

Annual Audit and Inspection Letter

Liverpool City Council

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Executive summary

The purpose of this letter

This is our audit and inspection 'Annual Letter' for Members which incorporates the Annual Audit Letter for 2003/04, and 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.

We have issued separate reports during the year having completed specific aspects of our programme. These reports are listed at Appendix 1 for information.

Appendix 2 sets out the scope of audit and inspection and Appendix 3 provides information about the fees charged.

Key messages

Council performance

Performance trends are generally positive and there have been improvements in education, libraries and the use of resources. Where services are underperforming – housing, recycling, highways, supporting people and social care - the council has recognised this and is taking action to improve outcomes through increased investment and innovative solutions.

The council is also leading a huge transformational programme for the city. The improvement and transformational agenda is driven by a strong political and managerial leadership and a realistic awareness of the challenges.

Financial position

In particular, the council recognises that the financial position remains challenging.

It is taking steps to address this through a robust approach to its medium term financial plan. It also recognises that general fund balances are critically low and is planning to replenish these over the next few years.

Setting clear priorities, robust risk management arrangements and prudent budgeting are key to the success of Liverpool's ambitious plans and although the council is committed to strengthen all these areas this will need some tough decisions.

Other accounts and governance issues

The council's overall corporate governance arrangements are satisfactory in most key areas. However, it has recognised that there are elements of its financial controls that need to be strengthened, for example in respect of housing benefits.

Action needed by the Council

The council needs to ensure that:

- balances are returned to a prudent level in 2005/06 and beyond;
- risk and financial management arrangements are strengthened over the next twelve months;
- service improvement is delivered in key underperforming areas - housing, recycling, highways, supporting people and social care;
- service improvement across all areas can be maintained alongside the huge transformational programme; and
- governance arrangements are strengthened to safeguard public money.

Council performance

Performance trends are positive and where services are underperforming, this has been recognised and is being addressed.

CPA scorecard

EXHIBIT 1 CPA SCORECARD

The council continues to be a 'Good' council

Element	Assessment
Overall	Good
Current performance	out of 4
<ul style="list-style-type: none"> • Education. • Housing. • Use of resources. • Social care (children). • Social care (adults). • Benefits. • Environment. • Libraries and Leisure. 	4 2 4 2 2 3 2 3
Capacity to improve (not reassessed in 2004).	3 out of 4

(Note: 1=lowest, 4=highest)

Source – Audit Commission, December 2004

Liverpool City Council continues to be a 'Good' council.

It has maintained its services at the level we saw last year. The council has made improvements in education, libraries and the use of resources and we expect to see services improve in the next 12 months.

There is strong political and managerial leadership and clarity about the areas for improvement. Performance trends are generally positive across the council. However the council's performance in services for social care, housing and the environment is more mixed.

There are a number of exciting developments in Liverpool and the council continues to seek innovative solutions to problems. Over the next few years the city will be transformed through the Capital of Culture, Paradise Street developments and housing market renewal.

There remain a number underperforming areas such as housing, recycling, highways, supporting people and social care. However investments in services are now beginning to show improved outcomes.

Based on Liverpool's current plans, the council is well placed to continue to improve the way it works and the services it provides to local people.

CPA Improvement Report

Council Overview

The City Council continues to move forwards in a positive direction. There is strong political and managerial leadership and clarity about the areas for improvement.

There are a number of exciting developments in Liverpool and the council continues to seek innovative solutions to problems. Over the next few years, the city will be transformed as projects such as Capital of Culture, regeneration programmes like the Paradise Street development and housing market renewal come to fruition. Investments in service improvements have been put in place to tackle underperforming areas such as housing, recycling, highways, supporting people and social care and these are beginning to show improved outcomes.

Performance trends are generally positive. Performance management is strong and improving and this leads to improvements in services. Sixty three per cent of 2003/04 best value performance indicators (BVPs) improved with strong improvement in education, corporate health and libraries. However, improvements in social care and housing are more mixed. The challenge is to continue to improve performance management to address weaker areas and the achievement of targets. Nearly, thirty per cent of BVPs remain in the bottom quartile and only 33 per cent of targets were met.

The scale and pace of change present major opportunities to improve the quality of life of local communities. They also present significant challenges for the council. These include:

- continuing to deliver and improve services whilst delivering the huge transformational agenda for the city;
- ensuring that the investments and improvements are sustained in the long term; and
- ensuring that the council's financial health is sufficiently strong to meet the challenges.

Improvement Priorities

In this section of the letter we comment on the progress the council has made in its priorities for improvement since last year's CPA.

Our commentary is structured around the council's six main aims.

Top quality, value for money services, while keeping council tax as low as possible

The council is making improvements to services and at the same time is managing to keep council tax rises at a low level. There are good planning and performance management arrangements in place to support this.

The council needs to ensure that longer term human and financial plans are robust enough to support its ambitions.

The council has continued to refine and improve its corporate planning arrangements through the corporate performance plan (CPP) and in cascaded priorities through portfolio and service plans. Performance management arrangements are strong and performance trends are positive. There is a strong awareness of the areas that need to improve if the council is to achieve its ambitions.

The council recognises that good human resource management is important in supporting the improvement agenda. There is strong leadership around the HR agenda and the council has embarked on an ambitious culture and change management programme and the pace of change over the last few years has been significant. The 'Liverpool Way' is acting as a key enabler to achieving organisational and culture change together with a strong corporate identity. The council has come a long way in a short space of time but needs to consider how the change programme can be sustained in the long term. The council needs to consider the challenges of the next three to five years, identify approaches that will best address these challenges and further explore and analyse specific issues and themes to identify any remaining barriers in order to ensure that they are targeted in the future.

Risk management has also been highlighted as an area for improvement. Progress is being made but is at an early stage. The corporate risk management group provides good leadership and the framework for reviewing risks and the risk register are in place. More work is needed to embed the risk management culture across the council and the framework needs to be tested to ensure that it is identifying risk and helping to prioritise activities.

The council has performed well in meeting its objective to keep the council tax rises down, but longer term financial planning is important if the council is to achieve its ambitions. The level of usable reserves is very low, but the council has recognised this and is planning to build balances to a prudent level. Further consideration is given to these issues elsewhere in this letter.

A business-friendly city with accessible, responsive and integrated business services which encourages inward investment, growth and jobs with a healthy not for profit business sector

The council has identified the regeneration of the city centre as vital to the long term prosperity of the City and the sub-region.

The regeneration of Liverpool continues at a rapid pace. Over the next few years, the city centre will be transformed as schemes and projects are completed. The challenge is to ensure that all parts of the community benefit.

A key driver continues to be the Capital of Culture and is driving a number of initiatives and projects in the lead up to 2008.

Other major schemes are underway or will begin soon. The Paradise Street development has started and will be finalised in 2008, with the first retail outlet opening in 2007. A lettings strategy has been prepared and it is estimated that 90 new shops will be located in the city centre. Other schemes such as the Met quarter, commercial district and waterfront development are progressing.

There are a number of developments to support continuing growth. These include the work at the Liverpool business centre, the city growth strategy and the Liverpool city centre and four other strategic investment areas which are intended to create 30,000 jobs.

The outcomes of the regeneration and economic development activity are positive. Employment has grown by 10 per cent since 2000 and unemployment has fallen by 12 per cent in the same period. There are continuing challenges though. Unemployment levels remain high in the deprived wards and income levels are amongst the lowest in the country.

In a recent report for the core cities, a case study on Liverpool found that the council and its partners have ambitious targets for employment and skills and a range of good practice and programmes such as the 'people pool' and the Merseyside Construction Initiative. However, there are issues to tackle. Whilst Liverpool creates two fifths of all the value created in the sub-region, local people are not necessarily accessing the jobs that are being created. This is a big issue for the council and its partners and they are working together to tackle this.

Well serviced, safe and sustainable neighbourhoods with optimum local accountability and influence over service management

Liverpool has an ambitious agenda to transform neighbourhoods and to tackle crime and the fear of crime. It has also focused on improving standards of care for older people which remains an area for attention.

The council is making good progress with the housing market renewal pathfinder. £45 million of funding has been allocated for Liverpool and four private sector house builder partners have been selected to redevelop the inner core of the city. One thousand, five hundred properties are to be demolished and replaced by 1,300 new houses and 495 houses are to be renovated. Plans to establish five new private sector renewal areas have been prepared. The aim is to improve around 30,000 houses as part of this plan.

The council is tackling issues around its own housing stock in order to meet decent homes standards. It has transferred 12,000 of its council houses to three registered social landlords and is working on an innovative approach for the 29,000 properties that remain in the council's ownership through a 'mutual' model. The council is in discussions with the Office of the Deputy Prime Minister (ODPM) about the model and is hopeful of a positive response.

Progress is being made in improving services to tenants, with more to do. An inspection of the council's repairs and maintenance services in July 2004 highlighted that improvements have been made since the last inspection and that the prospects for further improvement are promising. Improvements to customer care have been made but there remain challenges around the backlog of non urgent repairs and the re-letting of empty properties. There are early signs of improvement in the repairs performance as the council and its new partner address the issues arising from the contract which was novated earlier in the year.

Neighbourhood management arrangements are developing well. Seven neighbourhood management teams have been set up and are working with partners to develop a range of integrated services such as housing management, environmental services, community safety and local employment packages. Community charters setting out the standards that local people can expect are being prepared.

Crime and community safety issues are being tackled. Crime rates in a number of areas have seen a significant fall in the last year. Burglaries have fallen by 29 per cent and the theft of vehicles has fallen by 20 per cent. However, violence against the person has increased by 16 per cent. There are a range of programmes to improve crime and community safety outcomes including an extensive CCTV network, city wardens and programmes for young people.

Adult social services remain as 'serving some people well' but prospects for improvement have now been assessed as 'promising'. The annual Commission for Social Care Inspection (CSCI) letter comments that the council acknowledges there is a need to continue with the significant modernising agenda. Performance and business planning indicate a commitment to the promotion of independence and the improvement of the whole care management process.

Despite efforts to work with partners, progress on improvements for adult services remains a significant challenge. The council must now move forward to modernise services for vulnerable adults and improve user outcomes.

The council also has a demanding agenda to improve its performance in relation to supporting people. A supporting people inspection carried out in the summer rated the council as providing poor services for vulnerable people. There were a number of significant weaknesses including poor involvement of service users, gaps in services for key groups and a smaller than expected proportion of grant being spend on older people. There were also a number of weaknesses in performance management and administration. Prospects for improvement were judged to be uncertain. The council has responded positively to the inspection and has developed an action plan to address the weaknesses identified in the report.

Top quality education services which raise attainment and develop the self-esteem, skills, knowledge and qualifications that our citizens need

Improving education outcomes is the top priority and the council continues to make improvements in most areas although significant challenges remain.

There have been improvements in attainment at all key stages and in attendance rates in primary and secondary schools. The gap between Liverpool's performance and national averages is closing but a number of indicators remain in the bottom quartile.

The number of school exclusions continues to fall and investments in new schools and refurbishments have improved services for young people. There has been some slippage on two PFI schemes due to problems with the contractor. The council is seeking to address the consequences of these difficulties.

Investments in adult education and nursery provision through sure start programmes continue to improve access to services at all ages.

There has been significant improvement in processing special educational needs statements. The percentage being processed within 18 weeks has more than doubled in the past two years.

The recent CSCI letter commented on continuing improvements to children's services.

Improvements have been noted both in outcomes and processes.

However, CSCI believes that the council should continue to review and monitor the effectiveness of its preventative services, the educational attainment of looked after children, performance management and business planning.

A healthy environment for all who live in, work or visit the city, with low levels of land, water and air pollution and with an effective, accessible transport system

The council's aim is to improve the standard of the city's street based services, road safety and move to more integrated and sustainable forms of transport. It also aims to reduce levels of land, water and air pollution.

Improvements are being made in a number of areas. There are high levels of satisfaction with the refuse collection service and satisfaction with street cleanliness and parks and open spaces has improved since 2000/01.

Improvements to street based services have been made through the partnership with Enterprise-Liverpool and improvements to public open space have received recognition. The council gained seven 'green flag' awards in 2003/04. Footways are beginning to improve but the condition of non principal roads in need of repair has increased from 3 per cent in 2001/02 to 18 per cent in 2003/04. Major capital investment has been secured for highways repairs.

Performance in meeting recycling targets continues to be a challenge. Whilst the latest performance indicators for 2003/04 show that the level of recycling has doubled from 2 per cent to 4 per cent, this is still low compared to others and well below the national target of 8 per cent. The amount of waste generated per household has increased by 6 per cent in the last two years. The council has made a significant investment in kerbside facilities to improve performance with 85 per cent of the city now having recycling facilities compared to just 6 per cent in 2002/03.

An inspection of street scene services is planned for spring 2005 and will assess the progress made since the last inspection in 2002.

Performance in relation to road safety is an area to address as the number of people killed or seriously injured has increased by 33 per cent in the last year and performance is in the lowest 25 per cent of councils. The council is working with partners on initiatives to address this including improvements to pedestrian safety and road safety education in priority areas.

Public transport satisfaction is strong; people are satisfied with public transport information and local public transport services. Investments in public transport facilities such as Liverpool South Parkway and Lime Street station improvements are well underway or planned.

The City at the forefront of delivering services electronically

The council has ambitious plans to deliver 100 per cent capability in electronic service delivery and increase social inclusion through the use of ICT. It is continuing to invest in new technology to improve the way it deals with customers.

There are clear targets relating to e-government, call centres and the network of one stop shops and customer centres. An inspection of customer contact in April 2004 concluded that the council provides good services and there are excellent prospects of improvement.

The inspection found a number of strengths. These include the 24 hour, 7 days a week telephone access supported by a network of one stop shops across the city with long opening hours. The standard of customer service is good and satisfaction with services is high. The inspection highlighted some areas for development in the council's approach to promoting the service and identified poorer telephone access in some parts of the council such as benefits.

The council has a strong vision and commitment to continue to improve customer access. Planned investments in technology and the expansion of facilities such as kiosks and one stop shops will support the achievement of the vision. The council is currently preparing an overall customer contact strategy which was a key recommendation arising from the inspection.

Performance Information

We issued an unqualified opinion on the Best Value Performance Plan (BVPP) on 13 December 2004 and made no statutory recommendations. The BVPP was compliant in all significant respects with legislation and statutory guidance and we were satisfied that it was a fair assessment of the council's performance.

Our audit of Best Value Performance Indicators (BVPIs) concluded that the council has arrangements in place to produce and report the specified performance information. The overall level of errors and uncertainties was low there had been some improvement in standards for the recording of BVPI performance.

We expressed a reservation on only one BVPI this year – sickness absence - an improvement from last year when we expressed reservations on this and four other indicators. Our testing of the sickness absence data capture system identified incomplete records for a number of service areas tested across four council portfolios. In addition, sickness absence records for schools are incomplete as a significant number of schools did not provide details of sickness absence during 2003/04. The council needs to improve systems for monitoring sickness absence within the council and ensure schools provide the information for monitoring their performance.

Working with other inspectorates and regulators

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);
- Benefits Fraud Inspectorate (BFI);
- DfES; and
- Local Government Office contact.

We share information and seek to provide 'joined up' regulation to the council. During the last year the council has received the following assessments from other inspectorates:

Inspectorate	Assessment
Ofsted	The top three star rating was reported in last year's letter and still stands.
CSCI	Overall one star service. Serving some adults well with promising capacity for improvement – scores 2 in the scorecard. Serving some children well with promising capacity for improvement – scores 2 in the scorecard.
BFI	Benefits service is providing a fair level of performance – scores 3 in the scorecard.

Accounts and governance

Your overall corporate governance arrangements are satisfactory in most key areas.

The council recognises that the financial position remains challenging and is taking steps to address this through a robust approach to its medium term financial plan. Balances remain critically low.

We gave an unqualified opinion on the council's accounts on 29 November 2004.

Audit of 2003/04 accounts

We gave an unqualified opinion on the council's accounts on 29 November 2004 and removed the fundamental uncertainty as to the full liability that could arise from claims made against the council by former residents of care homes alleging they suffered abuse.

The council did well to prepare and approve the statements a month in advance of the deadline.

During the course of the audit we agreed some significant changes which, although they resulted in no overall change to the amount met from government grants and local taxation in 2003/04, do have an impact on future budgets and the capital programme.

Matters arising from the final accounts audit

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. 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. The deadlines will become increasingly more difficult to achieve and will require early planning and thoughtful scheduling of key meetings next year.

This year the deadline for approval of the council's annual accounts was 31 August and members approved the statement well in advance of this on 14 July. The final statements and good quality supporting working papers were presented for audit on 23 June. We commend the Resources Directorate for achieving an early closedown and for the quality of its working papers.

During the course of this year's opinion audit we have highlighted areas where control, reconciliation and closure processes can be strengthened but we found that overall the control environment is strong. We have reported opinion matters arising to officers and agreed actions to improve systems. The more significant matters have been reported to members as summarised below.

Report to those with responsibility for governance in the council

We are required by professional standards to report to those charged with governance certain matters before we give an opinion on the financial statements. We reported to the Resources Committee and subsequently to the council and gave an unqualified opinion on the accounts on 29 November 2004.

In previous years we have issued a non-standard report on the council's financial statements. Whilst we did not qualify our opinions we did make reference to the 'fundamental uncertainty' as to the full liability that could arise from claims made against the council by former residents of care homes alleging they suffered abuse. We are pleased to report that we have removed this fundamental uncertainty from our opinion as the council has improved its forecasting and made an adequate provision to deal with potential claims.

During the course of the audit we agreed some significant changes to the accounts, mainly in respect of housing benefit provisions which resulted in no overall change to the amount met from government grants and local taxation although they do have an impact on future budgets.

The audit of the statements also identified a material weakness in the housing benefit system that was in operation for the first half of the year and this is summarised later in this letter.

Financial standing

The council recognises that the financial position remains challenging and is taking steps to address this through a more robust approach to its medium term financial plan. Balances remain critically low.

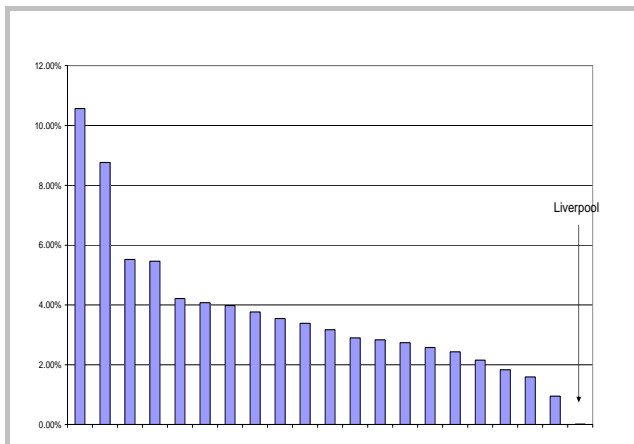
General fund spending and balances

A working balance of £106,000 was carried forward into 2004/05 which is significantly less than the £6 million that was originally anticipated. Although significant underspending totalling £3.2 million was carried forward by individual portfolios the 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. During our opinion audit an underprovision of £2.2 million was identified which has impacted on financial health for future revenue budgets.

The working balance of £106,000 equated to 0.02 per cent of net expenditure. When compared to a number of other metropolitan councils, Liverpool is again the lowest compared to an average of around 3.6 per cent.

EXHIBIT 2 GENERAL FUND BALANCE AS A PROPORTION OF NET EXPENDITURE

Liverpool's balances are the lowest compared to other metropolitan councils



Source – Audit Commission 31 March 2004

In March 2004 the council set its 2004/05 budget which anticipated working balances of £7 million. The latest financial forecast indicates that the working balance for 2004/05 is now anticipated to be around £0.5 million after taking into account overspends in the supported living, education and culture portfolios totalling £4 million, as well as building up provisions.

The council has recently updated its medium term financial plan (MTFP) and acknowledges how challenging the next few years are going to be. The MTFP has been prepared on sound principles and reasonable assumptions and realistically anticipates:

- considerable ongoing and unavoidable commitments such as pay inflation and pensions liability;
- demanding service pressures, especially in supported living and education;
- uncertainty around funding streams, for example, the Supporting People grant;
- ambitious major projects, especially in regeneration and working with partners; and
- service improvements and initiatives, for example, to fulfil environmental aspirations.

It also acknowledges that the challenges will be hard to contain with the current low tax increase strategy. In 2004/05 the council tax increase was 3 per cent, much lower than other metropolitan councils and has helped the council to improve its position from being the most expensive council to 95th in terms of council tax. The council has recognised that it will be difficult to maintain minimum increases if it is to achieve its plans and will also need to take some tough decisions about priorities.

The MTFP also signals the council's commitment to improving the level of balances by £1 million a year, improving budgetary control to minimise overspending and improving risk identification and management arrangements. This is, however, set against the backdrop of an already challenging position that will become even more so once the council progresses the implications of the recent Gershon Review and its ambitious plans.

In addition, there is further pressure as a result of the recent local government settlement for 2005/06 which increases the formula grant by 4 per cent (compared to a national average of 5.6 per cent). This is lower than anticipated and further constraints within the settlement mean that the council will not be able to apply all of the increase to general expenditure.

Capital programme

In 2003/04 the council spent £99.6 million against its programme of £129.2 million which represents slippage of £29.6 million.

The slippage was partly attributable to delays in schemes which could have been funded but also to schemes where grant funding was delayed.

As in previous years, the council 'borrowed' £10.6 million spare credit approvals to reduce the impact on revenue contributions and progress its capital programme. With the introduction of the Prudential Code from April 2004 credit approvals do not need to be paid back. However, the impact on revenue from previous capital expenditure will affect the financing requirement within the new framework and will need to be carefully considered.

The council has embraced the requirements and new opportunities afforded by the new Prudential Code. Members have received briefings about the impact of the Prudential Code and the changes in capital funding. The Prudential Indicators have been prepared as part of the Treasury Management Strategy which has been presented to and approved by members in March 2004 and is closely monitored through the Resources Committee.

The capital programme for 2005/06 is £209.7 million. The council is aware of the pressures and is closely monitoring spend against programme.

Housing revenue account

During the year there has been significant pressure on the housing revenue account (HRA) and the accumulated surplus stood at £1.24 million, taking into account the reduction from the recalculated Housing Subsidy entitlement. Even before this, compared to other metropolitan councils, Liverpool had one of the lowest levels of balance as a percentage of HRA expenditure per dwelling as well as having the highest expenditure per dwelling.

The HRA is forecast to go into deficit in 2008/09 and the council is currently considering options for housing management. Members have concluded that the council does not have the available resources to continue ownership and management and can not provide a sustainable social housing stock or meet the decent homes standard by 2010. It is working towards a solution through the development of an innovative 'mutual' approach as described earlier in this letter.

Members will need to ensure that if the stock transfer is approved, the model designed fits with its strategy for housing and it develops arrangements to ensure legal and financial viability, as well as tenant satisfaction and value for money.

School balances

We have expressed concern in the past over the overall level of schools balances and the large surpluses accumulated by individual schools. In the past the overall level of deficits has not given major cause for concern but the table below indicates a worsening trend, with a 48 per cent increase in the number of schools in deficit between 2003 and 2004, and a 78 per cent increase in the overall value of deficits.

EXHIBIT 3 MOVEMENT IN SCHOOLS BALANCES

There is a worsening trend of deficits in schools

	March 2002		March 2003		March 2004	
	No	£'000	No	£'000	No	£'000
Schools in surplus	203	18,280	168	15,405	147	13,510
Schools in deficit	9	(734)	27	(1,796)	40	(3,195)
Total	212	17,546	195	13,609	187	10,315

Source – Audit Commission

In our letter last year we anticipated a significant increase in the number of schools expected to be in deficit and recognise that this is partly as a result of difficulties associated with the 2003/04 funding settlements for schools and is consistent with a national trend.

Revised funding arrangements for 2004/05 are intended to alleviate some of these problems and provide a minimum guaranteed level of funding for individual schools. This will, however, put additional pressure on the overall council budget.

The council has responsibility to ensure that there are sound overall financial management and governance arrangements in schools. To this end it is actively monitoring the financial positions of schools and has given notice to withdraw delegated budget from one school and is considering similar action elsewhere. To strengthen financial management and raise financial awareness amongst boards of governors a financial management planning course has been provided and taken up by a significant number of heads, governors and bursars.

Income collection and arrears

Performance on business rate collection has fallen slightly during the period having been distorted by an increase in the number of refunds due. However, collection rates remain high.

Council tax arrears remain high and a cause for concern. The amount due to the council in the period has increased by 8 per cent on 2002/03 but payments made by taxpayers have increased by only 5 per cent.

The movement in local tax arrears and the related bad debt provisions in the two periods are shown in the table below. Provision levels are broadly consistent with last year and are reasonable.

EXHIBIT 4 LOCAL TAX ARREARS

Local tax arrears are high and are a cause for concern

	March 2003		March 2004	
	Arrears £m	Provisio n £m	Arrears £m	Provisio n £m
Council Tax	70.8	45.7	79.7	49.2
NNDR	23.7	14.0	27.0	15.7
Community Charge	16.9	17.2	16.6	16.8
TOTAL	111.4	76.9	123.3	81.7

Source – Audit Commission

Housing rent arrears are high and stood at £15 million in March 2004. Rent collection performance in 2003/04 was 92.3 per cent and is currently 92.6 per cent which has deteriorated from 2002/03 (93.3 per cent) and is still less than target.

Pensions fund deficit

The council's accounts show a deficit of £385,382 million. This results from difficult investment market conditions leading to the poor performance of the Merseyside Pension Fund – which is in common with other pension funds. We are satisfied that the council has taken this into account in its MTFP and reflected the required increase in employers contributions in the three years from 2005/06 to ensure it brings its share of the fund back into balance.

Systems of internal financial control

We have not identified any significant weaknesses in the overall control framework, however we found a significant weakness in the housing benefit system that was in operation for the first half of the year.

Key financial controls

During the year systems have improved and the council has carried out a major exercise to strengthen key financial controls. We were also able to place reliance on internal audit work on key controls.

We have, however, drawn attention earlier in this letter to the weakness in the housing benefit system that was in operation for the first half of the year. The system treated £4.6 million suspended payments – pending review of claimants' circumstances - as actual payments and these were included incorrectly on the claim to the Department for Work and Pensions (DWP). Although there is now adequate provision for this in the accounts, the suspense account needs to be cleared and the claim to the DWP reduced or claimants' entitlement paid.

Internal Audit

Our assessment is that internal audit provides an effective service with an audit plan based on a good understanding of the risks and issues facing the council. The internal audit service continues to improve in 2004 with less slippage on the audit plan delivery - 98 per cent complete in 2003/04 against 70 per cent in 2002/03.

There are some areas where controls are not operating as intended, for example, around valuation and disposal of assets. Officers are working with internal audit to review systems and improve controls and we will follow up their action plans as part of our 2004/05 programme.

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

We have not identified any significant weaknesses in your arrangements to prevent and detect fraud and corruption.

The council has continued to improve its arrangements around standards of conduct and prevention and detection of fraud. It has established a good ethical framework and governance arrangements and members are well aware of standards. There is, however, still scope for improvement by actively promoting the arrangements with staff and the public and ensuring that all policy documents are reviewed and updated annually.

Legality of transactions

We have not identified any significant weaknesses in the framework established by the council for ensuring the legality of its significant financial transactions.

We are satisfied that the roles of the 'Monitoring Officer' (the person who advises the council on legality and reviews and enforces standards – the City Solicitor) and the 'Chief Financial Officer' (the person who advises the council on financial matters and the legality of any financial transactions – the Executive Director, Resources) have been established in the Constitution and the mechanisms for them to exercise their roles are in place.

During the year we found no instances of any unlawful transactions. We also assessed the general arrangements for ensuring legality as good. We received a range of enquiries throughout the year which we have dealt with as an ongoing part of our audit and inspection programme.

Other work

Additional voluntary work

We carried out additional voluntary work on charging for non-residential care.

We found that service charges are low in comparison to other councils across the region. In addition, no charge is made for a number of services including day care and the home care service is charged on a daily basis whereas in most other authorities it is charged for on an hourly basis.

The council is reviewing the basic charge levels as part of its current policy review.

Grant Claims

Over recent years the number of claims requiring audit certification has grown and audit fees have risen in line with this growth. So far this year we have audited 120 claims which represent over £514 million of grant funding. In accordance with Strategic Regulation, the Audit Commission has adopted a more risk-based approach to the certification of grant claims. With effect from 2003/04 the smaller claims have not been subject to audit or have received a lighter touch. The approach to larger claims has been determined by risk and the adequacy of the council's control environment.

The council's arrangements for managing and quality assuring grant claims submitted for audit has improved in recent years. We are currently working with the council to strengthen the control environment and preparation of claims and to ensure a more efficient audit. Officers recognise that there is tremendous scope to reduce the burden of regulation and impact on taxpayers.

National Fraud Initiative

The council took part in the Audit Commission's national fraud initiative (NFI) 2002/03. The NFI, which is undertaken every two years, brings together data from local authorities, NHS bodies, government departments and other agencies, to detect a wide range of frauds against the public sector. Total savings from the 2002/03 exercise exceeded £83 million of which £91,000 savings were identified at Liverpool. The council was concerned with the quality of the data, but feels it could make better use of the data in future.

The Commission is repeating the exercise this year and will again collect payroll, pensions, housing benefits, student loan and housing rents data from Authorities. Liverpool will receive the data in January 2005. The council has already started to raise the profile of this exercise, protocols and areas of responsibility have been agreed and we will provide training workshops locally in early February.

Alongside the core exercise a number of pilot initiatives are being undertaken at selected sites. These are focused on risk areas that were highlighted by Authorities and include payments made to privately run care homes, abuse of blue badge parking permits, serial insurance claimants (Merseyside authorities are involved in this pilot) and duplicate payments to suppliers. These pilot areas, if they prove effective, will be incorporated into future NFI exercises.

Looking forwards

Future audit and inspection work

We have an agreed plan for 2004/05 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 2004/05 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.

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 2005/06. 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 2005. We will continue to work with other inspectorates and regulators to develop a co-ordinated approach to regulation.

Revision to the Code of Audit Practice

The Audit Commission has consulted on a revised Code of Audit Practice for application to the audit of the 2005/06 accounts. The new Code, which will be laid before Parliament in January 2005, is designed to secure:

- a more streamlined audit, which is proportionate to risk and targeted on areas where auditors have most to contribute to improvement;
- a stronger emphasis on value for money, focussing on bodies' corporate performance and financial management arrangements (rather than individual services and functions); and
- better and clearer reporting of the results of audits.

Further details will be provided in the Audit and Inspection Plan 2005/06.

CPA 2005 and beyond

The Audit Commission has also consulted on a new framework for CPA in 2005 and beyond. The main changes proposed are as follows.

- Rationalisation of service blocks.
- 'Achievement' assessment element of Corporate Assessment to be driven by review of Community Plan and shared priority themes.
- Move away from rigid numerical model, to one based on rules.
- Corporate Assessments to be undertaken on rolling programme, integrated with Joint Area Reviews of children and young people.
- Stronger focus on service delivery for users and customers.
- More robust and explicit view of vfm and cost-effectiveness.


Closing remarks

This letter has been discussed and agreed with senior officers. A copy of the letter will be presented at the Executive Board on 4 February 2005.

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

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

December 2004

Status of our reports to the Council

Our annual audit and inspection letter is prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. Annual audit and inspection letters are prepared by relationship managers and appointed auditors and addressed to members and officers. They are prepared for the sole use of the audited and inspected body, and no responsibility is taken by the Audit Commission or its appointed auditors to any member or officer in their individual capacity, or to any third party.

Audit and inspection reports issued

Report	Date
Annual Audit & Inspection Plan 2004/05	March 2004
Customer Contact Inspection	March 2004
Housing Repairs and Maintenance re-inspection	September 2004
CPA improvement report	December 2004
CPA scorecard	December 2004
Human resource management	August 2004
Regeneration (Core-Cities response) 'Core cities – their people, places and prosperity'	August 2004
Medium term financial planning	October 2004
Interim memo including <ul style="list-style-type: none"> • core process review • financial aspects of corporate governance • electronic document management • agency staffing 	August 2004
Report to those charged with Governance	November 2004
Audit opinion and certificate	29 November 2004
Opinion memorandum	December 2004
BVPP opinion	13 December 2004
Best value compliance report	December 2004
Review of good practice – fairer charging for home care and other non-residential social services (additional voluntary work)	October 2004

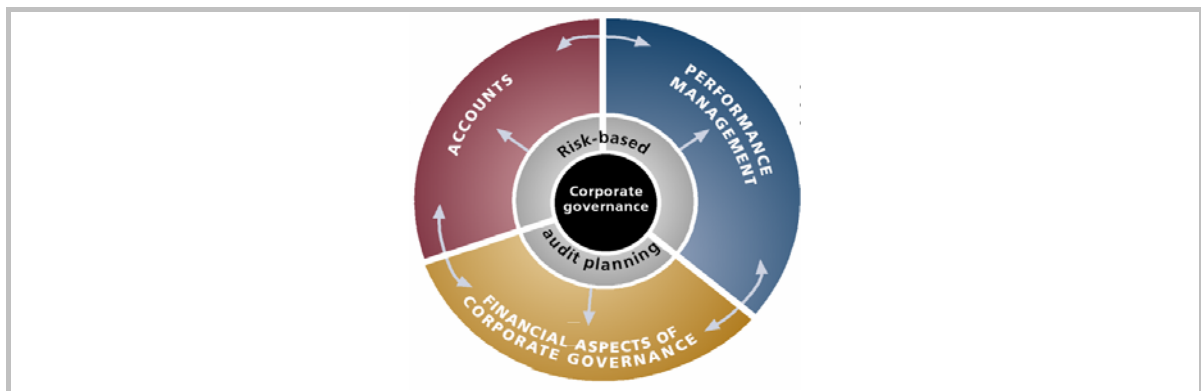
Scope of audit and inspection

Audit

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.

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 Exhibit 1.

The three main elements of our audit objectives



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.

Inspection

Inspection work is based around Section 10 of the Local Government Act 1999, which requires us to carry out inspections and deliver reports that will:

- enable the council and the public to judge whether best value is being delivered;
- enable the council to assess how well it is doing;
- enable the Government to assess how well its policies are being implemented; and
- identify failing services where remedial action may be necessary.

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.

Audit and inspection fee

Audit fee update

Audit area	Plan 2003/04 £	Actual 2003/04 £
Accounts	168,021	168,021
Financial aspects of corporate governance	261,079	261,079
Performance	148,500	148,500
TOTAL CODE OF AUDIT PRACTICE FEE	577,600	577,600
Grant Claim certification	345,000	345,000
Additional Voluntary work (under Section 35)	20,000	20,000

Inspection fee update

The full year inspection fee is £95,123. The work reported in this audit and inspection letter has been funded by an element of the fee covering 2003/04 and by an element of the fee covering 2004/05. In both years the actual fee will be in line with that planned.