

AGENDA

Audit and Corporate Governance Committee

Date: **Monday 28 September 2009**

Time: **3.00 pm**

Place: **The Assembly Hall, Town Hall, Hereford**

Notes: Please note the **time, date** and **venue** of the meeting.

For any further information please contact:

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Agenda for the Meeting of the Audit and Corporate Governance Committee

Membership

Chairman	Councillor ACR Chappell
Vice-Chairman	Councillor RH Smith
	Councillor MJ Fishley
	Councillor JHR Goodwin
	Councillor PJ McCaull
	Councillor R Mills
	Councillor AM Toon

GUIDANCE ON DECLARING PERSONAL AND PREJUDICIAL INTERESTS AT MEETINGS

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AGENDA

		Pages
1.	APOLOGIES FOR ABSENCE	
2.	NAMED SUBSTITUTES(IF ANY)	
3.	DECLARATIONS OF INTEREST	
	<p>To receive any declarations of interest by Members in respect of items on the Agenda.</p> <p style="text-align: center;">GUIDANCE ON DECLARING PERSONAL AND PREJUDICIAL INTERESTS AT MEETINGS</p> <p>The Council's Members' Code of Conduct requires Councillors to declare against an Agenda item(s) the nature of an interest and whether the interest is personal or prejudicial. Councillors have to decide first whether or not they have a personal interest in the matter under discussion. They will then have to decide whether that personal interest is also prejudicial.</p> <p>A personal interest is an interest that affects the Councillor more than most other people in the area. People in the area include those who live, work or have property in the area of the Council. Councillors will also have a personal interest if their partner, relative or a close friend, or an organisation that they or the member works for, is affected more than other people in the area. If they do have a personal interest, they must declare it but can stay and take part and vote in the meeting.</p> <p>Whether an interest is prejudicial is a matter of judgement for each Councillor. What Councillors have to do is ask themselves whether a member of the public – if he or she knew all the facts – would think that the Councillor's interest was so important that their decision would be affected by it. If a Councillor has a prejudicial interest then they must declare what that interest is and leave the meeting room.</p>	
4.	MINUTES	1 - 10
	<p>To approve the Minutes of the meeting held on the 19 June 2009.</p>	
5.	ANNUAL GOVERNANCE LETTER	
	<p>To introduce the external auditor's Annual Governance Letter 2009 as an appendix to the Director of Resources report (<i>to follow</i>).</p>	
6.	INTERNATIONAL FINANCIAL REPORTING STANDARDS	11 - 16
	<p>To report to the Committee on the project plan for implementing International Financial Reporting Standards.</p>	
7.	AMEY SERVICE DELIVERY PARTNERSHIP COST CONTROL	17 - 26
	<p>To report on the provisions in place for the control of costs in relation to the Service Delivery Partnership with Amey.</p>	
8.	MAJOR PROJECTS STATEMENT	27 - 34
	<p>To provide a position statement on major projects being undertaken by the</p>	

authority.

9. INTERNAL AUDIT JOINT WORKING PROTOCOL	35 - 40
To consider the draft Internal Audit Joint Working Protocol.	
10. DATA QUALITY UPDATE	41 - 44
To update the Committee on the progress now being made against key elements of the rolled forward data quality action plan.	

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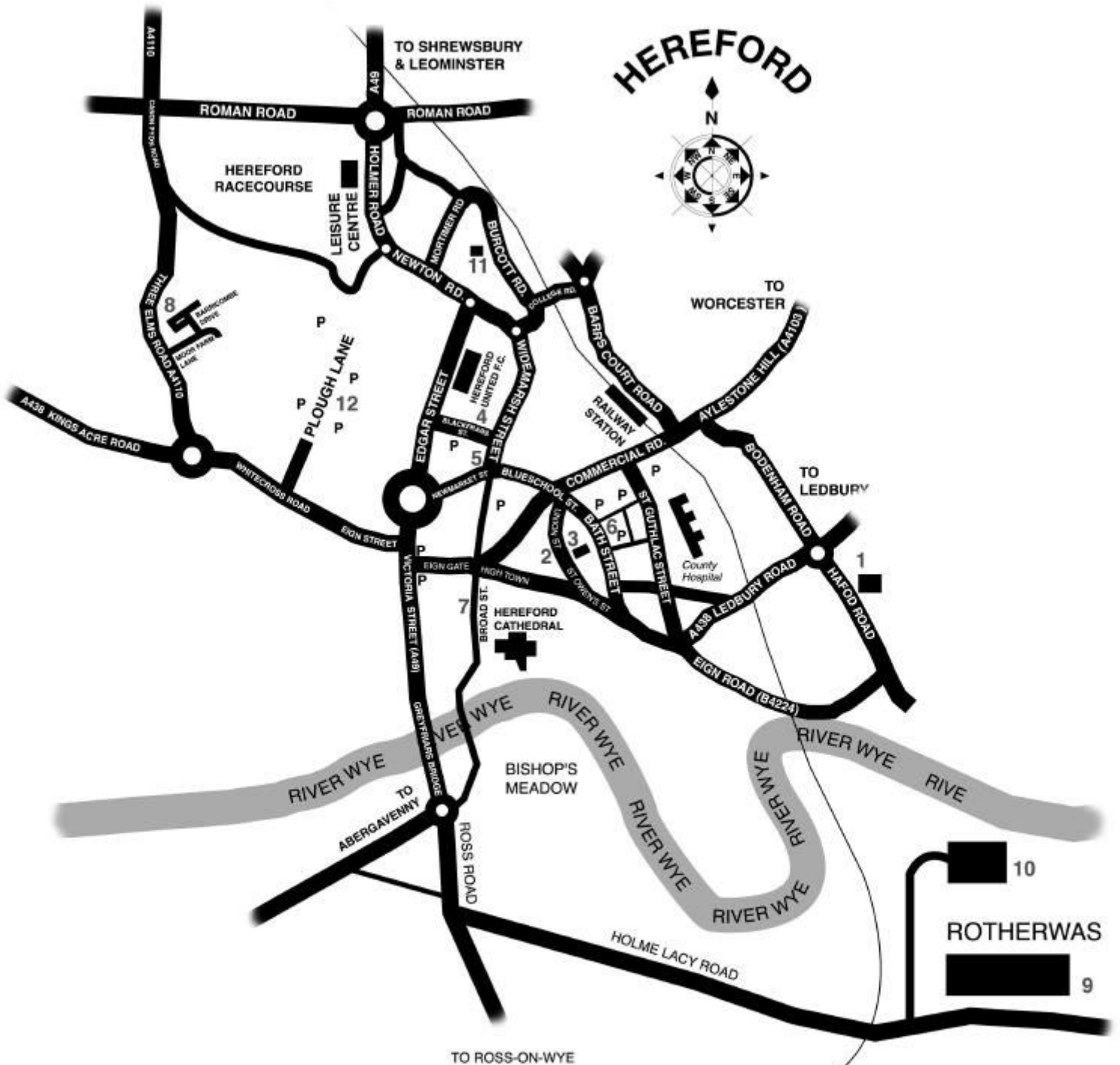
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**IT IS THE DUTY OF THE PERSON
IN CHARGE OF THE MEETING TO:**

1. MAKE A LIST OF ALL PERSONS
PRESENT
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AWARE OF **EMERGENCY
EVACUATION PROCEDURES**
3. IN THE EVENT OF SUCH AN
EMERGENCY TO PROCEED TO
THE NEAREST AVAILABLE EXIT
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PRESENT AT THE **MUSTER
POINT** AND REPORT TO
EMERGENCY CO-ORDINATOR

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HEREFORDSHIRE COUNCIL

MINUTES of the meeting of Audit and Corporate Governance Committee held at The Council Chamber, Brockington, 35 Hafod Road, Hereford on Friday 19 June 2009 at 10.00 am

Present: Councillor ACR Chappell (Chairman)
Councillor RH Smith (Vice Chairman)

Councillors: JHR Goodwin, PJ McCaull, R Mills, AM Toon and NL Vaughan

In attendance: Councillors PJ Edwards and AT Oliver

1. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor MJ Fishley.

2. NAMED SUBSTITUTES(IF ANY)

Councillor NL Vaughan substituted for Councillor MJ Fishley.

3. DECLARATIONS OF INTEREST

Councillor RL Smith declared a personal interest in item no 6 on the Agenda, Minute No. 6 refers, being a member of the Courtyard Trust.

Councillor AM Toon declared a personal interest in item no.6, Minute No. 6 refers, relating to Social Services.

4. MINUTES

RESOLVED: That the Minutes of the meeting held on the 20 March 2009 be approved as a correct record and signed by the Chairman.

5. REVIEW OF PROCUREMENT

The Director of Resources presented a report on the Review of Procurement undertaken by the Audit Commission. The Audit Commission had been requested to carry out a specific audit on procurement with an emphasis on the work that had already commenced to review the partnership arrangement with AMEY.

Mr T Tobin presented the review by the Audit Commission. He introduced Mr S Weldon, the Audit Commission officer who had dealt with the review. Mr Tobin stated that when the Audit Plan had been considered in 2008, the Chief Executive had requested the work regarding the Council's negotiations with AMEY so that issues raised by the Audit Commission could be taken into account and was, in his view, a commendable approach. He emphasised however that the views taken in November/December 2008 were as at that time and since then negotiations rapidly moved forward. The Chief Executive had requested that the Audit Commission review what had taken place in the negotiations since then and it was found that the issues which had been highlighted had been picked up by the Council's officers.

Councillor AM Toon commended the involvement of the Audit Commission during the AMEY contract negotiations which, in her view, was a benefit rather than at their completed stage.

Mr Weldon informed the Committee that the commission had considered the procedures and outcome in the negotiations against a best practice approach throughout the negotiations. Although the negotiations at the early stages in September/October were not fully in keeping with best practice, since then that ethic was being embedded and was ongoing with the officers recognising the high awareness of procurement. With regard to the completed contract, the main findings were that innovative methods were used in negotiations together with the value for money concept. The Council knew what it wanted to achieve. There was a lack of clarity in the early part of the negotiations but with this highlighted, the Council responded and improved this issue.

The Director of Environment and Culture stated that lessons learned in the previous contract prior to AMEY had been taken forward in the review with AMEY.

Councillor RH Smith asked about the benefit of Members sitting in on procurement training for officers with Members' perception being useful.

The Director of Resources disagreed and advised that detailed training in procurement was given in sessions to a maximum of three Council officers with two officers the Primary Care Trust's Integrated Commissioning being trained with individual officers being trained as champions. He suggested that a member event could be held in relation to Procurement.

With regard to the project management arrangements for procurement, The Director of Resources referred to the use of the Project Team for Procurement across the Council's services where appropriate and the upward trend was for the Team to be used. He emphasised that since the Crook all report, Procurement issues were being tightened up and that there were 'low level' enquiries in respect of procurement matter being made of the Project Team.

In answer to a question from Councillor Smith, The Director of Resources advised that three procurement posts were in the central structure and that their expertise was drawn upon by officers in other directorates where appropriate. He had indicated to directorates the model to follow where procurement issues were concerned. He advised that his role was to guide the support for bigger projects and directorate engage the appropriate number of staff to exercise the role.

Councillor Smith referred to paragraph 32 of the Commission's report and, in particular, the submission for approval to members for the selected option was unsatisfactory and asked if the Chief Executive had addressed the issue. The Legal Practice Manager stated that he did not have that answer and that he would give a written answer to Members following the meeting.

Councillor Smith proposed the following:

- (i) The introduction of procurement and contract performance reporting systems, recommendation R2 paragraph 14 of the Audit Commission's report refers, be extended to the Heads of service and Directors;
- (ii) The Audit and Corporate Governance Committee work plan be amended to make specific provision for procurement investigation and reports;
- (iii) The Audit and Corporate Governance Committee work plan to include the completion of training needs and analysis of in-house procurement expertise throughout Council directorates.

The Chief Internal Auditor advised that the staff review and development process would take into account any training issues and that he would report appropriately to the Committee.

With regard to a registration of tenders on-line, the Director of Resources informed Members that there was currently a review of contracts taking place with legal services. As part of the new Procurement Strategy, tenders over the sum of £5000 would be entered on the portal which will give greater visibility.

A Member questioned the Council's governance and controls regarding the approved list of contractors employed by AMEY. The Director of Resources informed Members that contracts are awarded to AMEY up to £200,000 and such contracts are awarded by AMEY to a contractor from their contractor list. He advised that the Council had two observer posts for AMEY Board meetings which were held by the Cabinet Member for Resources and the Director of Resources. He emphasised that the need for the Council to demonstrate value for money and was a key issue which his property services team raised regularly. He informed the Committee that his officers were currently in the process of reviewing the value for money aspects with regard to AMEY's administration of some contracts.

The Director of Environment and Culture informed Members that although AMEY's accredited contractor list was their responsibility, the Council had included key drivers within the contract with AMEY. In this regard 80% of contracts awarded was spent on local contractors and over 500 people were employed from within the County. In terms of monitoring their work relating to the contracts they award, the Council's officers had access to AMEY IT systems which would enable any specific concerns by Members to be investigated. The officers did not, however, make spot checks on AMEY contracts.

Mr Weldon stated that it was his understanding with regard to the depth of contract monitoring, that the Council was expected to monitor issues as and when necessary.

Councillor Smith made reference to paragraph 40 of the Audit Commission's report and suggested that a report be submitted to the committee on the management of risk and the way in which it is used.

The Chief Internal Auditor informed members that when the audit plan is compiled, AMEY is set out as a risk. Therefore, as part of the plan, audit will look at the transactions carried out by AMEY and this is carried out on an annual basis.

Councillor Smith referred to paragraph 43 of the report and suggested that as cost control was unsatisfactory on the AMEY contract, a report be submitted to the Committee on the current provisions for the control of costs for the future contract.

The Director of Resources informed Members that there has been a further review of property services and ways have been found to take this forward. A report would be submitted to Cabinet setting out where property services should stand in relation to shared services and that this would determine the way the cost control issue would be taken forward.

RESOLVED: That

- (i) the review of Procurement report by the Audit Commission be noted;**

- (ii) **the introduction of procurement and contract performance reporting systems, recommendation R2 paragraph 14 of the Audit Commission's report refers, be extended to the Heads of Service and Directors;**
- (iii) **the Audit and Corporate Governance Committee work plan be amended to make specific provision for procurement investigation and reports;**
- (iv) **the Audit and Corporate Governance Committee work plan to include the completion of training needs and analysis of in-house procurement expertise throughout Council directorates;**
- (v) **a report be submitted to the Committee on the process the Council follows for risk management and the way the risk register is used and updated as a positive aid to management; and**
- (vi) **a report be submitted to the Committee on the provisions currently in place for the control of costs for the future AMEY contract.**

6. STATEMENT OF ACCOUNTS

Councillor AM Toon declared a personal interest in this item in her role as Chairman of Herefordshire Housing Association.

The Acting Head of Financial Services presented a report on the 2008/09 Statement of Accounts which, in accordance with the Accounts and Audit regulations 2003, had to be approved 30 June 2009. She emphasised the core statements in paragraph 7 of the report and that there were no significant changes from the previous year except some technical issues. Although the income and expenditure account was in deficit as detailed in paragraph 13, there was a net underspend of £249,000 in 2008/09 on revenue spend. She further emphasised that the balance sheet long term assets had increased by £24.811m to £403.576m during the year.

Circulated at the meeting was a replacement page 24 of the Statement of Accounts, a copy of which is attached to the Minutes.

With regard to a Member's question that paragraph 2.25 b of the report did not show the Youth Service annual spend, the Acting Head of Financial Services informed the Committee that it had not been reported as there had not been a significant variance.

With regard to the Local Government Pension Scheme which is administered by Worcester County Council, the Chairman suggested that this council should have a representative on the County Council Panel dealing with the issue. The Director of Resources advised that although this Council is a significant contributor, the County Council state that they have not admitted this Council because this would mean they would have to admit other contributors.

The Acting Head of Financial Services referred to the surplus monies in relation to the collection fund, paragraph 28 of the report refers, and informed Members that this was as a consequence of the number of assumptions which had been made around the Council tax base when setting council tax. Councillor Toon asked if there were collection indicators. The Director of Resources advised that the Council did have collection indicators for the collection of rates. He informed members that approximately 99 per cent of the council tax was collected.

Councillor RH Smith questioned the apparent adverse trends in creditors and debtors, page 62 refers, and the net worth to the Council if these trends were reversed. The Acting Head of Financial Services advised that long term debtors were increasing due to a build up of Private Finance Initiative assets and a change of accounting arrangements in Adult Services. There was however no real increase in long term debt as such. In debtors, the main increases were around contributions towards capital schemes (including Department of Children's School and Families (DCSF) grants) and the Primary Care Trust. With regard to creditors, the figures included receipts in advance. Government grants were being received in advance which were being held before being spent. The cut off date for grants being spent was 31 March and any of those grants which were not spent before that date would be returned to the DCSF.

In answer to a Member's question, the Acting Head of Financial Services advised that the overspend on ICT projects as referred to in paragraph 2.2.5 c, was a result of making amendments to the Thorn Centre instead of providing a new centre. With regard to the overspend in Member's Services on additional staff costs, referred to in the same paragraph, the Director of Resources stated that this was due to an underlying issue of the base budget in Member's Services not being correct for a number of years which was now being rectified.

Councillor AM Toon asked the committee to note the slippage on the Herefordshire Connects programme which had resulted in less reserves being drawn on in 2008/09, paragraph 2.2.5 c page 41 of the report refers.

The Chairman expressed thanks to the Acting Head of Financial Services and her team for the work in producing the Statement of Accounts.

RESOLVED: That the 2008/09 Statement of Accounts be approved.

7. DATA QUALITY - ANNUAL REPORT

The Head of Policy and Performance presented a report on progress against the data quality action plan 2008/09 and the plan for the next 12 months. He emphasised that since the action plan was approved, two thirds of the plan had been completed. Although the statistic was disappointing, more of the plan had been completed since the first report to the Committee. The Audit and Inspection letter indicates that there are adequate arrangements in place currently. Much of the action plan had been implemented after the audit period, but assuming this was effective, future letters might be able to report further improvements in the Council's arrangements.

The Chairman referred to paragraph 6a of the report and expressed concern and disappointment that it was unclear if partners were willing to follow the Council's data quality policy or had something better to offer. The Head of Policy and Performance informed the Committee that there were a number of formal protocols where partners share the information. Of the 20 organisations being chased for the information, 9 had responded.

Councillor RH Smith drew Members attention to the average delay for completion of 14 months in respect of the 19 incomplete tasks, paragraph 6 of the report refers. He asked if the Risk register had been amended on data quality.

The Head of Policy and Performance informed Members that the corporate risk register currently showed a score of 15 (the maximum is 25) which would be reduced to a residual score of 9 if the action plan was completed. He saw no reason to change either

score at present. The delay in completing the action plan simply meant that it was taking longer than previously hoped to reduce the risk score to 9.

RESOLVED: That

- (i) progress against the 2008/09 data quality action plan be noted and the 2009/10 plan at Appendix 1 to the report be supported;**
- (ii) a list be submitted to the Committee of staff in directorates still requiring training on data quality controls; and**
- (iii) the extent that directorates local procedures on data quality have been produced.**

8. SECTION 106 PLANNING OBLIGATIONS

The Planning Monitoring Officer presented a report which outlined the Action Plan that the Planning Obligations Manager will undertake in the next six months in developing a monitoring system for section 106 Agreements.

The Head of Planning and Transportation was pleased to report that major changes and systems had been put in place which would result in a closer monitoring of Section 106 Agreements. He advised the Committee that due to the Section 106 levy decreasing and, therefore, preventing the funding of the Monitoring officer post, a Senior Planning officer had been seconded to the post. It was necessary for new systems to be put in place and the trialling of those systems before the benefits could be seen. It was evident from the first 2 to 3 months of the secondment to the post, the benefits achieved had been extremely positive.

The Planning Obligations Manager drew Members' attention to the work programme for the first 6 Months as set out in paragraph 10 of the report. She emphasised that all the information relating to Section 106 Agreements would be transferred onto one Section 106 database. The database would capture income, expenditure, projects benefitted and an audit trail would be established. She informed the Committee that she had met with 17 other local authorities and Herefordshire Council was the only Authority to have adopted Supplementary Planning Document on Planning Obligations. Currently, there was potential to achieve from developments approved from April 2008 to April 2009 an income of £4.1million. The research on existing Planning Obligations was an ongoing process. To date, £410,000 income had been secured from historical agreements which would not have been achieved without the system changes. Parish Councils were being consulted with a view to compiling a wish list where Section 106 income could be spent. A training schedule for Councillors would be put in place regarding Section Agreements.

The Head of Planning and Transportation informed the Committee that the Planning Obligations Manager would be securing a link between the new monitoring system and the Integrated Environment Regeneration Scheme (Civica). He emphasised that Income is received from new section 106 Agreements when development is completed whereas the income from the old style agreements was received in a variety of forms from when development is commenced, through phasing of a development and sometimes on completion. The income had to be spent within a time period otherwise it had to be repaid. The new system would track this issue.

The Planning Obligations Manager stressed that if developers did not pay the

Section 106 monies on time, the Agreements contained which penalty clauses that would mean developers owing additional money above the Section 106 Agreement money.

RESOLVED: That the report be noted.

The meeting adjourned at 12.20 pm for lunch and reconvened at 12.50 pm.

9. 2008/09 AUDIT OPINION PLAN

The committee considered the external Audit Opinion Plan submitted by the Audit Commission.

Mr T Tobin, Audit Commission, presented the Audit Opinion Plan (AOP). He emphasised that an initial AOP was issued for 2008/09 and was presented to the Committee on 20 June 2008 and set out the work which the Audit Commission proposed to undertake. Since that report, the Commission had revised its risk assessments including the highlighting of significant risks and the table in paragraph 12 on page 122 set out the revisions. The general issue was property valuations which were currently being addressed. The other two issues were, however, more important. The payments to independent care providers and the ISIS payments system was currently under review, with issues centring on reconciliations around various systems and authorisations. The final issue was regarding the authorisation of payments to creditors and fraud risks. As a consequence, the Internal audit would be carrying out substantive testing of creditors and fraud risk identification.

The Director of Resources informed Members that staff had been asked to refer back payments which had not been authorised and that this addressed the unauthorised payments issue referred to.

Mr Tobin advised that the three significant risk issues were the sort of issues the Commission was investigating. The Commission was also looking at the National Policy for liability for teachers and how teachers are accounted for.

The Chief Internal Auditor informed the Committee that his team were looking at the last financial year with regard to the payments to independent care providers. Regarding the points raised on creditor payments, the Audit Services Assurance report would provide the reporting mechanism those matters.

RESOLVED: That the Audit Opinion Plan be noted.

10. ANNUAL AUDIT FEE 2009/10

The Committee considered a report regarding the work to be undertaken by the Audit Commission in 2009/10 financial year and which highlighted the Commission's total indicative fee.

Mr T Tobin, Audit Commission, referred to the letter attached to the report and informed the Committee that the Commission's work would focus on the use of resources assessment. The letter set out the use of resources work and that there would be specified areas of work and these were itemised in the table on pages 178 and 179.

Councillor RH Smith asked whether the specified areas of work were a good use of Audit Commission resources. The Director of Resources concurred with the focus work areas. He made reference to double counting any projected savings on shared services which he highlighted as an issue. He welcomed the review particularly around the shared services and Herefordshire Connects.

With regard to a Member's question, the Director of Resources informed the Committee that the Primary Care Trust and the Council were jointly exploring the way services are provided in relation to back room staff with good practice being a key factor.

The Director of Resources informed members that the proposed fee was increased slightly from last year, page 177 refers, and his view was that the fee was acceptable.

RESOLVED: That the content of the Annual Audit Fee Letter be noted and the proposed fee be approved.

11. ANNUAL GOVERNANCE STATEMENT

The Chief Internal Auditor presented a report which requested approval of the draft Annual Governance Statement for 2008/09. He drew Members' attention to the five principles outlined in the Council's Code of Governance which had been linked to the six principles of good governance outlined in the SOLACE/CIPFA publication 'Delivering Good Governance in local government, Paragraph 7 of the report refers. He also highlighted the corporate objectives and priorities which were set out in a number of key plans and strategies in addition to the Corporate Plan, paragraph 9 refers. He referred to the Council's responsibilities to comply with the Code of Corporate Governance and that these were set out in the five principles, paragraphs 3.3 to 3.28 of the report refers. The Council had to review annually the effectiveness of the governance framework and this review had been set out in paragraphs 4.5 to 4.66 of the report. The content of the report had been discussed with the Chief Executive, Directors, Leaders and the Chairman and Vice-Chairman of the Committee.

Councillor RH Smith asked when the results would be available in relation to the Herefordshire quality of life survey. The Chief Internal Auditor advised the appropriate government department would be issuing that information but no timescale had been given by the government for the issue.

Councillor Smith referred to paragraph 3.8 of the report and stated that the PACT process was under review and that the paragraph did not include this issue. It was suggested that the paragraph be amended to include the words 'The process is nevertheless under review'.

Councillor Smith referred to paragraph 4.12 of the report and took the view that the Monitoring Officer's report was incomplete. The Legal Practice Manager informed members that he was unaware of any outstanding issues. The progression of the responsibilities of the Monitoring officer would be recommenced shortly with the appointment of the Interim Deputy Chief Executive Legal and Democratic. The Chief Internal Auditor that there were no apparent issues from the Monitoring Officer but that if there was concern about the content of the report referred to then the final sentence of paragraph 4.12 could be deleted.

Councillor Smith took the view that paragraph 4.56 of the report significantly understated the Audit and Corporate Governance Committee's responsibilities. The Chief Internal Auditor advised Members that the issues for improvement as set out in paragraphs 4.56 and 5.9 had been added into paragraph 4.55. The Director of Resources suggested that the committee might wish to reinforce paragraph 4.56.

The Chief Internal Auditor would amend the wording of paragraph 4.7 with the addition of the words 'presented to Children's Services Scrutiny Committee on 30 March 2009' after the word 'report'.

With regard to the view of a Member that the Annual Governance Statement could contain additional documentation to add clarity to the points highlighted, the Director of Resources advised that to achieve the Statement in the form submitted to the Committee was an art and had been accomplished through skill and expertise.

Councillor AM Toon was of the view that to attach the necessary documentation as back up to the Statement would be extremely unwieldy.

Councillor Toon asked if paragraph 5.6 referred to data from its partners. Mr T Tobin, Audit Commission, informed the committee that this paragraph referred to data from its partners and the Council.

RESOLVED: That subject to the following amendments, the Annual Governance Statement for inclusion in the Statement of final accounts for 2008/09 be approved:

- (i) **the words 'The process is nevertheless under review' be added after the word '(PACTS)' in paragraph 3.28 of the report;**
- (ii) **the final sentence in paragraph 4.12 of the report be deleted;**
- (iii) **the words 'The process is nevertheless under review' be added after the word year in the final sentence of paragraph 4.40 of the report;**
- (iv) **the words in paragraph 4.56 of the report be replaced with the words 'The Audit Commission has identified a number of significant areas for improvement and these will be followed up by the council and overseen by the Audit and Corporate Governance Committee';**
- (v) **the words 'presented to Children's Services Scrutiny Committee on 30 March 2009' be added after the word 'report' in paragraph 4.58 of the report.**

12. AUDIT SERVICES ASSURANCE REPORT 2008/09

The Committee considered a report which provided the Chief Internal Auditor's final audit assurance report for 2008/09. He emphasised that the Annual Governance Statement (AGS) for 2007/08 identified the key governance and internal control issues that needed addressing in 2008/09. He referred to paragraph 40 on page 157 regarding the 'Critical 1' recommendation relating to the Payment of Independent Providers Review and further emphasised that additional work was being carried out and this work would be included in the assurance work as part of the year. The appendices attached to the report had been updated with this information.

Councillor RH Smith referred to item 40 in appendix 1, and asked when would the information which was outstanding be provided by the responsible officer. The Chief Internal Auditor advised that he would request a timescale from the officer.

Councillor Smith referred to item 84 regarding major projects and reminded the Committee that a report had been requested giving a statement on major projects. The Director of Resources informed the Committee that with due regard to the heavy Agenda, he did not include the report. It would however be submitted to the September meeting of the Committee.

With regard to item 67 of appendix 1, Councillor Smith suggested that fraud training be added to the schedule.

RESOLVED: That

- (a) subject to the following, the report be noted;**
 - (i) the responsible officer for Item 40 of appendix 1 be requested for a timescale for completion;**
 - (ii) fraud training be added to the training for Members schedule, Item 61 on page 6 of appendix 1 refers.**
- (b) a communication be sent to all officers reminding them of the need to ensure the accuracy of information being given on the current position on resolutions and recommendations made by the Committee on various subjects.**

The meeting ended at 1.50 pm

CHAIRMAN

MEETING:	AUDIT AND CORPORATE GOVERNANCE COMMITTEE
DATE:	28 SEPTEMBER 2009
TITLE OF REPORT:	INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
ACTING HEAD OF FINANCIAL SERVICES	HEATHER FOSTER

Wards Affected

None affected.

Purpose

To report to the Audit and Corporate Governance Committee on the project plan for implementing International Financial Reporting Standards (IFRS).

Key Decision

This is not a Key Decision.

Recommendation

THAT the Audit and Corporate Governance Committee note the report.

Key Points Summary

- The council will be required to produce IFRS compliant accounts from 2010/11, with restated comparative data for 2009/10.
- The council's project plan has been developed using the Chartered Institute of Public Finance and Accounting's (CIPFA) recommended format.

Alternative Options

1. There are no Alternative Options as all councils are required to produce IFRS compliant accounts from 2010/11.

Reasons for Recommendations

2. Not applicable.

Further information on the subject of this report is available from
Heather Foster, Acting Head of Financial Services on 01432 383173

Introduction and Background

3. It was agreed at the Audit and Corporate Governance Committee meeting on the 23 January that the progress report and action be presented at future meetings. At Appendix A is the project plan that contains progress to date

Key Considerations

4. In March 2009 CIPFA published a Local Authority Accounting Panel (LAAP) Bulletin providing an outline project plan for councils to use as a starting point for their own project plans. This plan is guidance rather than a formal requirement.
5. The Hereford and Worcester IFRS implementation group, who are working jointly on IFRS issues, have agreed to use the CIPFA template for their individual councils' project plans.
6. The plan for Herefordshire Council is attached as Appendix A, including key steps, milestone dates and progress achieved to date. More detailed plans are being developed for each of the key areas.
7. The LAAP Bulletin advises authorities to discuss their plans with external audit and sets out the following benefits to early external audit involvement:
 - a. Early identification of any difficulties or problems with the restatement of the opening IFRS balance sheet may result in less time being required to resolve these issues. This in turn may help to avoid errors occurring and prevent abortive work being undertaken.
 - b. Early identification of any difficulties or problems with the restatement of the opening IFRS balance sheet may also avoid these issues impacting on the 2010/11 budget.
 - c. Early engagement with auditors may provide authorities with reassurance that their project plan is appropriate, or alternatively may allow for the plan to be amended in a timely manner.
8. In line with the LAAP Bulletin's advice the council's plan has been forwarded to the external auditors and an initial meeting held to discuss our approach.

Community Impact

9. Not applicable.

Financial Implications

10. There may be financial implications but these are not yet quantified. These will centre on the level of reserves required to deliver IFRS changes.

Legal Implications

11. None.

Risk Management

12. If IFRS is not interpreted correctly in the council's accounts and implemented in accordance with the required timetable it would impact on the Auditor's opinion on the accounts and the Use of Resources score. The management of this identified risk has commenced as evidenced by attendance of staff on relevant training courses.
13. The successful delivery of unqualified accounts will require greater involvement from non-financial services staff than has previously been the case. IFRS will form part of the council's financial training programme implemented as part of the Crookhall action plan.
14. Sound project management will be a crucial part of the process to keep the project on track and to identify potential problems at an early stage. This may require additional resources and the Director of Resources will ensure this important project has the appropriate level of resource to meet requirements.

Consultees

15. None.

Appendices

16. Appendix A – IFRS Project Plan.

Background Papers

- CIPFA LAAP Bulletin 80 March 2009 – Implementation of IFRS – Outline Project Plan

Appendix A

IFRS Project Plan

	Step	Dependency	Dates	Progress to date	Areas for Discussion with External Audit
1	Carry out high level impact assessment using information on CIPFA website (and other resources where available) PFI Leases Tangible Assets Employee Benefits (e.g. Holiday Pay) Presentation		March 2009	Impact assessment was carried out with Hereford and Worcester Financial Managers Group on 6 th March. Sub groups were set up to review key changes.	
2	Identify changes to accounting policies	In parallel with step 1	March 2009	Key Changes identified at meeting on 6 th March.	
3	Identify key staff (finance, legal, property, HR, other) Assess whether resources adequate Allocate responsibilities Develop detailed project plan	Based on impact analysis in step 1	June 2009	Key staff have been identified.	Ongoing – discussions between authority and auditors to inform auditors over project plan, approaches being taken, raise any issues/difficulties etc.
4	Key staff trained on IFRS transition		Ongoing from September 2008	Key finance staff attended CIPFA/PWC training.	
5	Identify systems and procedural changes (including Chart of Accounts changes) required		July 2009	To be incorporated in Agresso design, which has been delayed.	
6	Identify information (e.g. leases and holiday pay) required to restate 1 April 2009 balance sheet and 2009/10 accounts		March – September 2009	Leases and holiday pay identified so far as required changes to 1 April 2009. PFI changes to be implemented from 2009/10.	
7	Develop skeleton Statement of Accounts under IFRS (including Notes and Policies)	Accounting policies in step 2	June 2009 – November 2009		
8	Obtain information required to restate 1 April 2009 balance sheet	Identified during step 6	March- November 2009	<ul style="list-style-type: none"> • Equipment leases have been reviewed. • Land leases are being reviewed • PFI calculation with external 	

Appendix A

IFRS Project Plan

				audit for review. <ul style="list-style-type: none"> • Contracts being reviewed to identify embedded leases. • Holiday and flexi details being collected • Initial meeting held with external audit to discuss approach 	
9	Identify likely impact on budgets (if any)		March – November 2009	Some potential areas identified e.g. holiday pay.	
10	Implement systems and procedural changes	Identified in step 5	July 2009- Feb 2010	Template developed for collecting employee leave and flexi.	
11	Training for all relevant staff and members		Ongoing from December 2008.	CIPFA in house training for finance and property held in December. Members seminar held on 3 rd July 2009.	
12	Restate 1 April 2009 balance sheet (including reconciliations between UK GAAP and IFRS).	Obtained in steps 7 & 8	November – December 2009		Auditors will wish to consider the implications for reviewing balance sheet and/or processes and arrangements
13	Compile 2010/11 and later budgets on IFRS basis, building on restatement of balance sheet, taking into account changes to the final version of the Code and any regulations proposed by government to mitigate the impact on General Fund/HRA	Impact from step 9	November 2009 – January 2010		No direct input, but previous discussions and results of any audit work in step 12 may inform budget decisions where auditors involved at early date
14	Testing of systems and procedural changes	Follows on from step 10	July 2009 – March 2010	Testing of employee template is in progress.	Auditors will wish to consider the implications for relevant work on systems
15	Restate 2009/10 accounts in parallel with main 2009/10 accounts process (including reconciliations between UK GAAP and IFRS)	See steps 6,7,8, 12	April 2010 – December 2010		Auditors will wish to consider the implications for their work
16	Produce 2010/11 accounts on IFRS basis		April 2011 – June 2011		Normal audit procedures – accounts signed by 30 September 2011 (31 October 2011 in Northern Ireland)

MEETING:	AUDIT AND CORPORATE GOVERNANCE COMMITTEE
DATE:	28 TH SEPTEMBER 2009
TITLE OF REPORT:	AMEY SERVICE DELIVERY PARTNERSHIP COST CONTROL
DIRECTOR OF ENVIRONMENT AND CULTURE	MICHAEL HAINGE

CLASSIFICATION: Open

Wards Affected

County-wide

Purpose

- (i) To report on the provisions in place for the control of costs in relation to the Service Delivery Partnership with Amey.

Key Decision

This is not a Key Decision.

Recommendation

THAT Committee:

- (a) Note the content of this report.

Key Points Summary

- The recent renegotiations with Amey in respect of the Service Delivery Review have secured revisions to the contractual arrangements to deliver savings, improve performance and drive value for money and cost control.
- The existing contracts remain in place with Amey for a wide range of contract and consultancy services and have a range of mechanism through which the Council can manage cost. These focus on aligning cash flow with the delivery of an agreed programme.
- For contract services the delivery through a joint venture enables further opportunity for financial

Further information on the subject of this report is available from
Clive Hall, Highway Network Manager on (01432) 260786

management and the sharing of gain made through efficient and effective service delivery. For consultancy services gain is shared through a target cost payment mechanism.

- The total cost of delivery of the Services to Herefordshire is the sum of payments to the consultant, contractor and the Council's 'client' costs less the Council's share in the contractor's profit (through the Joint Venture).
- The Service Delivery Review has secured a series of enhancements that will enable further control on cost as a result of the change to a Managing Agent Contract (MAC) for the delivery of a range of services which includes Highways, Parks and Public Open Spaces, Public Rights of Way, and Ancillary Services.
- These enhancements include an improved payment process, the risk based selection of payment mechanisms (the means by which the price for works and services is derived, as opposed to the process of paying for the works and services), improved financial reporting against budgets, a report detailing actual direct costs of delivery through the supply chain and an annual value for money review that will inform service and business planning and seek to manage the effects of inflation locally (comparing it with a nationally recognised baseline).
- A revised client team under the management of the Council's Highway Network Manager has been formed and is being developed to manage the relationship between Amey and the Council. They are tasked with ensuring that the Council gets value for money from its spend, through ensuring that payments are being made in accordance with contractual requirements, and that through appropriate challenge continuous improvement in value for money is being realised. All Council officers have their own obligations in regard to financial management and cost control. The client team will be working with both the wider Council Client and Amey, to ensure the planning and development of strategic policy in regard to finance, to enable both the continuity and continuous improvement of services.

Alternative Options

- 1 None.

Reasons for Recommendations

- 2 This report provides a response to the question raised by the Committee on the 19th June 2009.

Introduction and Background

- 3 At their meeting of the 19th June 2009 the Audit and Corporate Governance Committee resolved that a report be submitted to the Committee on the provisions currently in place for the control of costs for the future Amey contract. This report has been prepared in response to this resolution.

Key Considerations

Existing Contracts with Amey

- 1 Existing contracts with Amey form what is known as a Strategic Service Delivery Partnership. Herefordshire's Strategic Service Delivery Partnership consists of a three-way partnership between the 'Client', Herefordshire Council, the 'Technical Consultant' Amey Consulting

(formerly Owen Williams Ltd.), and the 'Contractor' Amey Wye Valley Ltd (formerly Herefordshire Jarvis Services). Herefordshire Council has contractual links with both Amey Consulting and Amey Wye Valley, through 10-year contracts which commenced on the 1st September 2003. These contracts are extendable for up to a further 10 years and they are based on a contract form called the New Engineering Contract (NEC).

- 2 In addition to this Amey Wye Valley is a Joint Venture between HC and Amey, serving as a vehicle for the delivery of contract services to Herefordshire and others. This Joint Venture model essentially consists of the following components:
 - The Council and the Contractor are shareholders in the JV Company.
 - The Contractor paid a one off introductory fee to the Council in return for the business opportunity.
 - The Contractor would receive a fixed annual management fee from the JV Company in return for his project management skills.
 - Any profit in excess of this would be split between the shareholders.
 - The JV Company would have agreed targets for its growth.
 - The Contractor would underwrite the JV's operational performance, through a Parent Company Guarantee.
 - The JV Companies Board would be made up of Directors from the Contractor and Observers from the Council.
 - The JV Board would require the prior consent of the Council to operate outside certain well-defined political and commercial boundaries.
- 3 The services delivered by Amey to Herefordshire encompass highways, facilities management, fleet management and a range of ancillary services.
- 4 A Priced Contract with Activity Schedules (Option A of the NEC Engineering and Construction Contract (ECC)) is used for contract services. Each service area is divided into Activity Schedules (AS) for reactive works, routine works, programmed works, specialist works, and weather and other emergencies.
- 5 For reactive and routine works a series of monthly items and rates are established in the AS and this is the price to be paid for those functions.
- 6 For programmed and specialist works a Schedule of Rates (SOR) sits behind the AS and this SOR is used to formulate the price of each activity to be undertaken.
- 7 Weather and other emergencies are treated as a 'hybrid' with 'routine rates' being entered in the AS to cover the provision of an emergency capability, and 'operational rates' being entered into a SOR to formulate the cost of the 'on the ground' response.
- 8 For technical consultancy services a Target Contract (Option C of the NEC Professional Services Contract (PSC)) is used, with a schedule of hourly rates established to calculate the price to the Council.

How the payment mechanism in the existing contract services contract can be used to control costs and the support the delivery of desired outcomes.

- 9 An AS is a list of activities that are to take place in order to complete the whole of the works. Under the NEC Conditions of Contract Option A, when the Contractor has priced the activity schedule, the lump sum for each activity is the price paid by the Employer for that activity once completed. The total of these prices is the Contractors price for providing the whole of the works including for all matters, which are the Contractor's risk. There is provision in the Contract for adjusting the activity schedule for compensation events, as might result from change.

- 10 In order to generate cash flow it is necessary for the Contractor to breakdown the works into a series of activities. In order to progress all the activities to completion and hence payment, the interdependencies between activities must also be understood. Consequently this contract form promotes and relies upon good project management practices and the use of a programme of works to identify and track the progress of the activities. This as payment is aligned to the delivery of that programme.
- 11 To achieve the outcomes desired, contribution is required from all partners. As such the development and management of the whole programme is the responsibility of the partnership. The programme needs to be constructed and managed by the partnership, in line with the Councils available budget, to best achieve the specified outcomes.
- 12 The price for each activity identified in the programme is that price stated for that activity in the activity schedule.
- 13 The payment is made when each activity or specified group of activities has been completed (This motivates the contractor to deliver to programme in order to sustain cash flow). The sum paid to the contractor is the total of the prices for the completed activities and any additional payment as a result of a compensation event. As the works are described as being services to the value of the Council's available budget, assuming the works are delivered to programme, the annual total payment should equal the budget, and any additional payments will necessitate a corresponding amendment to the programme.
- 14 Compensation events are events, which if they occur, and do not arise from the contractor's fault, entitle the contractor to be compensated for the effect that the event has on the prices and the completion date. In some cases the result may be a reduced payment to the contractor. The compensation events to be considered are all defined in the contract, they include for events such as changes in the works information and physical conditions.
- 15 In this contract sitting alongside the activity schedules is a schedule of rates. The schedule of rates has two purposes. Firstly for programmed works the schedule of rates is used to calculate the price for that activity. Secondly for other types of work (i.e. routine works) the schedule of rates can be used to demonstrate value for money. This can be done by comparing the activity price against the value of the completed work as calculated by the schedule of rates (SOR value). If the SOR value is greater than the activity price then better value for money has been achieved. The rates contained in the schedule of rates were those available to the Council at the 1st September 2003. If an item of work is required that is not listed in the schedule of rates, then the contractor is to provide a quotation for that item and the rate should be negotiated prior to commencing the work.
- 16 Value for money is also gained by a year on year % saving being applied to the activity schedule and the schedule of rates and all rates are inflated over time using indices specified and appropriate to the area of works.
- 17 In practice neither the activity price nor the SOR value is the real cost of the activity as it will comprise of labour, plant and materials (all including overheads). The contractor records these inputs against each activity in order to gauge productivity. As a shareholder in the joint venture company the Council is able to view this information and it is in the interests of the Council that SOR values exceed activity prices and as a shareholder that activity prices exceed the contractor's costs. i.e. that the Council gets value for money at the same time as the Joint Venture Company makes a reasonable profit.

How the payment mechanism in the existing consultancy services contract can be used to control costs and the support the delivery of desired outcomes.

- 18 A target cost payment mechanism is used to incentivise efficiency in the delivery of consultancy services. This payment mechanism works by first agreeing a target cost for the activity (or commission) to be completed. This target cost is established by agreeing the staff grade and hours that, based on the experience of previous similar commissions, will be needed to complete the specified activity. The target cost is then calculated using a schedule of time charge rates. If the scope of the activity changes then the target cost can similarly be varied through the assessment of a compensation event (in the same way as described above).
- 19 Whilst the activity is underway the consultant is paid at the time charge rates plus a management fee for all inputs to the activity, regardless of the agreed target cost.
- 20 Once the activity is completed the sum of the time charges and fees against the activity are compared to the agreed target cost. If the time charges are higher than the target cost, then the consultant pays back a proportion of the difference, in our existing contract this is 50%. As such the price that is actually paid by the Council is the target cost plus 50% of the spend over the agreed target price.
- 21 If the time charges and fees are less than the target cost then the consultant is paid a proportion of the difference in addition to the time charges paid to date, again in our contract this is 50%.
- 22 When time charges and fees exceed the target cost the consultant risks an under-recovery of his staff costs and overheads. When the time charges and fees are less than the target cost the consultant recovers costs at a rate which is greater than planned through the time charges and fee alone.
- 23 When time charges and fees exceed target cost the Council does pay more than was 'targeted' for the activity, but does not pay the full time charge cost of the work done. When the time charges and fees are less than target cost the Council pays less than was planned. This mechanism, whilst more complex to administer, does provide both parties an incentive to work efficiently, as both will either share in the reward, or suffer the financial pain of inefficient delivery against target.

Existing Payment Processes

- 24 The current process for contract services involves the contractor presenting a gross application at the end of every month, containing details of every transaction since the beginning of the contract in 2003. Currently it is the Council's practice to prepare its own monthly valuation of the highways programme using its own systems as a tool to determine the amount due at any particular assessment date. For other areas of work the Council requires client officers to review the application and identify any deductions from the payment requested, for example due to works claimed but not completed to the client officers' satisfaction. Following the review by client officers the Council's project manager compiles a draft payment certificate, which is shared with the contractor for final comment and then passed for payment. Errors, omissions or late comments and returns are catered for in the following month's payment round.
- 25 The current process for consultancy services involves the consultant presenting invoices for each commission at the end of each month, or when work has been completed.

Improvements Secured through Service Delivery Review Negotiations

- 26 Whilst the existing contracts remain in place, the Service Delivery Review negotiations have secured improvements to the contractual arrangements relating to the maintenance and management of services in respect of:
- Highways;
 - Parks and Public Open Spaces;
 - Public Rights of Way, and;
 - The Ancillary Services of printing, catering, courier, recycling, vehicle maintenance and sign shop services.

For all other works and services, such as in relation to Property Services, the provisions of the existing contracts shall remain, unless agreement to do otherwise is subsequently negotiated.

The revised arrangements in relation to these services commenced on 1st September 2009.

- 27 Through these revised arrangements Amey is responsible for the delivery of an 'end to end' service for the above activities. This includes customer liaison, the planning and delivery of works and services, service improvement, performing relevant legislative requirements. The performance regime that has been agreed ties Amey to delivering services in accordance with the Council's established policies and plans and best practice guidance and achieving the Council's desired outcomes for Herefordshire and its communities. This type of arrangement is commonly known as a Managing Agent Contract (MAC).
- 28 The Council shall continue to provide management input as is required to ensure that policies, performance outcomes and agreed financial targets are being achieved. This will take the form of strategic guidance to Amey through the development and approval of policies and plans as are required to meet its relevant duties in law, and achieve the desired outcomes.
- 29 Amey will be responsible for ensuring the effective and efficient delivery of the works and services and will also assist in the development of the Employer's policies and plans as required.
- 30 Through choosing to operate in this way the Council has secured the opportunity to realise annual savings of £1 million whilst delivering service improvement. In return Amey have secured an opportunity to gain contract extensions beyond the original ten year term, if they meet stretching targets.
- 31 A series of enhancements in cost control have been negotiated with Amey, and these are described in the following paragraphs. The Council's client team has a key role in ensuring the effective management of the contract and delivery of the envisaged improvements.

Payment Process for Managing Agent Services

- 32 For works and services delivered through the MAC, Amey will assess the amount due and submit an invoice in an approved format each month. This shall detail the changes in the total price for the works and services delivered that have occurred during the last month. Payment is then made by the Council within three weeks.
- 33 The approved format for the invoice requires Amey to display actual costs, fees and charges, demonstrate approvals for spend / payment and show subcontractor's direct costs where feasible.
- 34 The Council's client team will have the opportunity to review the invoice and have any error corrected. Should an underpayment occur this is corrected in the next invoice. Should an

overpayment occur this is repaid to the Council within 5 working days of Amey having been notified.

- 35 It is intended to extend this same payment process for all works and services delivered to the Council by Amey, this will improve the efficiency and transparency of the payment process and as such benefit all parties.
- 36 The payment process for MAC works and services has been extended to allow the use of a greater variety of payment mechanisms (the means by which the price for works and services is derived, as opposed to the process of paying for the works and services). These now include cost reimbursable ('cost plus fee'), schedule of rates ('admeasurements'), lump sum ('fixed price') and target cost ('gains share'). The choice of payment mechanism is decided 'up front' and will be reviewed periodically. This choice is based on a clear rationale which reflects the apportionment of delivery risk between the parties and the parties' commercial obligations towards each other. This rationale is described further below.

Rationale for the Selection of Payment Mechanisms

- 37 Lump sum is used where there is a 'day-in day-out' requirement to deliver, or a 'seasonal' activity which must happen each year. The risks surrounding delivery will be well known, and the real challenge is to enhance efficiency and effectiveness each day/season. Examples of these activities include the cyclical repair of potholes in the highway, and the preparedness for winter gritting.
- 38 Cost reimbursable is used for 'once in a while' activities where it is known that 'it' might happen, but the timing and scale are difficult to predict, the challenge is to react at relatively short notice and provide a response that matches the scale of the event. An example of these activities is the emergency response to flooding.
- 39 Target cost is used for activities where the apportionment of risk between the parties is not distinct, or where through collaboration on a repeatable task improvement in the cost of delivery might be driven out and shared between the parties. In such cases target cost may be the most appropriate mechanism, as it should incentivise collaboration and effective partnership. We have revised the gain/pain share arrangements to increase the Council's share of the gain to 70% if the 'share range' being considered in this mechanism is 20% or more below the target cost. Amey will also take 100% of the pain if the 'share range' is 20% or more over target. This will encourage the setting of realistic target costs and enhance the focus on delivery to target. An example of where this approach could be applied is highway resurfacing.
- 40 Schedule of rates is used where the risk in regard to the cost of delivery is best taken on by Amey, but the risk in regard to volume sits with the Council. Examples of these activities are the delivery of highway improvement works, and winter gritting runs.

Future Financial Reporting Requirements

- 41 Each months Invoice will be accompanied by an Actual Cost Report and a Financial Report in approved formats.
- 42 The Actual Cost Report will detail by individual activity Amey's direct costs of delivery. These broken down, as appropriate into the headings of People, Equipment, Plant and Materials, Charges, Manufacture and Fabrication, Design and Insurance. The costs which should be included for in each heading are defined by the contract in a 'schedule of cost components'.
- 43 The Actual Cost Report also requires Amey to detail by individual sub-contract activity sub-

contractor prices and whenever reasonably available the sub-contractors direct costs of delivery in the same way as if the works were delivered by Amey as the main provider.

- 44 This report will also be presented in a summary form collating all costs (Amey's own and those of their sub-contractors) by activity and comparing them with the price to be paid by the Council for each activity.
- 45 Finally this report will include a summary of all costs by area of service, comparing these with the price to be paid for these services.
- 46 The monthly Financial Report will detail all budgets and provide forecasts for each budget line.

Value for Money Review as part of the Annual Service Plan

- 47 An Annual Service Plan will combine both the Council's service planning information and the Amey's business planning into one plan. The Plan will incorporate both budget and performance information and the anticipated margin.
- 48 The approach to updating the price of Works and Services underlying the service plan will take the form of a value for money review that will take account of the results of the agreed continual improvement process, the performance of target cost projects, benchmarking analysis and the analysis of the actual cost reports.
- 49 This review will be conducted by the Council's Highway Network Manager and the findings will be reported to the Strategic Partnership Board. The report will be produced in time for the accepted recommendations to inform service planning and budget setting.
- 50 The Value for Money Report will be based on:
 - The Actual Cost Report, which is intended to give an understanding of the Amey's cost drivers.
 - A review of rates provided by Amey's Commercial Team and analysis by Client Team.
 - Previous years' results when available.
 - The results of continuous improvement initiatives.
 - Improvements identified using the Target Cost payment mechanism.
 - External checks and benchmarks on quality of service and cost to the Council on the one hand and rewards for Amey on the other.
 - Staff costs inherited by the Amey from the Council and any other local factors such as the cost of providing the level of business continuity required by the Council will be considered.
 - Any other relevant information identified by the Highways Network Manager.
- 51 The report will identify areas for action to be agreed by both parties to ensure the development of the contract and partnership arrangements. These actions will seek to:

- Ensure that prices are aligned with the cost of service delivery across all services within the scope.
- Identify and adjust anomalous rates
- Provide a set of rates that support the delivery of the service plan
- Ensure that both local inflation and efficiencies are reflected in the price.

- 52 The rates and prices in the contract are inflated each year using a set of agreed indices which reflect the effect of inflation nationally within each area of works or service. However the annual value for money review will provide an opportunity to adjust rates and prices to reflect the impact of inflation locally, together with efficiencies achieved and ensure continued value for money.

Effective Strategic Client Team

- 53 A client team headed by the Highway Network Manager has been established to manage the relationship with Amey on behalf of the Council, this with the aim of ensuring that desired performance outcomes and financial targets are being achieved, and to develop a culture of continuous improvement through productive partnership that will deliver value for money.
- 54 The team includes, in addition to the Highway Network Manager, posts to manage performance, delivery and to scrutinise costs.
- 55 Specialist Cost Control Engineer roles will be central to the issue of cost control. They will be tasked with ensuring that Council gets value for money from its spend, through ensuring that payments are being made in accordance with contractual requirements, and that through appropriate challenge value for money is being realised.
- 56 Clearly this team are not the sole client for the services delivered for the Council by Amey. Whilst they will be managing the contractual partnership arrangements with Amey any Council officer ordering services from Amey must meet their own obligations in regard to financial management and cost control. The Client team will provide advice and support to both the wider Council Client officers and Amey to ensure the benefits of the new arrangements are realised.

Community Impact

- 4 None as a result of this report, though clearly effective cost control will enhance the value for money of those services delivered by the Council through Amey.

Financial Implications

- 5 None as a result of this report

Legal Implications

- 6 None as a result of this report.

Risk Management

- 7 None as a result of this report

Consultees

- 8 None

Appendices

- 9 None

Background Papers

10 None

MEETING:	AUDIT AND CORPORATE GOVERNANCE COMMITTEE
DATE:	28TH SEPTEMBER 2009
TITLE OF REPORT:	MAJOR PROJECTS STATEMENT
DIRECTOR OF RESOURCES	DAVID POWELL

Wards Affected

None

Purpose

To provide a position statement on major projects being undertaken by the authority.

Key Decision

This is not a Key Decision.

Recommendation(s)

THAT Audit and Corporate Governance Committee:

- (a) **notes the contents of the report.**

Key Points Summary

- The overall capital programme totals £84.4m.
- Funding for major projects includes a significant level of capital grants from central government.

Alternative Options

- 1 This is an information report and therefore no alternative options are outlined.

Reasons for Recommendations

- 2 The recommendation is proposed so that the committee acknowledges the supplied information that was requested at the previous meeting.

Further information on the subject of this report is available from
David Powell, Director of Resources on 01432 383519

Introduction and Background

- 3 At the Audit and Corporate Governance Committee on 18th June 2009 the committee requested a position statement on major projects. The background to the request is that the committee has commented on major projects at previous meetings.

Key Considerations

- 4 The report provides information on major projects being delivered by the council. In line with previous issues raised at committee the report has taken as a definition all projects with a forecast expenditure in excess of £500k and included in the capital programme. This is a definition consistent with that used to help provide capital programme budget monitoring information.
- 5 The committee will be aware that the council has a significant capital programme. The current 2009/10 programme forecast is £84.443m. This is an increase of £17.005m over the original capital programme. The principal reasons for the increase is slippage from the previous year's programme. Slippage occurs for a variety of reasons including revised timing of programme delivery that may result from policy review. In some cases slippage results from factors outside of the control of the council.
- 6 The original forecast can also increase as a result of the allocation of new funds. The council in common with other authorities will bid for funding from central government for specific schemes. If successful the notification can fall outside of the timescale of capital programme setting and the additional funding is then added to the overall programme total. An example in the current financial year is the primary strategy grant. This was re-instated after the revised strategy was accepted by the Department for Children's Services and Families (DCSF)
- 7 The major projects all have links to corporate themes. In addition the detailed capital programmes are reported to relevant scrutiny committees.
- 8 The funding picture for capital projects has been affected by central government's approach to borrowing. Until April 2004 funding arrangements were based on credit approvals that were used to authorise expenditure financed by borrowing. Revenue support was generally provided by government for such borrowing.
- 9 The legislative framework for local authority borrowing changed on 1st April 2004. The key feature of the new system is that local authorities are free to raise finance for capital expenditure without government approval. The key test is whether they can afford to service the debt without government support. The new system places a duty on local authorities to determine and keep under review the amount they can afford to borrow.
- 10 The other significant source of funding is capital grants and contributions. In Herefordshire £39.3m of the £84.443m forecast programme is grant funded. The majority of the grant funding is for projects in the Children's and Young People's Directorate.

Community Impact

12 The delivery of major projects has a significant impact on communities.

Financial Implications

13 The attached appendix identifies funding sources.

Legal Implications

14 This report has no legal implications.

Risk Management

15 The delivery of major projects requires risk management given the various possible type of risk such as financial and reputational. Appropriate project management is a major risk mitigation measure.

Consultees

16 None.

Appendices

16 List of schemes with a forecast spend exceeding £500k in 2009/10

Schemes with a forecast spend exceeding £500k in 2009-10

Scheme Detail By Directorate	Whole Scheme Cost £'000	Funded by	2009-10 Expenditure forecast £'000	Actual spend to 31-07-09 £'000	Most relevant Corporate Theme	Comments
Children's Services						
New Hereford Academy	23,924	DCSF Grant	9,000	82	Children and Young People	Preliminary work underway, main contract of works to be signed shortly
Minster Replacement School	20,642	DCSF Grant	7,201	3,200	Children and Young People	Work progressing, no issues
Devolved Capital Programme	n/a	DCSF Grant	4,914	1,473	Children and Young People	Devolved allocation of capital funding to schools, including ICT
Primary Grant	8,378	DCSF Grant	3,000	3	Children and Young People	Capital funding to improve junior and infant provision
Children's Centres	n/a	DCSF Grant	2,187	234	Children and Young People	Various children's centre schemes progressing
Targeted Capital Fund	8,000	DCSF Grant	2,000	-	Children and Young People	Capital funding allocated towards 14 to 19 year olds
Condition property works	n/a	Supported Borrowing	1,591	321	Children and Young People	Annual programme of works at various sites committed on a highest need first basis
Childcare Grant	n/a	DCSF Grant	1,324	260	Children and Young People	Grant funding devolved to nurseries
Riverside Amalgamation	8,505	Grant & receipts	1,188	595	Children and Young People	Appointed contractor in liquidation, new contractor appointed to complete scheme
Intervention Centres	1,734	DCSF Grant	850	2	Children and Young People	To provide an area for excluded pupils at each High School
Wave 2 Playbuilder	1,120	DCSF Grant	526	-	Children and Young People	Funding towards play area provision

Further information on the subject of this report is available from
David Powell, Director of Resources on 01432 383519

Scheme Directorate	Detail	By	Whole Scheme Cost £'000	Funded by	2009-10 Expenditure forecast £'000	Actual spend to 31-07-09 £'000	Most relevant Corporate Theme	Comments
Resources								
	Corporate Accommodation		17,112	Prudential Borrowing & capital receipts	6,140	-	Organisational improvement & greater efficiency	Preferred option anticipated to commence in 2009
	Smallholdings		1,500	Capital receipts	500	-	Economic development & enterprise	Improvement works to commence in November
Deputy Chief Executive								
	Herefordshire Connects		6,683	Prudential Borrowing & receipts	5,368	650	Organisational improvement & greater efficiency	Slippage expected due to the Shared Service review currently underway
Environment & Culture								
	Road & Footway Maintenance		n/a	LTP allocation	7,857	1,488	Sustainable communities	Programme of annual Amey works
	Ledbury Library		2,922	Prudential borrowing	2,764	69	Economic development & enterprise	Architect assessment and structural survey under review
	Bridgeworks		n/a	LTP allocation	1,500	140	Sustainable communities	Annual programme of works
	Ross Library		1,240	Prudential borrowing	1,153	40	Economic development & enterprise	Project estimated to go out to tender before Christmas
	City Centre Enhancements		2,751	Prudential borrowing	1,149	18	Sustainable communities	Improvements to be made in line with Edgar Street Grid development

Sustran	1,401	Prudential borrowing	777	51	Economic development enterprise	&	Walking and cycling route over River Wye in design stage
Waste Performance & Efficiency	869	Grant	754	-	Economic development & enterprise		Bulk of expenditure to be on purchase of wheelie bins in October
Park & Ride - North	n/a	LTP allocation	500	42	Sustainable communities		Scheme dependent on Cabinet member decision

Scheme Directorate	Detail	By	Whole Scheme Cost £'000	Funded by	2009-10 Expenditure forecast £'000	Actual spend to 31-07-09 £'000	Most relevant Corporate Theme	Comments
Regeneration								
Otherwas Futures Estate Development Work			4,358	Grant & capital receipts	3,021	453	Economic development & enterprise	Refurbishment of site and internal road works planned this year
Cattle Market			5,000	Capital receipts	2,910	17	Economic development enterprise	& Total scheme cost and approval to proceed, to be reported to Cabinet separately
Affordable Housing Grants			n/a	Capital receipts	1,979	518	Safer & stronger communities	Annual allocation of grants to various schemes
Mandatory Disabled Facilities Grant			n/a	Grant & capital receipts	1,301	120	Health & well-being	This budget is under significant demand, a backlog of approximately £1m recorded
Mortgage Rescue			900	Prudential Borrowing	900	-	Safer & stronger communities	Over £600k committed to individual schemes helping families remain in their properties
Empty Property			879	Prudential Borrowing	600	-	Health & well-being	Approximately £200k committed to bringing individual properties back into use
Total					72,954	9,776		

Schemes with a forecast spend in 2009/10 of less than £500,000			11,489	2,650		
Total			84,443	12,426		



Internal Audit Joint Working Protocol

Herefordshire Public Services

NHS Herefordshire and Herefordshire Council

Herefordshire Council
Internal Audit Services

cw audit services

July 2009

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1. Introduction

The purpose of this protocol is to set out a summary framework to govern joint working arrangements between the Internal Audit providers at both the PCT and Council as part of Herefordshire Public Services.

2. The Two Providers

Internal Audit services are currently provided as follows:

Services to the PCT

CW Audit Services is a NHS sponsored and hosted internal audit consortium that provides audit, counter fraud, security management and consultancy services to a range of NHS and local government organisations.

Services to the Council

The Audit Services Team is an internal assurance function that provides an independent and objective opinion to the Council on risk management, control and governance by evaluating their effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a proper economic, efficient and effective use of resources.

3. Audit Planning

Audit plans will be prepared separately by the providers for the two organisations. These plans will be developed in accordance with the planning and assurance requirements of the two organisations and as a minimum will involve discussion with the organisations' external auditors and key client managers to ensure that the scheduled audit work is sufficient to satisfy the expectations of the external auditors through the managed audit process and to provide assurances relating to broader areas of risk facing both organisations.

Prior to the commencement of the financial year and as part of the annual audit planning cycle NHS Herefordshire and Herefordshire Council will review areas where joint audit assignments can take place. The areas of joint assignments will be annotated, however within each statutory organisation's own audit plan

The resultant audit plans will be formally approved by each organisations audit committee.

4. Approach and Resourcing

The two providers will agree in advance areas of work where joint working of audit teams would be appropriate. For work undertaken at the PCT, CW Audit Services will be the lead provider with supporting resource from the Council team and for work undertaken at the Council the in house audit team will be the lead provider with supporting resource from CW Audit Services.

The process for agreement of assignment briefs will follow the protocols of the lead audit provider.

Audit reviews will be carried out in line with the lead audit provider's methodology, quality standards and reporting protocols. It will be the lead organisation's responsibility to ensure that these standards are complied with.

When joint assignments are being conducted it is important that the timing of required resources is agreed by both internal audit providers and those resources are provided in line with the agreed timescales.

Where a member of staff is assisting on a joint review which is not being led by their employer, their day to day reporting accountability will be to the lead audit provider on that specific review.

Joint working will be undertaken on the basis that it is resource and cost neutral to both providers.

5. Reporting Protocols, Recommendations and Follow-up

The process of review, issue of draft reports, final reports and follow up will follow the lead organisations procedures.

Internal Audit Progress Reports will be provided to each Audit Committee in line with current protocols.

Both providers will produce an annual report which will summarise all audit work completed within the financial year and provide an audit opinion on the overall adequacy and effectiveness of the control environment.

6. External Audit Liaison

The two providers will hold regular meetings with their external auditors to discuss the following issues:

- Agree audit timings and coverage.

- Share key controls and agree on sampling methodologies.
- Share any issues that have been identified through ongoing audit work.

7. Counter Fraud

Where required CW Audit Services will also provide Counter Fraud support and advice to the Council. This will be agreed on a case by case basis.

8. Secondment and Training Opportunities

As part of the commitment to a joint audit approach, both organisations will seek to maximise joint training opportunities. These will be planned in advance, taking account of relevant developments and the individual training requirements of members of staff. The two organisations will also work together to explore the opportunity for voluntary staff secondments between the organisations, this will be considered as part of the annual resource planning exercise and throughout the course of the year as resource requirements change. Both the development of joint training and secondments will be designed to maximise the transfer of knowledge between the two organisations.

9. Disputes Procedure/Conflicts Resolution

Any disputes will be resolved via discussion between the Director of CW Audit Services, The Head of Audit from the Council, the PCT's Director of Resources and Council's Director of Resources.

10. Contacts

Council	
Name and role	Contact details
David Powell Director of Resources	dpowell@herefordshire.gov.uk Phone 01432 383519
Tony Ford Chief Internal Auditor	raford@herefordshire.gov.uk Phone 01432 260425
PCT	
Marcia Pert Director of Resources	marcia.pert@hereford.nhs.uk phone: 01432 344344
Paul Dudfield Consortium Director	paul.dudfield@cwaudit.org.uk phone: 024 76536884

MEETING:	AUDIT AND CORPORATE GOVERNANCE COMMITTEE
DATE:	28 SEPTEMBER 2009
TITLE OF REPORT:	DATA QUALITY UPDATE
INTERIM DEPUTY CHIEF EXECUTIVE:	ANNIE FAULDER

CLASSIFICATION: Open

Wards Affected

County-wide

Purpose

To update the Committee on the progress now being made against key elements of the rolled forward data quality action plan.

Key Decision

This is not a Key Decision.

Recommendation(s)

THAT Committee:

- (a) **That the Committee note the progress being made on the areas of the data quality action plan where it had particular concerns.**

Key Points Summary

- Faster progress is now being made on the issues which concerned the committee at its last meeting.

Alternative Options

- 1 There are no Alternative Options.

Reasons for Recommendations

- 2 Since the Committee last met, progress against the data quality action plan has improved including on the two issues that were highlighted at the last meeting. The six monthly progress

Further information on the subject of this report is available from
Tony Geeson, Head of Policy & Performance on (01432) 261855

report against the whole action plan is due after the end of September. This will be reported to JMT; Cabinet and this Committee on 20 November in line with the approved data quality policy

Introduction and Background

- 3 At its last meeting on 18th June the Committee:
- Noted progress against the 2008/09 data quality action plan
 - Supported the 2009/10 plan
 - Asked for the finalisation of a list of staff still requiring data quality training and, similarly,
 - That the extent to which local procedures on data quality had been produced by Directorates be established

Key Considerations

- 4 Information management, including data quality, is one of the key lines of enquiry in the Use of Resources Assessment which itself is one half of the Council's Organisational Assessment under the Comprehensive Area Assessment (CAA).
- 5 There is, however, a separate audit and progress against the data quality action plan is one way in which the Council demonstrates continual improvement under CAA. This years audit has been concluded and, while the results are not yet known, no issues of concern have been raised with officers as yet.
- 6 In the past month the Audit Commission has issued a new report on the use of high quality information as part of the decision making process, re-emphasising the importance all the regulators are now placing on this topic.
- 7 All Directorates have now produced lists of completed appraisals which identify employees for whom data quality is a particularly important part of their job and who may require training. These lists will be prioritised in consultation with each service so that the identified data quality champions are trained first. They will be used more generally to shape the information management training programme across the Council. The programme has already started with approximately 90 staff having either attended the half day course or the longer, more specialist, course.
- 8 Since the Committee last met each Directorate management team has also discussed data quality, reminded of the actions required and the need for continued attention. All directorates have now produced lists of local policies / procedures that need to be considered as part of the Council's overall data quality assurance process. These local policies are the documents that make the Council's overall data quality policy real to employees and to which they turn for guidance in the first instance.

Community Impact

- 9 Data quality is a crucial component of both accountability to communities and the basis of sound decision making with partners. It is key to there being appropriate plans and strategies and to these addressing equality issues.

Financial Implications

- 10 None identified.

Legal Implications

- 11 This report has no legal implications.

Risk Management

- 12 No particular data quality issues have emerged in the past three months either as a result of the Audit Commission's work on Use of Resources or through routine management checks / procedures. The potential risk of not having an adequate assurance process remains and this is reflected in the corporate risk register. Completing the data quality action plan is one of the main mitigating actions which will eventually lead to a reduction in the current risk score.

Consultees

- 13 Directorate management teams, Assistant Chief Executive (Legal and Democratic Services) and Director of Resources.

Appendices

- 14 None.

Background Papers

- None identified.

