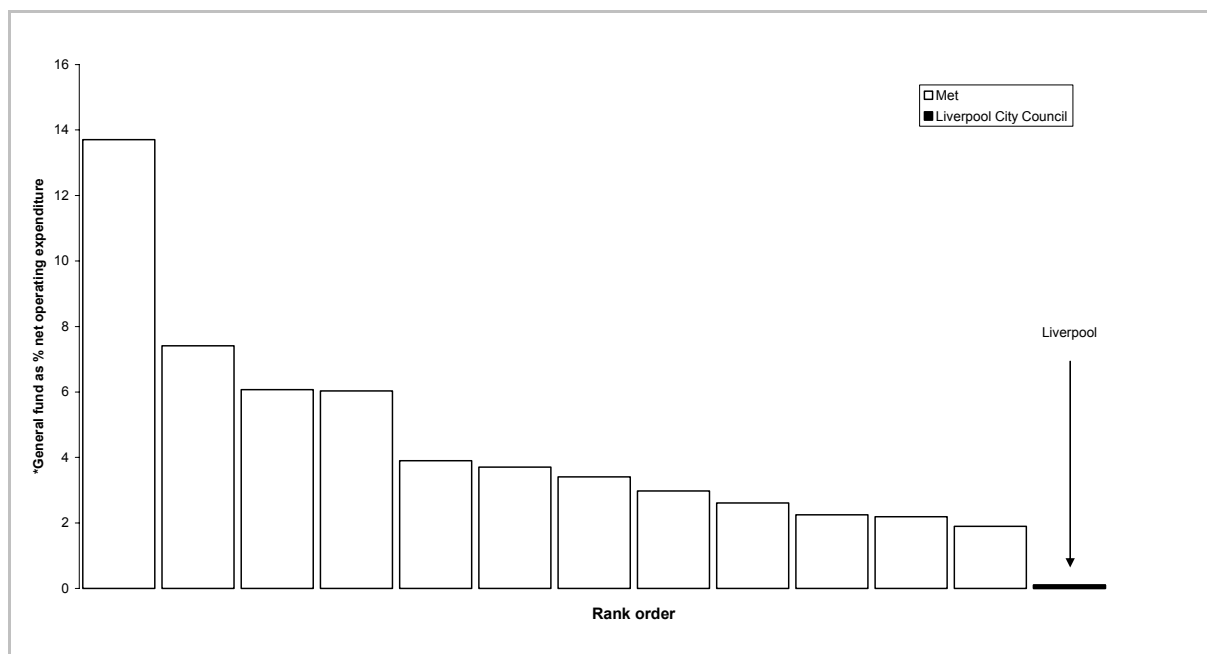
- 67 The Council recognises that its financial position continues to be challenging and is currently updating its medium-term financial plan and budget assumptions following the local government settlement. Working balances were again critically low at the end of March 2005 but are anticipated to increase at the end of March 2006. Levels of reserves need to be increased and maintained in line with the Council's policy.

General fund spending and balances

- 68 We have concerns relating to the low level of general reserves, which at the end of March 2005 were again critically low at £0.7 million against the £7 million planned when the budget was approved. This represented 0.1 per cent of net expenditure. General Fund reserves are one of the lowest of metropolitan councils as shown in the figure below. Although the Council plans to increase its budgeted contribution in the next financial year to account for any shortfall in the previous year, the planned level of contribution has not been achieved in practice and balances continue to remain low. The continuing low level of working balances leaves the Council exposed to the risks of unexpected events and overspends and limits its flexibility to respond to strategic priorities.

Figure 1 General Fund as a percentage of net operating expenditure

Liverpool has the lowest level of general fund reserves in the sample



Source: Audit Commission

- 69 In March 2005 the Council set its 2005/06 budget which anticipated working balances of £8 million. The latest financial forecast indicates that the working balance for 2005/06 is now anticipated to be £7 million due to the phasing of corporate efficiencies between 2005/06 and 2006/07. For individual portfolios, the major service blocks have reported spending within budget, apart from Supported Living which is currently anticipating an overspend.
- 70 The Council is currently developing its budget for 2006/07 and acknowledges that there are significant pressures that could impact on the ability of the Council to improve its financial position, such as next year's settlement and some cost pressures, including settlement of external claims.

Housing Revenue Account (HRA)

- 71 The budget for 2004/05 was set to provide a surplus and overall balance on the HRA of £1 million. The latest position reported to members anticipates a balance of £1.2 million which is low compared to other metropolitan councils. However, the Council is satisfied with the balance in the light of the proposed transfer of the remaining housing stock.
- 72 The Council submitted its housing stock options appraisal to the ODPM in December 2004. The appraisal identified stock transfer as the only realistic option to deliver the required investment to bring the housing stock up to the decent homes standard. The ODPM has approved the proposed transfer and tenants will be balloted in July 2006 on whether they want to transfer to a new RSL. If tenants vote for transfer the ODPM has stated that the transfer should be concluded by the end of March 2007.
- 73 Liverpool Mutual Homes (LMH) has recently been established as the Registered Social Landlord (RSL) to assume responsibility through a LSVT for the 19,000 homes that remain in Council ownership. It is intended that LMH will operate a participative landlord-tenant relationship and a shadow Board has been set up comprising tenants, independent and elected members. Bids are currently being assessed for managing agents in the five management team areas and preferred bidders are expected to be selected by December 2005 with successful bidders by summer 2006. Tenant consultation will take place through the Area Forums with a proposed tenants' ballot planned for Summer 2006.
- 74 The project is progressing adequately. However, a formal risk assessment has been carried out for the project and has identified that if the project fails for any reason, the HRA will become financially unsustainable and there will be significant abortive procurement costs. It is vital that risks are robustly managed and closely monitored by senior officers and members.

Capital programme

- 75 In 2004/05 the Council spent £177.5 million against its programme of £209.7 million which represents slippage of £26 million into the 2005/06 programme. The slippage was due in part to a moratorium introduced following decisions that the Council provide financial support to the Tram project. In addition, there were other delays in schemes that could be funded but also to delays in grant funding.
- 76 During the year arrangements for ensuring capital projects are in line with the prudential code have been improved as shown in recent reports for the approval of Colomendy, the Library and Picton pool.
- 77 The Council currently has a commitment to underwrite, with Knowsley, any overspending up to £24 million, on the proposed Merseytram project. Until it is clear whether or not this support will be needed it is difficult for the Council to proceed with other capital schemes.

School balances

- 78 We have expressed concerns in the past over the overall level of school balances, the large surpluses accumulated by individual schools and the rising trend of number of schools in deficit and the value of the overall deficit. Over the last year, the Council put in place revised funding arrangements to provide a minimum guaranteed level of funding for individual schools and has been actively monitoring the financial position of schools. Table 3, below, shows that the number of schools in deficit has fallen from 40 to 37 and the value from £3.2 million to £2.6 million.

Table 3 Movement in school balances

The number of schools in deficit has fallen from 40 to 37 and the value from £3.2 million to £2.6 million

	March 2002		March 2003		March 2004		March 2005	
	No	£000	No	£000	No	£000	No	£000
Schools in surplus	203	18,280	168	15,405	147	13,510	153	16,118
Schools in deficit	9	(734)	27	(1,796)	40	(3,195)	37	(2,604)
Total	212	17,546	195	13,609	187	10,315	190	13,514

Source: Audit Commission

- 79 During the course of our opinion audit we identified weaknesses in the internal controls operating around school balances and reconciliation with the Council's corporate finance systems. Arrangements have been put in place to bring reconciliations up to date by December 2005 to confirm the level of balances.

Income collection and arrears

- 80 Business rate payments rose by 2.5 per cent between March 2004 and March 2005 with a 3 per cent decrease in the level of arrears between the two years. Collection rates remain high at 99.08 per cent (98.9 per cent last year) against a target of 99 per cent.

Table 4 Local tax arrears

The trend in local tax arrears and provisions

	March 2003		March 2004		March 2005	
	Arrears £m	Provision	Arrears £m	Provision	Arrears £m	Provision
Council tax	70.8	45.7	79.7	49.2	94.9	54.4
NNDR	23.7	14.0	27.0	15.7	26.1	17.9
Community Charge	16.9	17.2	16.6	16.8	16.1	16.1
Total	111.4	76.9	123.3	81.7	137.1	88.4

Source: Audit Commission

- 81 Council tax arrears rose by 19 per cent between March 2004 and March 2005 whilst payments to the Council rose by 3 per cent. Collection rates have increased from 90.1 per cent last year to 93.5 per cent in 2004/05 which is at target. Our report to those charged with governance (SAS610) raised concerns about the collectability of council tax arrears and the adequacy of the bad debt provision. At the end of March 2005, council tax arrears were £94 million and the provision for bad debts stood at £54 million. The collectability of the debt has recently been reviewed by officers and targets for income collection set for 2005/06 and beyond. These targets are heavily reliant on recent and proposed improvements to collection performance and will need to be monitored closely to ensure that the bad debt provision is adequate. The Council's most recent projection of pre-2005/06 council tax arrears collection identifies a likely shortfall in the current year of £0.220 million and the provision for bad debts is planned to be increased accordingly. We will continue to monitor the level of arrears and the adequacy of the provision.

- 82 Housing rent arrears fell by 21.5 per cent from £15 million in March 2004 to £12 million in March 2005, which includes write-offs of £1.4 million. Rent collection performance in 2004/05 was 92.5 per cent which was a slight increase from the previous year (92.3 per cent) but was significantly below the target of 96.5 per cent.

Pensions fund deficit

- 83 The Council's accounts show a net pensions liability of £599.5 million which is an increase of 56 per cent from last year. The Fund has recognised this shortfall and will increase employer's contributions over the next 25 years in line with guidance from the Fund Actuary. Liverpool has taken account of this liability in its budget forecasts but needs to ensure it is reflected in the update to the medium-term financial strategy.

Systems of internal financial control

- 84 The Council's arrangements are generally adequate. However, there remain a number of areas where further development is needed.

Risk management and internal control

- 85 The register of significant risks at corporate level is still being finalised and risk management is in the early stages of being embedded. In some portfolios, risk management is an integrated management tool used to drive the Council's business but this is not consistent across all portfolios.
- 86 Additionally the elements of internal control are not brought together adequately at a corporate level to provide members with assurance that systems are robust and have been adequately considered for legal implications.

Internal Audit

- 87 Our assessment is that Internal Audit provides an effective service overall but there are some areas for improvement in working papers, securing action on recommendations and following up action plans.

Housing Market Renewal

- 88 Liverpool City Council is working with Sefton and Wirral as part of the Merseyside Pathfinder (NewHeartlands) for the Housing Market Renewal Initiative (HMRI). The aim is to work strategically with partners across all tenures to transform local housing markets.
- 89 The Council's has satisfactory management arrangements in place for implementing the significant challenges set by the HMRI delivery plan. Given the pressure that the Council has been under to deliver project expenditure within a short timescale, the programme is progressing well.

- 90 We tested the internal controls for HMRI transactions and the process for making monthly grant claims for expenditure incurred. These arrangements were satisfactory. We also confirmed that HMRI transactions within the Council's statement of accounts complied with recommended practice.
- 91 We identified scope for improvements to:
- monitoring by members within Liverpool to provide members with better information and an improved basis for exercising their responsibilities over this significant investment, for example, more detailed explanation of the large variations in project expenditure within each theme. The reports should also be supplemented by an annual summary of all acquisitions and disposals to provide a clearer picture of the activity in each area;
 - risk assessment and management, for example, to ensure that the risks of funding and the impact of changes the property market are adequately addressed;
 - developing a strategy for derelict areas - such as Tancred Road - not included in the HMRI plans;
 - arrangements to assess and demonstrate value for money; and
 - community engagement, especially in areas where there is opposition to aspects of the clearance programme and its effect on sustainable neighbourhoods.
- 92 We will continue to monitor progress as housing market renewal develops further. The Commission's Housing Inspectorate also carries out a strategic review and performance review role across the NewHeartlands pathfinder. The Inspectorate's recent draft strategic review report highlights that the Pathfinder is adding significant value in most of the areas assessed. There have been improvements to governance processes for example, with a better balanced board and separation of roles. The Pathfinder is developing a more rigorous approach to value for money through strategic commissioning but there is further scope to develop a more strategic approach to value for money.

Treasury management

- 93 We carried out a comparative review of the treasury management arrangements across the Merseyside metropolitan councils which compared each council's performance against a range of good practices. In overall terms, Liverpool performed well and good progress has been made in identifying and developing local systems and procedures. There are some areas that could be developed further, including reporting and management information, systems documentation and cashflow management.

Standards of financial conduct and the prevention and detection of fraud and corruption

- 94 We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption and found that the Council has adequate arrangements for promoting and ensuring probity in the conduct of its business.

Legality of transactions

- 95 We have not identified any significant weaknesses in the framework established by the Council for ensuring the legality of its significant financial transactions although there is scope to improve the formal consideration of legal implications in members' decision-making processes, including decisions in relation to complex schemes and innovative arrangements.
- 96 During the year we have received a number and range of enquiries that we have dealt with as part of our ongoing audit and inspection programme. Some of these issues are being considered as a formal objection and we will report the outcome of these in due course.

Use of resources judgements

- 97 The use of resources assessment is a new assessment which focuses on financial management but links to the strategic management of the Authority. It looks at how financial management is integrated with strategy and corporate management, supports council priorities and delivers value for money. It will be carried out annually, as part of each council's external audit. For single tier and county councils, the use of resources assessment forms part of the CPA framework.
- 98 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in five areas.

Table 5

Element	Assessment
Financial reporting	2 out of 4
Financial management	2 out of 4
Financial standing	1 out of 4
Internal control	2 out of 4
Value for money	1 out of 4
Overall	2 out of 4

(Note: 1=lowest, 4=highest)

- 99 In reaching these judgements we have drawn on the above work and supplemented this with a review against specified key lines of enquiry.

Financial reporting

- 100 Whilst we have scored at level 2 on the basis that there were no material errors in the accounts submitted for audit there remain some issues to address, including the:
- quality of certain working papers; and
 - issues raised in our report to those charged with governance.

Financial management

- 101 There have been some recent developments in improving these arrangements, including the recent development of an Asset Management Plan. However, there remain some areas where further development is needed:
- the medium-term financial plan needs to be updated following a review of the strategic objectives of the Council;
 - there needs to be robust profiling of the budget;
 - there should be proper guidance for budget holders;
 - the Capital Strategy needs to be updated; and
 - the Corporate Property Policy and Guidance Manual need to be finalised.

Financial standing

- 102 We have already raised concerns relating to the low level of general reserves in previous paragraphs. Levels of reserves need to be increased in line with the Council's policy.

Internal control

- 103 The Council's arrangements are generally adequate. However there remain a number of areas where further development is needed:
- the Council is still finalising its register of business risks at corporate level and risk management is in the early stages of being embedded; and
 - the elements of internal control are not brought together adequately at a corporate level to provide members with assurance that systems are robust and have been adequately considered for legal implications.

Value for money

- 104 Costs are higher than others even when allowing for factors such as deprivation and performance, whilst improving in many areas, has still to go some way in a number of key areas.

- 105** Whilst the Council has made significant strides in reducing the level of council tax and spending alongside improved performance over the past six years, there are still a number of challenges to address in order for us to conclude that the Council is currently delivering value for money. These include:
- a number of key areas where performance has remained poor to fair;
 - spending is higher than other councils in most areas;
 - the very high levels of deprivation clearly have a significant impact on costs in Liverpool but the extent of this on cost is unknown;
 - the Council's approach to VFM is underdeveloped and so the evidence to support VFM improvements at service level has not been collected; and
 - the overall approach to strategic procurement is underdeveloped although there is an innovative approach to developing partnerships and joint ventures and these have supported the Council in improving services. Investments and improvements in corporate procurement are being put in place and targets for deficiencies have been set.
- 106** The key to achieving better use of resources will be in improving the financial position of the Council and developing arrangements for achieving and improving VFM.

Other work

Grant claims

- 107** 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 depends on the adequacy of the Council's control environment. This year we were expecting to certify 113 claims with a value of over £600 million. In accordance with strategic regulation we will not be certifying 18 claims which are below the de-minimis level of £50,000 or those for which certification arrangements have recently changed.
- 108** The Council's arrangements for managing and quality assuring grant claims submitted for audit has improved in recent years. However there are areas where improvement could be made including:
- strengthening control environments and providing clear evidence and working papers to demonstrate arrangements;
 - better planning and control of the number and timing of claims in some portfolios to ensure deadlines for submission to departments and to audit are met; and
 - embedding quality assurance processes and sharing good practice across portfolios.
- 109** Our claims audit is now largely complete. We have certified 81 claims out of the 95 claims expected.

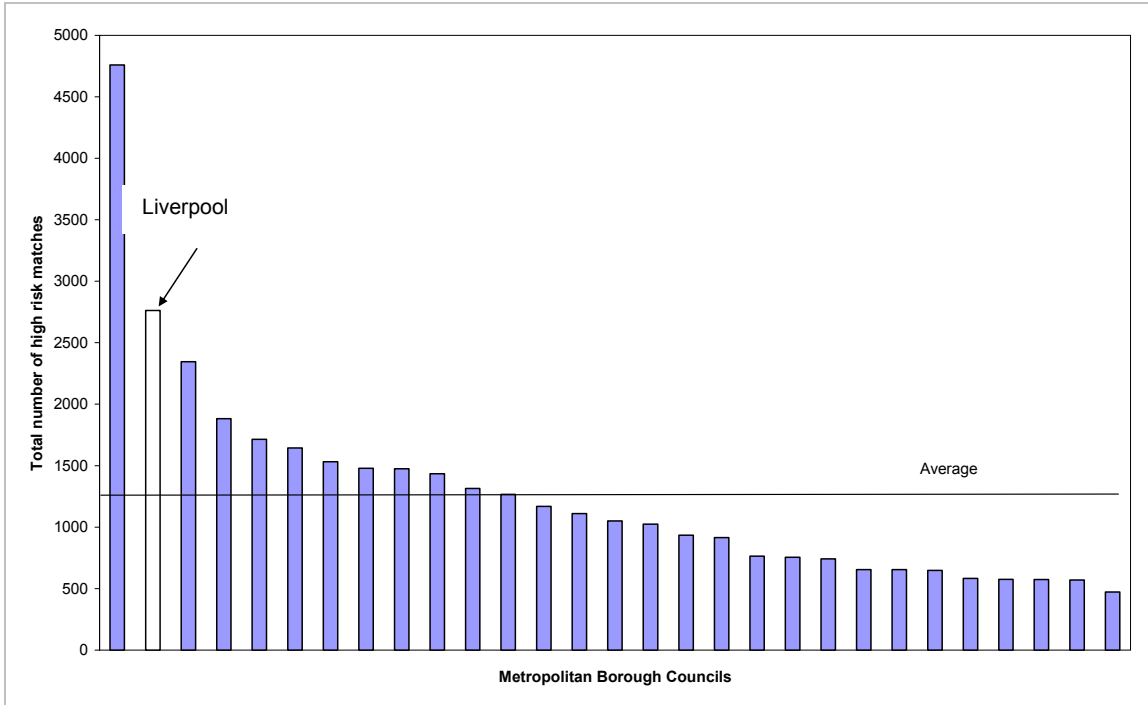
National Fraud Initiative

- 110** In 2004/05, the local authority took part in the Audit Commission's National Fraud Initiative (NFI). The NFI, which is undertaken every two years, aims to help identify and reduce fraud by bringing together data from NHS bodies, local authorities and government departments and other agencies, to detect a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud, tenancy fraud and payroll fraud as well as, new for 2004/05, right to buy scheme fraud and providing new contact details for former tenants with arrears in excess of £1,000.
- 111** The NFI 2004/05 results were distributed to participating bodies on 31 January 2005. A total of 2,762 high-risk data matches were identified for possible investigation by Liverpool City Council.

Figure 2

Number of high-risk data matches

Higher than average numbers of high-risk matches were identified for the Council



- 112 The Council’s arrangements for responding to the Audit Commission’s National Fraud Initiative (NFI) 2004/05 overall have been good and show improvements over last year.

Looking forwards

Future audit and inspection work

- 113** We have an agreed plan for 2005/06 and we have reported in this letter those aspects that have already been completed. The remaining elements of that plan, including our audit of the 2005/06 accounts, will be reported in next year's Annual Letter. Our planned work, together with that of other inspectorates, is included on both the Audit Commission and LSIF (Local Services Inspectorates Forum) websites.
- 114** We have sought to ensure, wherever possible, that our work relates to the improvement priorities of the Council. We will continue with this approach when planning our programme of work for 2006/07. We will seek to reconsider, with you, your improvement priorities in the light of the latest CPA assessment and your own analysis, and develop an agreed programme by 31 March 2006. We will continue to work with other inspectorates and regulators to develop a co-ordinated approach to regulation.
- 115** Recently a major infrastructure project within Merseyside, Merseytram, has not proceeded as planned. Whether the tram scheme continues to be progressed or not there are a number of lessons for Merseyside – and not just Merseytravel - about the way this scheme has developed. Merseytravel are seeking a judicial review of the Government's decision to withdraw £170 million funding. The High Court hearing will be held in late January 2006. We are considering the potential for undertaking a review across all Merseyside authorities to identify what, if any, wider lessons for joint working can be learnt from this experience. A decision on what, if any, further audit work may now be necessary will be taken following completion of the judicial review process.

Revision to the Code of Audit Practice

- 116** The statutory requirements governing our audit work, are contained in:
- the Audit Commission Act 1998; and
 - the Code of Audit Practice (the Code).
- 117** The Code has been revised with effect from 1 April 2005. Further details are included in our Audit Plan which was agreed in March 2005. The key changes include:
- the requirement to draw a positive conclusion regarding the Council's arrangements for ensuring value for money in its use of resources; and
 - a clearer focus on overall financial and performance management arrangements.

Closing remarks

- 118 This letter has been discussed and agreed with the senior officers. A copy of the letter will be presented at the Executive Board.
- 119 The Council has taken a positive and constructive approach to our audit and inspection I would like to take this opportunity to express my appreciation for the Council's assistance and co-operation.

Availability of this letter

- 120 This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website.

Tim Watkinson
District Auditor and Relationship Manager
January 2006

Appendix 1 – Background to this letter

The purpose of this letter

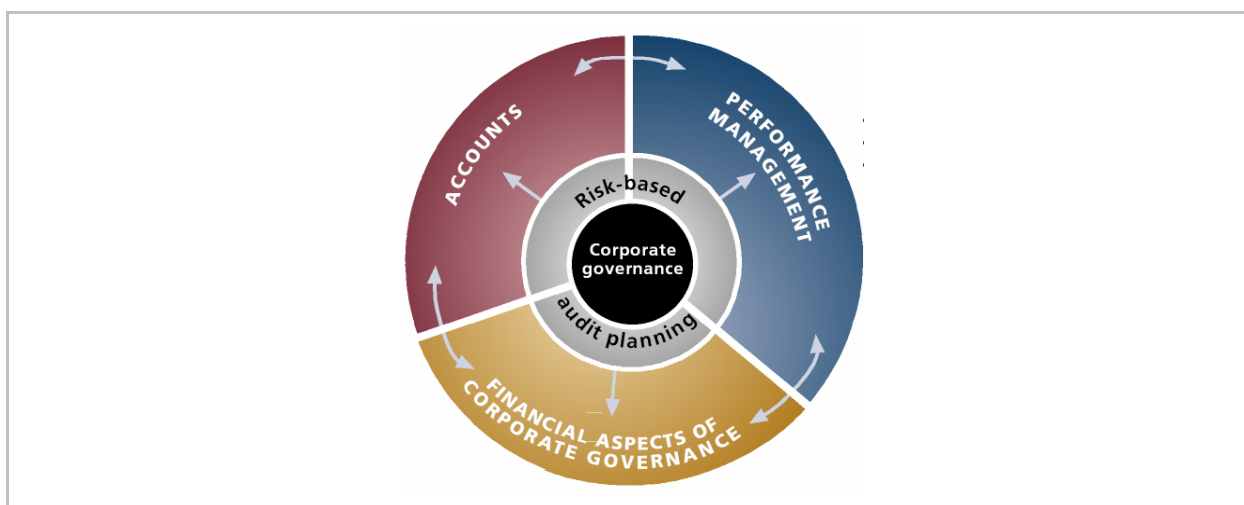
- 1 This is our Audit and Inspection ‘Annual Letter’ for members which incorporates the Annual Audit Letter for 2004/05, which is presented by the Council’s Relationship Manager and District Auditor. The letter summarises the conclusions and significant issues arising from our recent audit and inspections of the Council.
- 2 We have issued separate reports during the year setting out the findings and conclusions from the specific elements of our programme. These reports are listed at Appendix 2 for information.
- 3 The Audit Commission has circulated to all audited bodies a statement that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement. What we say about the results of our audit should be viewed in the context of that more formal background.
- 4 Appendix 3 provides information about the fee charged for our audit and inspections.

Audit objectives

- 5 Our main objective as your appointed auditor is to plan and carry out an audit that meets the requirements of the Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on your significant financial and operational risks that are relevant to our audit responsibilities.
- 6 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as set out in the Code and shown in Figure 3.

Figure 3 Code of Audit Practice

Code of practice responsibilities



- 7 Central to our audit are your corporate governance arrangements. Our audit is then structured around the three elements of our responsibilities as shown below.

Accounts

- Opinion.

Financial aspects of corporate governance

- Financial standing.
- Systems of internal financial control.
- Standards of financial conduct and the prevention and detection of fraud and corruption.
- Legality of transactions.

Performance management

- Use of resources.
- Performance information.
- Best value performance plan.

Appendix 2 – Audit reports issued

Table 6

Report title	Date issued
Audit Plan	March 2005
Report on the 2004/05 Statements to the Accounts Committee (SAS 610)	October 2005
Audit Opinion (certificate o/s)	31 October 2005
Opinion Audit Report	November 2005
Auditors Report on BVPIs and the BVPP	October 2005
Auditors Report on the Best Value Performance Plan	October 2005
CPA Use of Resources	December 2005
Scheme of Delegation	October 2005
Supporting People Reinspection	November 2005
Street-Based Services	June 2005
HMRI	December 2005
Risk Management	August 2005
Joint Inspection of Services for Older People	June 2005
Grant Claims	May 2005

Appendix 3 – Audit fee

Table 7 Audit fee update

Audit area	Plan 2004/05 (£)	Actual 2004/05 (£)
Accounts	272,300	300,860
Financial aspects of corporate governance	146,840	146,840
Performance	105,100	105,100
Total Code of Audit Practice fee	524,240	552,800
Grant claims	300,000	300,000 (Est)
Total	824,240	852,800

Inspection fee update

- 1 The full year inspection fee is £62,500. The work reported in this Audit and Inspection Letter has been funded by an element of the fee covering 2004/05 and by an element of the fee covering 2005/06. In both years the actual fee will be in line with that planned.