

A G E N D A

Audit Committee

Date: **Friday, 30th June, 2006**

Time: **10.00 a.m.**

Place: **The Council Chamber,
Brockington, 35 Hafod Road,
Hereford.**

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

For any further information please contact:

*Mrs. Sally Cole, Committee Manager
(Corporate)*

***Email: scole@herefordshire.gov.uk Tel:
01432 260249***

**County of Herefordshire
District Council**

AGENDA

for the Meeting of the Audit Committee

To: Councillor A.C.R. Chappell (Chairman)

Councillors Mrs. P.A. Andrews, H. Bramer, T.M. James, R.I. Matthews,
R.J. Phillips, and Mrs. S.J. Robertson.

In Attendance: Mr T Tobin (Audit Commission) and Councillor R.M. Wilson

	Pages
1. APOLOGIES FOR ABSENCE	
To receive apologies for absence.	
2. NAMED SUBSTITUTES (IF ANY)	
To receive any details of Members nominated to attend the meeting in place of a Member of the Committee.	
3. DECLARATIONS OF INTEREST	
To receive any declarations of interest by Members in respect of items on the Agenda.	
4. MINUTES	1 - 6
To approve and sign the minutes of the meeting held on 7th April, 2006.	
5. AUDIT COMMISSION AUDIT AND INSPECTION PLAN 2006-07	7 - 32
To note the Audit Commission's Audit and Inspection Plan for 2006-07.	
6. FOLLOW UP OF AUDIT COMMISSION RECOMMENDATIONS	33 - 46
To inform Members on the current position in relation to follow up action on past Audit Commission report recommendations.	
7. AUDIT COMMISSION REPORT - POOLED BUDGETS	47 - 80
To note the Audit Commission's report on Pooled Budgets.	
8. AUDIT COMMISSION REPORT - REVIEW OF THE E-GOVERNMENT PROGRAMME	81 - 124
To present to Members the Audit Commission's report on the Review of the E-Government Programme.	
9. MONITORING OFFICER REPORT 2005-06	125 - 128
To note the Authority's performance for 2005/06 with regard to complaints to the Ombudsman, Whistleblowing and those matters within the responsibility of the Monitoring Officer's control as the Head of Legal and Democratic Services.	
10. AUDIT SERVICES ASSURANCE REPORT 2005/06	129 - 146

	To update Members on progress made in relation to the Audit Plan and to bring to their attention any key internal control issues. In addition the report updates Members on the action or the current position on key issues raised for 2004/05 that required attention.	
11.	APPROVAL OF THE COUNCIL'S STATEMENT OF INTERNAL CONTROL 2005-06	147 - 156
	To note the work and process followed in relation to the completion of the Council's Statement of Internal Control.	
12.	STATEMENT OF ACCOUNTS	157 - 224
	To examine, consider and approve the Council's accounts for 2005/06 as presented in the Statement of Accounts attached at Appendix 1.	
13.	DATE OF NEXT MEETING	
	To agree the date, time and venue for the next meeting as Wednesday, 6th September, 2006 at 10.00 am at the Council Chamber, Brockington, Hereford.	

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COUNTY OF HEREFORDSHIRE DISTRICT COUNCIL

BROCKINGTON, 35 HAFOD ROAD, HEREFORD.

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COUNTY OF HEREFORDSHIRE DISTRICT COUNCIL

MINUTES of the meeting of Audit Committee held at The Council Chamber, Brockington, 35 Hafod Road, Hereford on Friday, 7th April, 2006 at 10.00 a.m.

Present: Councillor A.C.R. Chappell (Chairman)

Councillors: Mrs. P.A. Andrews and T.M. James

In attendance: Mr T Tobin (ex-officio) and Councillor R.M. Wilson (ex-officio)

22. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors: Mrs JP French, RI Matthews, RJ Phillips and Mrs SJ Robertson.

23. NAMED SUBSTITUTES (IF ANY)

Councillor H Bramer substituted for Councillor RJ Phillips and Councillor Ms G Powell substituted for Councillor Mrs SJ Robertson.

24. DECLARATIONS OF INTEREST

There were no declarations of interest made.

25. MINUTES

RESOLVED: That the minutes of the meeting held on 20th February, 2006 be approved as a correct record and signed by the Chairman.

26. USE OF RESOURCES IMPROVEMENT PLAN

The Director of Resources presented the report and advised that the Use of Resources Improvement Plan was still in draft format and was being adjusted to respond to the feed back on the CPA. Consultation on the plan was still to be carried out with the Corporate Management Board and the Senior Management team on the ability to deliver on requirements, however the draft and been produced in order to gain the comments of the Members before being presented to the management.

Financial reporting (score 3 out of 4) improvements:

- to ensure efficient and effective close down procedures of accounts prior to submission to auditors.
- to improve the concerns of the public on financial matters by providing a plain English summary leaflet explaining the figures.

Financial management (score 3 out of 4) improvements:

- to ensure key elements of the financial strategy are in place and held in one document.
- document to be approved approximately in June giving details of the budget

for the next year and which is to be joined up to performance management information.

Financial Standing (score 2 out of 4) improvements:

- base budget corrected for 2006/07.
- directorates to manage budgets to be at or below the approved budget for the year.
- action plans from each directorate to ensure spend is contained within the approved budget during the year.

Internal Control (score 2 out of 4) improvements:

It was noted that there were a number of separate issues around different elements and key to it was the setting up of the Audit Committee and keeping up to date on internal controls.

- Revision of Cabinet's terms of reference to include responsibility of risk management.
- Develop partnership risk management arrangements.
- Risk management training for Members and officers.

Value for Money improvements:

Noted that this area needed the most development and firm action to ensure that all necessary parts of the Council engage in the process. Additionally a survey with the public is being carried out to gauge their views as to whether they feel they are getting value for money.

A discussion took place on the standards the Council need to achieve. Members were advised that there were new criteria and set of standards that were a significant up grade on previous standards. The authority needs to be able to demonstrate to the Auditor that the new standards are embedded within the Council's systems to retain its overall Use of Resources score of 3. Reaching the next level would be a significant challenge. It was pointed out that only a handful of authorities had attained a level 4 score and that this level was intended to be challenging to the processes of an authority. Members went on to discuss procurement activity across the authority and best practice currently taking place.

RESOLVED: That the report and improvement plan be noted.

27. AUDIT COMMISSION REPORTS

The Principal Audit Manager presented the report on the arrangements to manage the process of receipt and action follow up on the Audit Commission reports to the Council. He stated that previously there had been no clear approach on how Audit Commission reports were to be dealt with, which needed to be rectified considering the impact the reports had on the Council's Statement of Internal Control. He added that directorate heads of service would play a key role in the process and would liaise directly with the Audit Commission on reports in their division. It was stated that should recommendations not be actioned quickly, they would become part of the reporting process to the Audit Committee. The Principal Audit Manager advised that this would help to improve on the use of resources score. The Audit Commission representative reiterated the need to consider the process that needs to take place should an action not be dealt with quickly. The Director of Resources stated that work was being carried out with the Audit Commission on an agreed list of

recommendations from past reports to ensure all recommendations were followed. The results of this work to be reported back to the Committee.

RESOLVED: That the process for dealing with all Audit Commission reports be adopted.

28. AUDIT COMMITTEE MEMBERSHIP

The Principal Audit Manager presented the report on the proposals for the membership of the Audit Committee. He stated that the Committee was developing and that it would take time before it would fully meet the needs of Members and comply with the Use of Resources criteria. He referred to the CIPFA guidance on membership of audit committees. He reminded Members of their request at the last meeting of the Committee to carry out comparison work on Audit Committees of other authorities and stated that it was clear that audit committees as such were still in their infancy and that Herefordshire was one of the authorities leading the way.

The Principal Audit Manager reminded Members that the key element regarding membership was that it must be independent of the Executive and of the Scrutiny function, and that presently this was not being achieved fully, however it was realised the need for the Committee to stay as it is until 2007, but working towards achieving the CIPFA Guidance. Concern was raised by Members that there appeared to be a third group being formed separate to that of the Executive and Scrutiny function. It was pointed out that this was a specialist form of scrutiny and that it might be that the Committee is chaired independently. It was more important that the Committee was operating effectively and that it would take the next 12 months to consolidate its position and understand its role.

RESOLVED: That the report be noted and used to facilitate future membership of the Audit Committee.

29. AUDIT PLAN 2006-07

The Principal Audit Manager presented the report outlining the process used to develop the Annual Plan for 2006/07. He added that the preparation of the Audit Strategy and Plan represented best practice and was an integral part of the Council's internal controls and procedures under the CPA Use of Resources. He advised that there were links to the Statement of Internal Control, Use of Resources and the CIPFA Code of Practice and stated how the strategy would:

- outline how the service would be provided;
- state how the assurance, as outlined in the Annual Statement of internal control would be demonstrated and would include how Audit Services would contribute to the review of:
 - i) the Council's corporate governance arrangements;
 - ii) risk management process; and
 - iii) key internal control systems;
- establish the resources required for delivery;
- set out the relative allocation of audit resources between assurance work and any fraud-related or consultancy work;
- reflect how the Principal Audit Manager prepares the risk based audit plan designed to implement the audit strategy, taking account of the Council's risk management process. Any differences between the plan and the resources available would be identified and reported. The risk based plan would outline

assignments to be carried out and the broad resources required for delivery.

The Principal Audit Manager referred the Committee to paragraph five of Appendix two of the Audit Plan report and stated how the work of audit services was broken down into key areas to give audit opinion on the Council's internal controls. He added that the bullet pointed list showed clear links to the Council's Standing Orders and Financial Regulations. It was pointed out that there was inevitably more work than resources available and at present there was 75 days more work than there was resources available, therefore, one system, four school and two establishment audits had been removed. Members were also informed 85% of Primary and Special Schools had not received an audit visit in the last four years and that this backlog could not be cleared with current resources, however, Audit Services was working with LMS and Finance to give training to school administrators.

Members were informed that there was now a process in place to identify fundamental systems. The Principal Audit Manager advised that the plan reflected audit services involvement in supporting key corporate priorities such as performance management, project management, partnership risk management, LPSAs and LAAs and Herefordshire Connects. A discussion was had on the new DfES Finance Toolkit for schools and whether schools could carry out their own audits under the new proposals. It was noted that this could prove to be an expensive option for schools. Members discussed risk registers and were advised that audit services had linked the plan to the Corporate and Directorate Risk Registers.

RESOLVED: That the Audit Strategy and Plan for 2006/07 be adopted.

30. PROGRESS ON THE COUNCIL'S STATEMENT OF INTERNAL CONTROL

The Principal Audit Manager presented the report to update Members on the progress to the completion of the Council's Statement of Internal Control. He reminded Members that the CPA Use of Resources highlighted the criteria for judgement regarding the Statement of Internal Control. He added that the last management letter had indicated that the Council did not have its processes linked to the Statement of Internal Control. He reminded Members that at the last meeting of the Committee the processes required for the links to the Statement of Internal Control were approved. These processes were now being embedded into the work of the Council and were operating well through the action and improvement plans. The improvements resulting from the JAR use of resources and CPA reports are being put into progress and will be reported on to the Committee at the next meeting in June. Additionally the checklist, which links the key areas that make up the Statement of Internal Control and identifies any major gaps, will be reported on at the June meeting.

RESOLVED: That the progress report be noted.

31. ANTI MONEY LAUNDERING

The Audit Manager (Special Services) gave a power point presentation to the Committee and stated that the aim of the presentation was to make Members aware of the Anti-Money Laundering procedures the Council were putting in place for staff to deal with money laundering issues. He stated that it was about the converting of money from criminal activity or from terrorist's funds "dirty" money into "clean" money via the passing of cash through legitimate banking systems. He stated that if found to be laundering money the fine could range from £5,000 to an unlimited sum of money and from six months to 14 years imprisonment. The main offences would be the concealing, arranging or acquisition of funds. Third party offences would be

failure to disclose or to tipping off of the relevant body. He outlined the main agencies, which were the:

- Money Laundering Reporting Officer;
- National Criminal Intelligence Services;
- Assets Recovery Agency; and
- HM Revenues and Customs.

He stated that the main areas of concern were with suspicious payments, such as overpayment, duplicate/advance payments or large cash payments for land or property. Large payments (currently to be considered over £2,500), even when there was no suspicion, were being logged. The areas of the Council that were at risk were:

- Cashiers;
- Revenues and benefits staff;
- Treasury management;
- Property services;
- Contract officers; and
- Licensing staff.

He added that if staff were suspicious of a payment they had been advised to:

- Not alert the customer;
- Follow procedures;
- Store paperwork securely;
- Under bank.

Should a payment be suspicious, regardless of value, staff were to record details and inform their manager and the Money Laundering Reporting Officer (MLRO). Should the payment be over £10,000 cash, the MLRO would inform HM Revenues and Customs. Finally the Audit Manager (Special Services) advised that it was felt it was unlikely that organised crime would use Herefordshire Council for money laundering, however, procedures had been put in place to protect the authority and staff. He added that the Assistant Treasurer (Revenues and Benefits) had been given the role of Money Laundering Reporting Officer.

32. DATE OF NEXT MEETING

RESOLVED: That the date, time and venue of the next meeting is Friday, 30th June, 2006 at 10.00 am at the Council Chamber, Brockington, Hereford.

The meeting ended at 11.20 a.m.

CHAIRMAN

**AUDIT COMMISSION AUDIT AND INSPECTION PLAN
2006-2007****Report By: Principal Audit Manager****Wards affected**

County-wide

Purpose

To note the Audit Commission's Audit and Inspection Plan for 2006-2007.

Financial Implications

None

Reasons

The plan sets out the audit and inspection work that the Audit Commission propose to undertake for 2006-2007.

Considerations

1. The Audit Commission has discussed the Audit and Inspection Plan for Herefordshire Council with the Chief Executive and the Director of Resources. The Plan has also been presented to and discussed at Corporate Management Board.
2. The plan highlights the key statutes that govern their Audit and Inspection duties.
3. For 2006-2007 the Audit Commission has estimated their total fee to be £347,007. Summarised as £212,227 to cover audit work, £49,780 to cover inspection work and £85,000 for certification of claims and returns. The audit Commission will formally advise the Council if any changes to the fee becomes necessary.
4. CPA and inspection activity can be summarised as:
 - a. to provide focus for continuous improvement and to include the CPA scorecard;
 - b. with CSCI monitor progress of the Council's Improvement Plan;
 - c. review progress in planning services; and
 - d. review effectiveness of Cultural Services.
5. The Audit Commission objectives can be identified as:

- providing an opinion on the Council's financial statements;
 - providing a conclusion on the Council's Use of Resources;
 - providing a scored judgment on the Use of Resources to feed into the CPA process;
 - undertaking audit work in relation to specified performance indicators to support the service assessment element of CPA; and
 - providing a report on the Council's Best Value Performance Plan (BVPP).
6. The Code of Audit Practice requires the Audit Commission to issue a conclusion on whether the Council has proper arrangements in place for securing economy, efficiency and effectiveness in the use of its resources.
 7. The Use of Resources assessment for 2006 will be based upon updated key lines of enquiry due for publication in spring 2006. However the Audit Commission has identified ten areas of audit risk, paragraph 20 of the attached report refers.
 8. In 2006-2007 the Audit Commission is required to undertake audit work in relation to specified performance indicators to support the service assessment element of CPA. Herefordshire Council has been initially assessed as medium risk in relation to its performance indicators, however this could change depending on their assessment of the Council's overall arrangements.
 9. With regards to the Council's Best Value Performance Plan the Audit Commission is required to report on whether the Council has complied with legislation and statutory guidance in respect of its preparation and publication.
 10. The Audit of the Council's Financial Statements will follow the International Standards on Auditing (UK and Ireland). They are also required to review whether the Statement on Internal Control has been presented in accordance with relevant requirements and to report if it does not meet these requirements or if the statement is misleading or inconsistent with their knowledge of Herefordshire Council. On the basis of their preliminary work they have identified the following risks in this area.
 - the Statement on Internal Control was not owned corporately and was not adequately supported by an assurance framework; they do note that the Council has recently adopted an improved approach.
 - The changes in the Waste Management PFI had not been agreed, and the associated risks required a review of the accounting treatment and reporting.
 11. It should be noted that although Whole of Government Accounting data returns will need to be audited, the scope of the likely work has not been agreed and the fees for this work is not included in the current total fee of £347,007.

Risk Management

13. If the Council does not meet the Audit Commissions expectations it could have an adverse effect on the Council Use of Resources score.

RECOMMENDATIONS

THAT the Audit and Inspection Plan be noted.

BACKGROUND PAPERS

- Audit and Inspection Plan.

Audit and Inspection Plan

Herefordshire Council

Audit 2006-2007

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports to the Council

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.

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

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

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

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Introduction

- 1 This plan sets out the audit and inspection work that we propose to undertake in 2006/07. The plan has been drawn up from our risk-based approach to audit planning and reflects:
 - the Code of Audit Practice;
 - Audit and inspection work specified by the Audit Commission for 2006/07;
 - your local risks and improvement priorities; and
 - current national risks relevant to your local circumstances.
- 2 Your relationship manager will continue to help ensure further integration and co-ordination with the work of other inspectorates.

Our responsibilities

- 3 In carrying out our audit and inspection duties we have to comply with the statutory requirements governing them, and in particular:
 - the Audit Commission Act 1998;
 - the Code of Audit Practice (the Code) with regard to audit; and
 - the Local Government Act 1999 with regard to best value inspection and audit.
- 4 The Code defines auditors' responsibilities in relation to:
 - the financial statements of audited bodies; and
 - audited bodies' arrangements for securing economy, efficiency and effectiveness in their use of resources. Auditors are now required to draw a positive conclusion regarding the Council's arrangements for ensuring value for money in its use of resources. We will give the first such conclusion by 30 September as part of the 2005/06 audit.

The fee

- 5 For 2006/07 the Audit Commission has changed its fee scale structure and details are set out in the Commission's Work Programme and Fee scales 2006/07. Audit fees are based on a number of variables, including the type, size, location and complexity of the audited body and the national and local risks.
- 6 Inspection fees are based on the actual number of days included in the plan for each programmed activity.
- 7 The total fee estimate for the audit work planned for 2006/07 is £212,227 and the total fee estimate for inspection work planned for 2006/07 is £49,780. This compares with a planned total audit and inspection fee in 2005/6 of £256,000. The fee increase has been restricted to inflation only unlike at many other councils where there has been an additional increase to fund the additional costs of implementing international auditing standards.
- 8 In addition, we estimate that we will charge approximately £85,000 for the certification of claims and returns. Further details are provided in paragraphs 34 and 35 and in Appendix 1
- 9 The audit and inspection fees include all work identified in this plan unless specifically excluded. Further details are provided in Appendix 1 which includes specific audit risk factors, the assumptions made when determining the audit and the process for agreeing any additional fees.
- 10 Changes to the plan and the fee may be necessary if our audit risk assessment changes during the course of the audit. This is particularly relevant to work related to:
 - the opinion on the 2006/07 accounts since we have yet to audit the accounts for 2005/06 and detailed financial reporting requirements for 2006/07 are not yet known; and
 - work on selected performance indicators, since we have yet to assess your overall arrangements for securing the quality of this data and then to undertake a formal risk assessment.
- 11 We will formally advise you if any changes to the fee become necessary.

CPA and inspections

- 12 We have applied the principles set out in the new CPA framework, CPA-the harder test recognising the key strengths/weaknesses in the Council's performance. These include the following.
- Although the new` corporate assessment has shown the Council moving from three to two, the Commission's protection arrangements mean that the assessment is left at a three until all councils have been assessed in 2008. The direction of travel was improving adequately.
 - The Council is investing in some priority areas and overall the majority of performance indicators improved, with 31 per cent in the top quartile. The Council works well with partners. Performance management and monitoring is not yet fully embedded and some service plans in key priority areas such as caring for children are not well embedded. The Council is employing consultants to help tackle issues in social care raised in the JAR report.
 - The Council is receiving support from the Planning Standards Authority.
 - Cultural services have not been inspected for some time. This service scored two (out of a possible) four stars and it is accepted that this area is in need of inspection.
- 13 As a consequence our inspection activity will focus on the following in 2006/7.

Table 1 Summary of inspection activity

Inspection activity	Reason/impact
Relationship Manager role	To act as the Commission's primary point with the authority and the interface at the local level between the Commission and the other inspectorates, Government Offices and other key stakeholders.
Direction of Travel review	To provide focus for continuous improvement and to include in CPA scorecard. Specifically we will monitor progress, alongside CSCI, of the Council's improvement plan. We will also review progress in planning services.
Culture inspection	To review effectiveness of cultural services

Summary of key audit risks

- 14 This section summarises our assessment and the planned response to the key audit risks which may have an impact on our objectives to:
- provide an opinion on your financial statements;
 - provide a conclusion on your use of resources;
 - provide a scored judgment on the use of resources to feed into the CPA process;
 - undertake audit work in relation to specified performance indicators to support the service assessment element of CPA; and
 - provide a report on the Council's best value performance plan (BVPP).
- 15 In assessing risk we have have considered potential cross cutting work, and considered the Audit Commission's area profiles.
- 16 Our planned work takes into account information from other regulators, where available. Where risks are identified that are not mitigated by information from other regulators, or your own risk management processes, including Internal Audit, we will perform work as appropriate to enable us to provide a conclusion on your arrangements.

Value for money conclusion

- 17 The Code of Audit Practice requires us to issue a conclusion on whether you have proper arrangements in place for securing economy, efficiency and effectiveness in the use of your resources (the value for money conclusion). The Audit Commission has developed relevant criteria for auditors to apply in reaching our value for money conclusion as required under the Code of Audit Practice. These criteria are listed in Appendix 2. In meeting this responsibility, we will review evidence that is relevant to the Council's corporate performance management and financial management arrangements. We will give the first such conclusion by the end of September 2006 as part our audit of the 2005/06 accounts. This may influence our risk assessment for similar work to be carried out as part of the 2006/07 and we will keep you informed of any changes to this plan that may become necessary.

Use of resources judgement

- 18 Over and above the Code requirements described above, the Audit Commission requires auditors to make more qualitative assessments of the effectiveness of those arrangements in the form of a series of use of resources judgements. The key lines of enquiry (KLOEs) issued in June 2005 will be updated in spring 2006 to reflect the lessons learned from the first year's experiences of applying the KLOEs, following a post implementation review of the assessment. Our fee estimate 2006/07 assumes that the KLOEs will be broadly similar to those used in 2005/06. If this changes we will discuss with you the implications, including any impact on the fee.
- 19 These judgements may also be used by the Commission as the basis for its overall use of resources judgement.
- 20 Using our cumulative knowledge and experience, including the results of previous work and other regulators' work, we have identified the following areas of audit risk to be addressed.

Table 2 Summary of use of resources audit risks

Audit risk	Response
Anti fraud and corruption arrangements have improved in the last year and this has included member training. There has been little officer training.	Carry out work on developing the ethical governance framework which may include an internet-based survey and workshop.
The Council is in process of restructuring which may lead to short-term impact on Council performance or potential severance.	Review any proposals for redundancies and monitor impact of change on the performance of Council.
There is a large overspend in adult social care in 2005/6, as was the case in 2004/5. This has been compensated for by under-spends elsewhere in the Council. The Council is planning to address these issue in 2006/07 through a variety of measures including changes to the base budget.	Follow up of work on financial management which will feed our use of resources judgement.
Waste management PFI arrangements have yet to be agreed and there remains a risk that the contract could terminate.	Continued watching brief including attendance at regular briefing updates at Worcestershire County Council for both sets of auditors involved.

Audit risk	Response
Delivery of e-Government continues to be central to the achievement of the Council's corporate aims. Recent work has highlighted improvements in e-government arrangements. The developing ICT strategy will be integral to the successful delivery of the Herefordshire Connects programme.	We are following up our recent report as part of 2005/6 audit later this year. The follow up will include the development of the new ICT strategy.
2006/07 is the first year of the Herefordshire Local Area Agreement (LAA) through which very considerable sums of partner money will be channelled. The Council is the lead body for the LAA and is developing new governance arrangements.	Review new governance arrangements for the local area agreement.
Performance monitoring arrangements were highlighted in the recent CPA and Joint Area Review (JAR) as in need of further improvement.	Review of revised performance monitoring arrangements including data quality in social care and the role of scrutiny. We will also give a presentation on the role of the Member to councillors.
Our recent work on pooled budgets (section 31 agreements) highlighted several risks including strategy, commissioning arrangements, the partnership agreement and associated monitoring arrangements.	Follow up action plan on 2005/06 report on pooled budgets.
The Council is developing a strategy for the rationalisation of accommodation as part of the Herefordshire Connects programme.	Watching brief of development of strategy including any proposals such as asset disposal/developments at Plough Lane.
The Council has identified the need for considerable efficiency savings in the short and medium term due to constraints on resources. The Herefordshire Connects programme is to deliver this alongside improvements in service quality.	Monitor progress of this programme including delivery of efficiencies. This will feed into the use of resources judgement.

Performance information

- 21 In 2006/07, auditors are required to undertake audit work in relation to specified performance indicators to support the service assessment element of CPA, subject to the basis of the agreed methodology. This work will be risk based and will link at least in part to our review of the Council’s overall arrangements to secure data quality (as required for our value for money conclusion). Our fee estimate includes an element for this work on the basis that we will assess Herefordshire Council as medium risk in relation to its performance indicators.
- 22 This risk assessment may change depending on our assessment of your overall arrangements. When we have finalised our risk assessment we will update our plan including any impact on the fee.

Best value performance plan

- 23 We are required to report on whether or not you have complied with legislation and statutory guidance in respect of the preparation and publication of your best value performance plan (BVPP).

Financial statements

- 24 We will carry out our audit of the 2006/07 financial statements and follow the International Standards on Auditing (UK and Ireland).
- 25 We are also required to review whether the Statement on Internal Control has been presented in accordance with relevant requirements and to report if it does not meet these requirements or if the statement is misleading or inconsistent with our knowledge of the Authority.
- 26 On the basis of our preliminary work to date we have identified the following audit risks.

Table 3 Summary of Opinion risks

Opinion risks	Response
The statement of internal control(SIC) was not owned corporately and was not adequately supported by an assurance framework. The Council has recently set out a planned improved approach.	Provide support to the Council in developing a robust assurance framework to support its SIC.

Opinion risks	Response
The changes in the waste management PFI have not yet been agreed. These may change the transfer of risk and therefore require new consideration of the correct financial reporting.	Review accounting treatment when changes to the PFI scheme are agreed.

- 27 Our fee estimate for 2006/07 is based on the assumption that the current standard of working papers will be delivered and that Internal Audit will complete their planned work on key information systems to the agreed quality and by the agreed date and that the accounts will be prepared and fully supported by working papers by the notified start of post statements audit.
- 28 We have yet to undertake the audit of the 2005/06 financial statements and our 2006/07 financial statements audit planning will continue as the year progresses. This will take account of:
- the 2005/06 opinion audit;
 - our documentation and initial testing of material information systems;
 - our assessment of the 2006/07 closedown arrangements; and
 - any changes in financial reporting requirements.
- 29 When we have finalised our risk assessment in respect of your financial statements, we will update our plan in advance of the audit detailing our specific approach, including any impact on the fee quoted above.

Whole of government accounts

- 30 The government is introducing whole of government accounts (WGA) in order to produce consolidated accounts for the whole public sector. WGA will include the accounts of local authorities and WGA data returns will be required to be audited. The Audit Commission is currently discussing the scope of the likely audit work with the NAO and other stakeholders. The fee for this work is not included in this plan and we will discuss this with the Audit Committee when further details are available.

Claims and returns certification

- 31 We will continue to certify the Council's claims and returns.
- Claims for £50,000 or below will not be subject to certification.
 - Claims between £50,001 and £100,000 will be subject to a reduced, light touch, certification audit.
 - Claims over £100,000 have an audit approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment would lead to a reduced audit approach for these claims.
- 32 Charges for this work are based on skill-related fees scales set out in the Audit Commission's work programme and fee scales 2006/07. Based on this, and on the assumption that the level of grant work will remain unchanged we estimate that the fees for grant certification work will be around £85,000.

Other information

Outputs from the audit and inspection plan

- 33 The expected outputs from our planned audit and inspection work are listed in Appendix 3.

The team

Table 4

Name	Title
E Cave	Appointed Auditor and Relationship Manager
T Tobin	Audit Manager
K Goodman	Area Performance Lead
G Morgan	Audit Team Leader

- 34 We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under auditing and ethical standards.
- 35 We comply with the ethical standards promulgated by the Auditing Practices Board and with the Commission's requirements in respect of independence and objectivity as set out at Appendix 4.

Appendix 1 - Audit and inspection fee

Table 5

Fee estimate	Plan 2006/07 (£)	Plan 2005/06 (£)
Audit		
Accounts	130,067	122,000
Use of resources	82,161	53,100
Total audit fee	212,228	175,100
Inspection		*
Relationship management	35,406	*
Service inspection	14,373	*
Corporate inspection	0	*
Total inspection fee	49,779	80,900
Total audit and inspection fee	262,007	256,000
Certification of claims and returns	85,000	90,000
Voluntary improvement work	0	0

* Comparative information is not available for 2005/06 due to the changed fee structure.

- 1 The total audit fee compared to the indicative fee banding equates to 8 per cent below mid-point.
- 2 The fee (plus VAT) will be charged in 12 equal instalments from April 2006 to March 2007.
- 3 The fee above includes all work contained in this plan except:
 - any work required in relation to the whole of government accounts ; and
 - any specific work required for CPA in 2006/07.

Assumptions

- 4 In setting the audit fee we have assumed:
 - you will inform us of significant developments impacting on our audit;
 - Internal Audit meets the appropriate professional standards;
 - Internal Audit undertakes appropriate work on all material information systems that provide figures in the financial statements sufficient that we can place reliance for the purposes of our audit recognising the shift in requirements introduced by the International Standards on Auditing (ISA);
 - officers will provide good quality working papers and records to support the financial statements by the start of the post statements audit, which will be agreed in advance;
 - officers will provide requested information within agreed timescales;
 - officers will provide prompt responses to draft reports; and
 - your Performance Indicators will be adequately prepared and reviewed.
- 5 The key lines of enquiry (KLOEs) issued in June 2005 will be updated in spring 2006 to reflect the lessons learned from the first year's experiences of applying the KLOEs, following a post implementation review of the assessment.
- 6 Where these requirements are not met or our assumptions change, we will be required to undertake additional work which is likely to result in an increased audit fee.
- 7 Changes to the plan will be agreed with you. These may be required if:
 - new risks emerge;
 - additional work is required of us by the Audit Commission or other regulators; and
 - there are any changes to financial reporting requirement, professional auditing standards or legislation which results in additional work.

Specific actions Herefordshire Council could take to minimise its audit fees

- 8 The Audit Commission requires its auditors to inform a council of specific actions it could take to minimise its audit fees. We have identified the following actions Herefordshire Council could take.
 - Ensure all internal work on which we will be relying is available for the agreed date.

Process for agreeing any changes in audit fees

- 9 If we need to amend the audit [or inspection] fees during the course of this plan we will firstly discuss this with the Director of Resources. We will then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee.

Appendix 2 – Criteria to inform the auditor’s conclusion on proper arrangements for securing economy, efficiency and effectiveness in the use of resources

Arrangements for establishing strategic and operational objectives

- 1 The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.

Arrangements for ensuring that services meet the needs of users and taxpayers, and for engaging with the wider community

- 2 The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.

Arrangements for monitoring and reviewing performance, including arrangements to ensure data quality

- 3 The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.
- 4 The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.

Arrangements for ensuring compliance with established policies, procedures, laws and regulations

- 5 The body has put in place arrangements to maintain a sound system of internal control.

Arrangements for identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working

- 6 The body has put in place arrangements to manage its significant business risks.

18 Audit and Inspection Plan | Appendix 2 – Criteria to inform the auditor’s conclusion on proper arrangements for securing economy, efficiency and effectiveness in the use of resources

Arrangements for ensuring compliance with the general duty of best value

- 7 The body has put in place arrangements to manage and improve value for money.

Arrangements for managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body

- 8 The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.
- 9 The body has put in place arrangements to ensure that its spending matches its available resources.
- 10 The body has put in place arrangements for managing performance against budgets.
- 11 The body has put in place arrangements for the management of its asset base.

Arrangements for ensuring that the audited body’s affairs are managed in accordance with proper standards of conduct, and to prevent and detect fraud and corruption

- 12 The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.

Appendix 3 – Planned outputs

- 1 Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

Table 6

Planned output	Start date	Draft due date	Key contact
Audit and Inspection Plan*	February 2006	31 March 2006	Audit Manager
BVPP opinion and PI audit memorandum	August 2007	October 2007	Audit Manager
Report on financial statements to those charged with governance (ISA 260)	August 2007	September 2007	Audit Manager
Opinion on financial statements	June 2007	September 2007	Audit Manager
Performance Management	September 2007	November 2007	Performance Lead
Local Area Agreements	TBA	TBA	Performance Leads
Ethical governance survey/workshop	TBA	TBA	Audit Manager
VFM conclusion	June 2007	September 2007	Performance Lead
Final accounts memorandum	July 2007	October 2007	Audit Manager
Annual audit and inspection letter (including direction of travel assessment)	October 2007	December 2007	Relationship Manager

* To be revisited during the year to reflect outcome of 2004/05 final visit and 2006/06 interim visit.

Appendix 4 – The Audit Commission’s requirements in respect of independence and objectivity

- 1 Auditors appointed by the Audit Commission are subject to the Code of Audit Practice (the Code) which includes the requirement to comply with ISA UKIs when auditing the financial statements. Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm’s independence and the objectivity of the audit engagement partner and audit staff. Standards also place requirements on auditors in relation to integrity, objectivity and independence.
- 2 The standards define ‘those charged with governance’ as ‘those persons entrusted with the supervision, control and direction of an entity’. In your case the appropriate addressee of communications from the auditor to those charged with governance is the Audit Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.
- 3 Auditors are required by the Code to:
 - carry out their work with independence and objectivity;
 - exercise their professional judgement and act independently of both the Commission and the audited body;
 - maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
 - resist any improper attempt to influence their judgement in the conduct of the audit.
- 4 In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors’ functions under the Code. If the Council invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under s 35 of the Audit Commission Act 1998.

- 5 The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:
- any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner or Regional Director;
 - audit staff are expected not to accept appointments as lay school inspectors;
 - firms are expected not to risk damaging working relationships by bidding for work within an audited body’s area in direct competition with the body’s own staff without having discussed and agreed a local protocol with the body concerned;
 - auditors are expected to comply with the Commission’s statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors’ conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors’ independence;
 - auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission;
 - auditors are expected to comply with the Commission’s policy for both the District Auditor/Partner and the second in command (Senior Manager/Manager) to be changed on each audit at least once every five years with effect from 1 April 2003 (subject to agreed transitional arrangements);
 - audit suppliers are required to obtain the Commission’s written approval prior to changing any District Auditor or Audit Partner/Director in respect of each audited body; and
 - the Commission must be notified of any change of second in command within one month of making the change. Where a new Partner/Director or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual’s relevant qualifications, skills and experience.

FOLLOW UP OF AUDIT COMMISSION RECOMMENDATIONS

Report By: Principal Audit Manager

Wards affected

County-wide

Purpose

To inform Members on the current position in relation to follow up action on past Audit Commission report recommendations.

Financial Implications

None

Reasons

Previously the Audit Commission discussed the issue of agreement and implementation of Audit Commission recommendations with the Director of Resources and the Principal Audit Manager.

Considerations

1. In the past it was unclear whether the Council was fully addressing all recommendations from the work that the Audit Commission carried out. As previously reported to the Audit Committee, the Audit Commission was carrying out at stock-take of outstanding recommendations it wishes to see pursued.
2. The stock-take has now been completed and identified recommendations made as part of 2004/05 audit (excluding those relating to Internal Audit) that require action.
3. On 7th April 2006 the Audit Committee approved formal procedures for dealing with Audit Commission reports, which included informing the Committee on progress being made on recommendations.
4. The Action Plan at Appendix 1 sets out the recommendations that the Audit Commission have identified from past reports that now require action, with the current status and actions and deadlines proposed by management.
5. Progress on the action plan will be reported to the Audit Committee.

Risk Management

6. The Council now has in place a Statement of Internal Control Assurance Framework, which was approved by the Audit Committee. Part of the process involves actions that arise from the Council's Annual Audit and Inspection letter

and associated reports. Lack of action on the Council's part could have an adverse effect on the Council's Use of Resources score at the next assessment.

RECOMMENDATIONS

THAT the action plan on the Follow up of Audit Commission Recommendations at Appendix 1 to the report be endorsed.

BACKGROUND PAPERS

- CIPFA guidance on the Statement of Internal Control.

Action Plan-Follow up of Audit Commission Recommendations

	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	Recommendations from 2004/05 Audit Commission Reports					
	<i>Procurement Report</i>					
R1	<i>implement an effective working relationship between the political and managerial lead of procurement in order to provide effective leadership and strategy</i>	High	Procurement and Efficiency Review Manager	yes	This is linked to Herefordshire Connects. The integrated back office work stream includes procurement. An OJEU notice for the Herefordshire Connects Programme will be placed shortly. New post in the Resources Directorate. The post is currently vacant. The post will be treated as self funding and should be filled by September 2006.	March 07
R2	<i>Implement the corporate procurement strategy, ensuring actions are clearly outlined, responsibilities allocated and timetables established.</i>	High	Procurement and Efficiency Review Manager	yes	This is linked to Herefordshire Connects. The integrated back office work stream includes procurement. An OJEU notice for the Herefordshire Connects Programme will be placed shortly. New post in the Resources Directorate. The post is currently vacant. The post will be treated as self funding and should be filled by September 2006.	March 07
R3	<i>Establish a centre of procurement expertise which easily provides procurement strategy and operational advice and best practice.</i>	High	Procurement and Efficiency Review Manager	yes	This is linked to Herefordshire Connects. The integrated back office work stream includes procurement. An OJEU notice for the Herefordshire Connects Programme will be placed shortly. New post in the Resources Directorate. The post is currently vacant. The post will be treated as self funding and should be filled by September 2006.	March 07
R4	<i>That a skills audit is carried out across the</i>		Procurement and Efficiency Review	yes	This is linked to Herefordshire Connects. The integrated back office work stream includes	March 07

Action Plan-Follow up of Audit Commission Recommendations

	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<i>carried out across the council, including members, and that as a result a training and development programme is developed and implemented</i>		Manager		procurement. An OJEU notice for the Herefordshire Connects Programme will be placed shortly. New post in the Resources Directorate. The post is currently vacant. The post will be treated as self funding and should be filled by September 2006.	
R5	<i>Undertake a review of all procurement procedures and practices across the council, using the information gained to design and implement best practice linked with the corporate strategy, training programme and Procurement guidance for staff.</i>	High	Procurement and Efficiency Review Manager	yes	This is linked to Herefordshire Connects. The integrated back office work stream includes procurement. An OJEU notice for the Herefordshire Connects Programme will be placed shortly. New post in the Resources Directorate. The post is currently vacant. The post will be treated as self funding and should be filled by September 2006.	March 07
R6	<i>Publish a guide to 'doing business with the council' on the internet and provide accessible guidance to councillors and staff on procurement procedures</i>	High	Procurement and Efficiency Review Manager	yes	This is linked to Herefordshire Connects. The integrated back office work stream includes procurement. An OJEU notice for the Herefordshire Connects Programme will be placed shortly. New post in the Resources Directorate. The post is currently vacant. The post will be treated as self funding and should be filled by September 2006.	March 07
R7	<i>Prepare and publish a</i>	High	Procurement and Efficiency Review	yes	This is linked to Herefordshire Connects. The integrated back office work stream includes	March 07

Action Plan-Follow up of Audit Commission Recommendations

	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<i>three to five year forward procurement plan</i>		Efficiency Review Manager		integrated back office work stream includes procurement. An OJEU notice for the Herefordshire Connects Programme will be placed shortly. New post in the Resources Directorate. The post is currently vacant. The post will be treated as self funding and should be filled by September 2006.	
R8	<i>Develop and implement a method for consulting suppliers and implementing improvements as a result</i>	High	Procurement and Efficiency Review Manager	yes	This is linked to Herefordshire Connects. The integrated back office work stream includes procurement. An OJEU notice for the Herefordshire Connects Programme will be placed shortly. New post in the Resources Directorate. The post is currently vacant. The post will be treated as self funding and should be filled by September 2006.	March 07
R9	<i>Design and implement evaluation processes including hard and soft measures of procurement processes in order to improve practice in real terms</i>	High	Procurement and Efficiency Review Manager	yes	This is linked to Herefordshire Connects. The integrated back office work stream includes procurement. An OJEU notice for the Herefordshire Connects Programme will be placed shortly. New post in the Resources Directorate. The post is currently vacant. The post will be treated as self funding and should be filled by September 2006.	March 07
	Core Process Review Report					
R10	<i>Internal Audit's 2005/06 fundamental systems</i>	High	Principal Audit Manager	Yes	The 2005/06 programme includes delivery of all	July 2005 to March

Action Plan-Follow up of Audit Commission Recommendations

	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<i>fundamental systems audit are delivered promptly, ensuring that all are completed by 31st March 2006 at the latest</i>		Manager		fundamental system testing between quarter two and quarter 4. The pressures in 2004/05 are not anticipated to be repeated during 2005/06.	2006
R11	<i>Budget holder data maintained in Cedar is brought up to date and then updated on an on-going basis for any changes in resources or responsibilities where relevant.</i>	Medium	Assistant County Treasurer (DK)	Yes	Action is being taken. The Cedar list of revenue budget holders will be fully updated by the end of June and Directors will be asked to confirm accuracy. A similar process is ongoing for capital budget holders which will similarly require Director confirmation. It is intend to repeat this exercise annually and service accountants have been briefed to keep the Cedar record as up to date as possible.	July 2006
R12	<i>Budget virements are separately identified, evidenced and authorised as recommended in the Assistant County Treasurer's memo.</i>	Medium	Assistant County Treasurer (DK)	Yes	Virement policies have now been reviewed and redrafted. These revised policies will be presented to CMB for approval. Once adopted there will be a separate indicator in Cedar enabling the identification of 'true' virements.	July 06

Action Plan-Follow up of Audit Commission Recommendations

	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<i>Financial Aspects of Corporate Governance Report</i>					
R13	<i>The Service Improvement Programme is supported by a monitoring framework to ensure that 'those charged with governance' are aware of progress and any action that is being pursued due to revisions in initial plans</i>	High	Assistant County Treasurer (AT)	Yes	See Cabinet Report 20/04/06– Herefordshire connects Programme Governance paragraph 37 to 47	
R14	<i>Ensure that budget monitoring, forecasting and reporting focuses on high risk, volatile areas such a Social Care and that effective 'early warning' systems are in place</i>	Medium	Assistant County Treasurer (DK)	part	The Council does examine all areas including the former Social care budgets. Delivery programme report to Cabinet on 25 th May will identify important risk management at front line plus increased frequency of budget clinics for Adult and Community Services. Date...	
R15	<i>Consider following up council wide 'mail shot' on fraud prevention and detection with targeted</i>	Medium	Tony Ford	Yes	Now part of the Council's induction programme. Identified as a training requirement for all Audit Services team	December 06

Action Plan-Follow up of Audit Commission Recommendations

	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<i>training</i>					
R16	<i>Ensure that the Anti Fraud and Corruption Policy available on the website is the final version</i>	Medium	Tony Ford	Yes	Completed 13/9/05	Implemented September 05
R17	<i>Priority is given to ensuring that the council complies with the requirements of the Proceeds of Crime Act 2002 and the UK Money Laundering Regulations 2003.</i>	Medium	Tony Ford	Yes	Procedures in place. Training given to relevant staff. Presentation to Audit Committee Members on procedure. The Assistant County Treasurer(R&B) has been given the role of Money Laundering Reporting Officer (MLRO).	Implement April 06
R18	<i>For future NFI data matching exercises the council's lead Financial Aspects Of Corporate Governance officer attends training provided by the Audit Commission prior to starting work on the matches</i>	Medium	Tony Ford	Yes	It would be helpful if we were informed of the training.	As advised by Audit Commission
R19	<i>Internal and external reporting protocols need</i>	Medium	Tony Ford	No	Protocols were in place at the time of the review this is borne out by the comments in the	

Action Plan-Follow up of Audit Commission Recommendations

	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<i>to be agreed for the outcomes of NFI data matching investigations</i>				management letter i.e. Although we conclude that appropriate arrangements were in place it was disappointing that the Council did not attend free training.	
	Financial Management follow up Report					
R20	<i>Ensure budgetary monitoring reports submitted to Members are accurate</i>	Medium	Assistant County Treasurer (DK)	Yes	Ongoing process	Ongoing
R21	<i>Review budgets from a zero base on a cyclical basis</i>		Assistant County Treasurer (DK)	In part	Adult services and Children Services do this, with other directorates considering their budget plans for the year in light of the approved budget.	Implemented
R22	<i>Document budget setting requirements for budget holders in one set of guidelines, which can be easily understood and digested.</i>	Low	Assistant County Treasurer (DK)	Yes	This will form part of the new Scheme of delegation. Discussions are underway with wide consultation on the format of such a document.	July 06
R23	<i>Include an evaluation of all risks that may impact upon the medium term budget within the budget assessment.</i>	Low	Assistant County Treasurer (AT)	Yes	Director of Resources report to Cabinet has started the process. They will also be included in the Medium Term Financial Strategy 2006/07 to 2008/09 that is currently in preparation.	July 06

Action Plan-Follow up of Audit Commission Recommendations

	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
R24	<i>Adopt a consistent and clear format for reporting the overall financial position and the forecast outturn.</i>		Assistant County Treasurer (DK)	Yes	Revised Integrated Performance report will be presented to Cabinet in July 06.	July 06
R25	<i>Identify both income and expenditure variances and forecasts in financial monitoring reports.</i>		Assistant County Treasurer (DK)	Yes	Completed with particular focus on volatile income such as Planning fees.	Implemented
R26	<i>Review budget profiling and ensure that all budgeted income and expenditure is monitored against profile.</i>	Low	Assistant County Treasurer (DK)	Yes	Review on annual basis next review due June 06. Profiling discussed at Corporate Finance Group on 5 th May 2006.	June 06
R27	<i>Report all significant variances from budget to members and the proposed action.</i>	Medium	Assistant County Treasurer (AT)	Yes	Will form part of revised Integrated Performance report will be presented to Cabinet starting July 06	July 06
R28	<i>Adopt a consistent approach to financial monitoring and reporting across the Authority.</i>	Medium	Assistant County Treasurer (AT)	Yes	Will form part of revised Integrated Performance report will be presented to Cabinet starting July 06	July 06
R29	<i>Central Finance lead financial awareness workshops for budget</i>	Medium	Assistant County Treasurer (AT)	Yes	This is being dealt with through the CPD Group. There are three levels of training and training sessions have been programmed.	September 06

Action Plan-Follow up of Audit Commission Recommendations

	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<i>holders which emphasizes the adoption of good practices already in place in parts of the Authority.</i>					
R30	<i>Reflect MTFS key priorities in the medium term budget</i>	Medium	Assistant County Treasurer (AT)	Yes	Report in progress	July 06
R31	<i>Link corporate priorities to the Medium term Financial Plan over the four years of the plan</i>	Medium	Assistant County Treasurer (AT)	Yes	Report in progress	July 06
	<i>R32Put in place a risk register that is monitored and used to assess the risk associated with corporate costs. Use to assist budgetary information.</i>	Medium	Assistant County Treasurer (AT)		Duplicates R23	July 06
R33	<i>Ensure that reporting the MTFS covers revenue and capital expenditure for the full period of the plan.</i>	Medium	Assistant County Treasurer (AT)	Yes	Report in progress	July 06

Action Plan-Follow up of Audit Commission Recommendations

	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<i>E Government Report</i>					
R34	<i>Ensure that the project management arrangements for the latest stage of the e-Gateway project comply with the Council's PRINCE 2 standards.</i>	Medium	Head of Information, Technology & Customer Services	Yes	<p>The Council contends that project management arrangements do comply with PRINCE 2 standards.</p> <p>An action plan is now in place to ensure the continual update of key documentation.</p> <p>Links will be placed in the PID to update its content to the working documents including SRB returns, benefits realisation etc.</p> <p>Change control procedures are now in place for all projects in accordance with PRINCE2 guidelines.</p> <p>The project manager is to undergo PRINCE2 training and the formal project review process that is in place with the Head of ICT and senior managers acts as a means of capturing any potential issues that may arise</p>	September 06
R35	<i>Develop and implement an e government communications plan to ensure that all stakeholders are appropriately informed and consulted.</i>	Medium	Head of Information, Technology & Customer Services	Yes	<p>An action plan is underway to involve even more closely Partnership stakeholders. Part of this will include an updated centralised communication plan. In addition, the Corporate Applications review, Customer Access Points and Customer Services Strategy implementation projects are being aligned with the e-Gateway Programme to ensure better communication to all stakeholders with a clear and consistent message.</p> <p>Stakeholder Management will be revisited during the e-Gateway Strategy work. Alignment of CAPS, e-Gateway and the Service Improvement</p>	September 06

Action Plan-Follow up of Audit Commission Recommendations

	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
					Programme will include a citizen consultation to determine priorities.	
R36	<i>Develop a strategic approach to the use of access channels across the Council to ensure appropriate, clear and consistent methods of access are available to citizens.</i>	Medium	Head of Information, Technology & Customer Services	Yes	Contained within draft Customer Service Strategy Connected to Herefordshire Connects	March 07
R37	<i>Ensure that appropriate partner information is easily accessible from the Council web site.</i>	Medium	e-gateway Programme Manager & Jennifer Watkins	Yes	The authority will ensure that Partnerships be made more visible on the site by moving the link to the homepage. Organisational responsibility will be allocated to appoint a department to ensure Partnership information is up-to-date and correct.	September 06
R38	<i>Provide contact email addresses on the web site for all services.</i>	High	Head of Communication	Yes	Generic email addresses for Council Website under review.	December 06
R39	<i>Develop and implement a corporate approach to the performance management of customer services to drive service improvement.</i>	High	Head of Information, Technology & Customer Services	Check	This is already underway. The Corporate Performance Management project is underway to ensure a consistent approach to improvement.	March 07
R40	<i>Review the implementation of the</i>	High	Head of Information, Technology &	Yes	CRM requirements gathering has now been completed across the entire organisation	March 07

Action Plan-Follow up of Audit Commission Recommendations

	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<i>implementation of the CRM system and assess the benefits of integration with back office systems.</i>		Customer Services		completed across the entire organisation. However, a corporate strategy review is underway and some of these requirements may alter.	
R41	<i>Develop a corporate approach to the use of ICT and e-government to address social inclusion that allows for shared learning and economies of scale.</i>	Medium	Herefordshire Connects Programme Board	Yes	The authority will incorporate this into the Corporate ICT Strategy project already underway	March 07

AUDIT COMMISSION REPORT - POOLED BUDGETS**Report By: Principal Audit Manager****Wards affected**

County-wide

Purpose

To note the Audit Commission's report on Pooled Budgets.

Considerations

1. The Audit Commission has requested that the attached report is presented to the Audit Committee.
2. The Audit Committee needs to consider how it intends to deal with this report.

Risk Management

3. The Council now has in place a Statement of Internal Control Assurance Framework, which was approved by the Audit Committee. Part of the process involves actions that arise from the Council's Annual Audit and Inspection letter and associated reports. Lack of action on the Council's part could have an adverse effect on the Council's Use of Resources score at the next assessment.

RECOMMENDATIONS**THAT the Committee considers how it would like to deal with the Audit Commission's report on Pooled Budgets.****BACKGROUND PAPERS**

- CIPFA guidance on the Statement of Internal Control.

Pooled Budgets

Herefordshire Primary Care Trust and Herefordshire Council

Audit 2004/2005

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

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

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

www.audit-commission.gov.uk

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Summary report

Introduction

- 1 Section 31 pooled budget arrangements are among the flexibilities offered by the Health Act 1999. They allow NHS organisations and local authorities to allocate funds to a joint budget for the furtherance of health and social care. This can be through joint commissioning or integrated provision. The use of pooled budgets is intended to support partnership working and result in service improvement through joining up existing services or developing new services.
- 2 The Audit Commission's recent report 'Governing Partnerships' noted the potential of pooled budgets to bring clarity of purpose to partnership working. However, the report also notes that integration without clear protocols and agreements can reduce accountability and increase risks. To avoid these problems, and to create a clear and shared focus on users and value for money, partnerships need strong governance and accountability and well developed leadership, decision making, scrutiny and risk management. In the future, Local Area Agreements (LAAs) may offer better opportunities to help clarify relationships, based on shared outcome measures, and to manage risks.
- 3 The recently published government white paper 'Our health, our care, our say' notes that LAAs 'should be a key mechanism for joint planning and delivery'. It also states the intention to assist joint commissioning between health and social care by streamlining 'budgets and planning cycles between PCTs and local authorities, based on a shared outcome-based performance framework, and aligned performance assessment and inspection regimes'. Successful implementation of these reforms should help to address some of the frustrations of operating Section 31 agreements under current arrangements, with different planning and budgeting cycles and separate performance management and inspection regimes.

Background

- 4 Herefordshire PCT (HPCT) and Herefordshire Council (HC) were amongst the first in the country to develop section 31 agreements. There are currently five pooled budget agreements in place:
 - Mental health services (2002) - integrated provision and lead commissioning of adult and older people's mental health services (hosted by the PCT);
 - Learning disabilities (2002) - integrated provision and lead commissioning (hosted by HC);
 - Kington Court (2002) - joint commissioned service from independent sector provider;

- Hillside Intermediate Care Unit (2003) - joint health and social commissioned intermediate care with PCT as provider; and
 - Integrated Community Equipment Services (2004) - joint provision.
- 5 In 2004/05 there were overspends on the budgets for mental health (£334,000 on a £17.4 million budget) and learning disabilities (£1.5 million on an £10.8 million budget). Both services have experienced pressures from overall increased demand, and the use of placements. The position in learning disabilities reflects pressures which are occurring nationally as set out in the recent report from the Association of Directors of Social Service (ADSS) on 'Pressures in Learning Disability Services.' The main cause of the mental health overspend was pressure on social care placements, mainly for older people. Additional cost pressures have arisen in mental health from costs of locum consultant cover, use of agency nurses and implementation of NICE guidance.
 - 6 The future arrangements for the services currently provided by the PCT will be subject to change in the light of the Department of Health's proposals as set out in 'A Patient led NHS'. Mental health services and learning disability services in particular have been subject to debate and further review. The exact configuration has yet to be agreed but in due course the services may become part of a Foundation Trust. The implications of this for pooled budget arrangements are unclear.
 - 7 The PCT, in its response to the West Midlands consultation on the changes sees an opportunity for closer integration of functions with HC.

Objectives, scope and audit approach

- 8 The objectives of this audit were to provide an overview assessment of the arrangements in place to manage the performance and ensure effective use of resources and integrated provision in the services covered by the pooled budget agreements for learning disabilities and mental health. We reviewed the arrangements for:
 - securing strategic and operational objectives;
 - ensuring that services meet user needs;
 - monitoring and reviewing performance; and
 - managing resources and achieving value for money.
- 9 The report draws on the good practice set out in the Audit Commission's recent report on 'Governing Partnerships' (October 2005).
- 10 The assessment will inform our judgements as part of the Auditors Local Evaluation (ALE) for the PCT. If further audit work is indicated this will be discussed as part of future audit planning.

Main conclusions

- 11 Our overall conclusion is that the integrated health and social care services for mental health and learning disabilities are delivering some benefits to service users. Further potential benefits could be realised by treating the budget more as a pooled resource. Currently some parts of the budget are managed as separate health and social care elements.
- 12 In response to the overspend in learning disabilities, a fundamental review of key elements of service provision is being carried out with the aim of providing more targeted and cost effective services. In mental health, efficiencies are being achieved across the integrated services, but a more strategic approach to managing the pooled fund is needed to ensure that resources are appropriately targeted. In both areas these need to be supported by strengthened commissioning arrangements and stronger partnership agreements which incorporate clear measurable outcomes, with associated monitoring mechanisms.

Securing strategic and operational objectives

- 13 Strategies for mental health and learning disabilities have included clear targets and milestones for delivery, based on national targets and guidance. These strategies are currently being updated to reflect new demands and pressures on the services and to improve the way services work together. To ensure the benefits from pooling budgets are realised the PCT and Council need to be clear about what they are trying to achieve, and how they will achieve it by working in partnership, and pooling resources.
- 14 Joint commissioning has been limited to date and this has been a major barrier to effective use of pooled funds in meeting strategic objectives. The commissioning role for both mental health and learning disabilities is being strengthened through new joint planning and commissioning structures. This should help to ensure a more strategic approach to the use of the overall pooled funds for these services.

Meeting user needs

- 15 There are mechanisms in place for obtaining service user feedback and involving service users and carers in service planning. Service users and carers have been involved and continue to be involved in development of service plans and strategies through the Local Implementation Team (LIT) and Valuing People Partnership Board. In the new planning structures this involvement will be via Reference Groups with wide stakeholder representation. Arrangements for ongoing feedback from service users are in place and should be used to inform performance monitoring and future service improvement and development. The PCT and Council need to ensure that effective communication with users and carers is maintained through the service changes and that the modernisation and focusing of services does not result in a deterioration of service provision.

- 16 There is a general view that service integration has benefited service users, although this has not been formally evaluated. Evidence includes fewer complaints about people being passed between services, and improvements in user satisfaction in mental health services. There is scope for better integration between elements of the service for example to provide an integrated mental health rehabilitation service.
- 17 The PCT and Council are working closely together to resolve barriers to integration but some challenges remain eg in agreeing arrangements for the permanent transfer of staff from one organisation to the other, the development of joint information systems and breaking down professional boundaries.

Monitoring and reviewing performance

- 18 Arrangements for performance monitoring and review are not fully effective in that there are not yet jointly agreed criteria against which the S31 partnerships can be evaluated to show that they are achieving benefits for service users. This is not helped by the separate national performance targets applied to health and social care.
- 19 Each service area is monitored against a range of performance indicators, mostly based on national health and social care targets. Performance monitoring is becoming more aligned with budget monitoring through the new Programme Boards. There have been some difficulties caused by separate information systems for health and social care but both agencies are working to resolve these. Integrated performance monitoring is made difficult by the separate health and social care monitoring systems at national level.
- 20 Actual performance is improving on most key indicators, but a more focused approach to performance management would enable the partners to work more effectively together to ensure that weaker areas are addressed.

Managing resources and value for money

- 21 The PCT and the Council have made considerable progress in working together to tackle some of the practical difficulties around budget monitoring and reporting. Along with tighter budget monitoring and control, each service area is actively seeking to address the issues which caused the overspends in 2004/05, in order to prevent a recurrence. Some of the steps being taken will not result in savings in year, but are essential for the long term sustainability of the services within current resources.
- 22 An interim agreement has been reached on risk sharing in the event of future overspends, with the intention in due course of the host organisations carrying the risk.
- 23 The budgets for the joint teams are integrated but for other parts of the service, such as placements and continuing care, health and social care elements of the budgets are managed separately. This may limit the ability to consider the budget in a more flexible way and use resources more effectively.

- 24 The current pressure on resources is forcing the services to consider value for money and a number of measures are being taken to improve efficiency as part of the recovery plans. There is scope for a more systematic and ongoing approach to ensure that value for money considerations are built into service planning, delivery and monitoring.

The way forward

- 25 The PCT and Council need to ensure that the pooled budget arrangements are supported by clear and updated agreements to reflect progress and new strategic priorities.

Recommendation

R1 To strengthen their partnership working through the pooled budget arrangements, the PCT and Council should update the Section 31 agreements for mental health and learning disabilities to reflect developments since the original agreements were made. These should include:

- *joint strategic priorities and expected benefits for service users;*
- *specific details of which resources are to be pooled and for what;*
- *financial management arrangements including risk sharing and reporting;*
- *performance management arrangements including joint targets and indicators and how and when they should be reported;*
- *arrangements for ensuring feedback from service users including joint complaints systems; and*
- *arrangements for ensuring value for money.*

- 26 Additional recommendations are made in the detailed report.

Detailed report

Securing strategic and operational objectives

- 27 *Strategies for mental health and learning disabilities have included clear targets and milestones for delivery, based on national targets and guidance. These strategies are currently being updated to reflect new demands and pressures on the services and to improve the way services work together. To ensure the benefits from pooling budgets are realised the PCT and Council need to be clear about what they are trying to achieve, and how they will achieve it by working in partnership, and pooling resources.*
- 28 *Joint commissioning has been limited to date and this has been a major barrier to effective use of pooled funds in meeting strategic objectives. The commissioning role for both mental health and learning disabilities is being strengthened through new joint planning and commissioning structures. This should help to ensure a more strategic approach to the use of the overall pooled funds for these services.*

Service strategies

- 29 Strategies for mental health and learning disabilities set out the plans for implementation of national frameworks:
- The National Service Frameworks (NSF) for Adult Mental Health;
 - The NSF for Older People (standard 7); and
 - Valuing People for learning disabilities.
- 30 The strategic direction of mental health services in Herefordshire was set out in the Mental Health Strategy, last updated in 2003. The Local Delivery Plan 2005 - 2008 (LDP) summarises key current initiatives and targets as well as priorities for the use of development monies. It notes that all autumn assessment plans, NSF and LDP plans are being combined into an overarching mental health delivery plan.
- 31 Strategies are currently under review. The review of the mental health strategy for adults is in response to the need to ensure that the new service models work together as a 'whole system' of mental health care. Lack of integration between mental health services was highlighted in a recent review of rehabilitation services.
- 32 For older people the strategy is being reviewed to address gaps in the current service as compared to the NSF standards. It is also taking into account epidemiological data predicting a significant increase the incidence of dementia in Herefordshire in the next ten years.

- 33 For learning disabilities, the Joint Investment Plan 2000-2004 set out Herefordshire's response to the Valuing People framework. The Joint Investment Plan has been superseded by the Valuing People Strategy. The Valuing People Partnership has agreed an overarching strategy for people with learning disabilities. Within this, the Learning Disabilities service is taking a strategic approach to reconfiguring and prioritising service provision to take account of changing demands as well as to meet the requirements of Valuing People. In response to the current pressure on the learning disabilities pooled budget, service modernisation plans are being developed with a view to providing a more cost-effective and targeted service. These should form the basis of a longer term health and social care service strategy.
- 34 It would be beneficial to provide a similar focus to the development of mental health services. Strategic objectives need to be delivered largely within existing resources. Development monies are available mainly for adult mental health and learning disability services. However these are considered insufficient to meet all requirements so decisions on priorities need to be taken.
- 35 For both mental health and learning disabilities services the service strategies need to be underpinned by medium term financial plans, setting out, where appropriate, how resources are to be redirected and used alongside development monies.
- 36 There are uncertainties facing the service, including the future provider arrangements, and the implications of the proposed new mental health Act. However a clear statement of strategic direction, based on assessed needs, user consultation and capacity planning, and linked to resource plans would help to ensure that mental health and learning disabilities services in Herefordshire continue to develop and meet local needs.

<i>Recommendations</i>
<i>R2 Agree a joint service strategy for learning disabilities setting out the specific health and social care contribution to the over-arching learning disabilities strategy.</i>
<i>R3 The PCT and Council should work together, and with other partners, to jointly agree future service plans for mental health for adults and older people. These should be prioritised according to assessed need and available resources and supported by medium term financial plans.</i>

Planning and commissioning structures

- 37 Although planning forums have successfully developed joint strategies, joint commissioning of the PCT's and Council's directly provided mental health and learning disabilities services has been limited. The PCT and Council have reviewed the planning and commissioning structures for adult services, including mental health and learning disabilities, with a view to improving the links between planning and commissioning to ensure that plans can be successfully implemented. Stronger commissioning should also help to ensure that the resources are used more effectively.

- 38 For mental health services, the key service planning and monitoring forums have been:
- the Local Implementation Teams (LITs) for Mental health and Older People, and their associated task groups. These have wide representation, including service users and carers, and are responsible for agreeing the strategies for implementation of their respective NSFs and for monitoring progress in implementation;
 - the Mental Health Section 31 Partnership Board. This oversees the management of the pooled budget and monitors both finance and performance; and
 - the Mental Health Operations Board - this oversees the operational delivery of mental health services.
- 39 The key planning forums for Learning Disabilities have been:
- the Valuing People Partnership Board. This is the equivalent of the mental health LITs and sets the wider strategic direction of Learning Disabilities services; and
 - the Learning Disabilities Section 31 Partnership Board.
- 40 The new structure is based on Programme Boards, which will focus on commissioning. There will be four of these, including one for mental health and one for learning disabilities. Implementation of strategic plans and service delivery will be done through Commissioning Plans. The Boards will be responsible for performance monitoring and reporting and will take on the governance arrangements previously held by the Section 31 Boards. The commissioning work of the Programme Boards will be informed by the work of reference groups, which will have wide stakeholder involvement and will take on the planning functions of the LITs. These, in turn, will be supported by time limited project groups set up to deliver specific pieces of work.
- 41 The developments provide the opportunity to extend commissioning to cover all services covered by the Section 31 agreements. Up to now the commissioning role of the PCT as lead commissioner for mental health has only covered external contracts, accounting for only £4.9 million of the £18.7 million pooled budget. There was no real strategic commissioning of the PCT and council's jointly provided services. The separation of the PCT's commissioning and provider functions will require a clear commissioning strategy for mental health. This will be particularly important to retain a strategic overview in the light of the move towards practice based commissioning.

Recommendation

R4 Ensure commissioning strategies for both mental health and learning disabilities services link to practice based commissioning.

Meeting user needs

- 42 *There are mechanisms in place for obtaining service user feedback and involving service users and carers in service planning. Service users and carers have been involved and continue to be involved in development of service plans and strategies through the Local Implementation Team (LIT) and Valuing People Partnership Board. In the new planning structures this involvement will be via Reference Groups with wide stakeholder representation. Arrangements for ongoing feedback from service users are in place and should be used to inform performance monitoring and future service improvement and development. The PCT and Council need to ensure that effective communication with users and carers is maintained through the service changes and that the modernisation and focusing of services does not result in a deterioration of service provision.*
- 43 *There is a general view that service integration has benefited service users, although this has not been formally evaluated. Evidence includes fewer complaints about people being passed between services; improvements in user satisfaction in mental health services. There is scope for better integration between elements of the service for example to provide an integrated mental health rehabilitation service.*
- 44 *The PCT and Council are working closely together to resolve barriers to integration but some challenges remain eg in agreeing arrangements for the permanent transfer of staff from one organisation to the other, the development of joint information systems and breaking down professional boundaries.*

Consultation with service users

- 45 The LITs and VPPB, and their associated task groups, include representation from users and carers. Their views are also championed by non executive directors and council members who are represented on a number of forums. For example, the Chair of the mental health Section 31 Partnership Board is also the Chair of the Carers Strategy Board.
- 46 There are a number of examples of user involvement in service planning.
- The joint PCT and council 'Involving People' team supports people to participate in service planning as well as activities to obtain service user views on an ongoing basis.
 - The Older People's mental health task group are currently reviewing the service, with the involvement of carers.
 - The Valuing People Partnership Board, which includes service user representation, has been kept up to date on the financial situation and has been able to comment on the proposals to reduce costs and given a steer on priorities. The People's Union have identified a member (with learning disabilities) to co-chair the Partnership Board.
 - The council has funded a Citizen's Advocacy post who liaises with the various user groups across the County.

- 47 In mental health, the Herefordshire Users Group (HUG) has recently disbanded. This could potentially have left a gap in user representation but the Involving People Team has been working with users eg through the Mental Health Regeneration Forum to maintain their input.
- 48 For mental health the main mechanism for ongoing feedback from service users is the annual patient survey, carried out by the Healthcare Commission. For learning disabilities there is no similar national mechanism for regular feedback. The partnership board is currently considering how to obtain feedback on an ongoing basis. Each of the Board sub-groups, addressing aspects of the White Paper 'Valuing People', has service users represented. The pilot of the Single Gateway Assessment is seen as an opportunity to obtain service user feedback.
- 49 Feedback is also obtained through complaints, which are dealt with by either the council or the PCT as appropriate, and through the PCT's PAL service. We have previously recommended to the PCT that the arrangements for jointly managing complaints be set out in the S31 agreements. This is not currently the case.
- 50 The PCT and council need to ensure that service users are able to have a say in agreeing priorities in the light of the service changes being planned to allow services to be managed within the financial constraints. Arrangements for communicating planned changes to service users and their carers should be agreed. A key challenge for the partners will be to ensure that there is no deterioration in provision.

Recommendations
<i>R5 Agree arrangements for jointly managing complaints and include these in the Section 31 agreements.</i>
<i>R6 Ensure that service users are able to contribute to the agreement of service priorities.</i>
<i>R7 Agree a communications plan as part of the modernisation process for learning disabilities.</i>

Benefits of service integration

- 51 The expected benefits of service integration are outlined in the Section 31 agreements, but are not translated into measurable objectives. The agreements note the expected benefits from service integration in very broad terms eg 'The partnership arrangements will lead to a health gain as defined by the Health Improvement Programme'. The agreements set out the intention to fully integrate assessment and care management, multi-disciplinary teams and management and support services. The pooling of resources was to allow maximum flexibility in the allocation of resources as part of one system and allow greater freedom for money to be invested or re-invested into priority service areas.

- 52 There has not been any formal evaluation of the benefits of service integration but interviewees were unanimous in the view that integration has provided benefits for service users in providing a single point of access and joint decisions on funding, without having to be passed from one agency to the other. Whilst the mechanics of managing the pooled budgets arrangements themselves have caused frustrations, it was generally felt that the pooling of funds had facilitated the integration, in that health and social care staff have access to a single source of funding.
- 53 Examples cited include fewer complaints from service users about being passed from one part of the service to the other, feedback from mental health service users that they don't see a difference between health and social care. In learning disabilities there has been positive feedback from service users on the community teams.
- 54 Whilst there may be good integration within teams, there does appear to be more scope for different teams to work more closely together and for better integration with other agencies. A recent review of mental health rehabilitation services noted the lack of communication between different components of the mental health services eg assertive outreach and Oak House (one of the rehabilitation facilities) and even worse communication between Oak House and Supporting People and Housing Services. The review found little evidence of a coherent overall model for the provision of rehabilitation, resettlement and recovery. The review of the mental health strategy (noted above) is intended to address the problem and ensure that the various components of the mental health service operate as a 'whole system'.
- 55 There have been some barriers to integration, for example staff still identifying with particular professional groups. In learning disabilities there is a move to break down the barriers between professional groups through the development of integrated systems for allocation, assessment and care management.
- 56 The current integrated teams are made up of staff from the host organisation (the PCT for mental health and the council for learning disabilities) and staff seconded from the other organisation. The secondment arrangements were due to terminate in September 2004 but have been extended while discussions have taken place about the full transfer of staff across from one organisation to the other. Difficulties with this process have stemmed partly from the differential terms and conditions of each partner, in particular with the introduction of Agenda for Change (AFC) for staff employed by the PCT. The terms under AFC are seen as more favourable than the equivalent 'job evaluation' process in the council. So, whilst mental health staff from the council are generally happy to move across to the PCT, learning disability staff have been more reluctant to move to the council. There are other factors involved - for example a perception by PCT staff that transfer will mean leaving behind the professional support structures of the PCT. The partners were working to address these issues although at the time of the audit they were unresolved.

- 57 There are a number of other barriers to integration, most of which the PCT and Council are not able to influence directly.
- Disparity in funding - health services have had significant investment, which has not been matched in social care in Herefordshire, as a low council tax area). Also the different way that the funding comes (local vs national).
 - Structural barriers eg different reporting structures - Council to Cabinet; PCT to PEC and Board.
 - Each agency is performance managed differently, with different targets in health and social care. There is concern that priority is given by service managers to the targets relating to the host organisation.
 - Information systems are not integrated.
 - Availability of suitable accommodation. Only recently have the health and social care staff from the older people's mental health team been located in one building.

Recommendation

R8 In updating the partnership agreements the PCT and Council should agree a joint supporting plan to tackle any remaining barriers to integration.

Monitoring and reviewing performance

- 58 *Arrangements for performance monitoring and review are not fully effective in that there are not yet jointly agreed criteria against which the S31 partnerships can be evaluated to show that they are achieving benefits for service users. This is not helped by the separate national performance targets applied to health and social care.*
- 59 *Each service area is monitored against a range of performance indicators, mostly based on national health and social care targets. Performance monitoring is becoming more aligned with budget monitoring through the new Programme Boards. There have been some difficulties caused by separate information systems for health and social care but both agencies are working to resolve these. Integrated performance monitoring is made difficult by the separate health and social care monitoring systems at national level.*
- 60 *Actual performance is improving on most key indicators, but a more focused approach to performance management would enable the partners to work more effectively together to ensure that weaker areas are addressed.*

Performance indicators, targets and monitoring arrangements

- 61 Both mental health and learning disabilities services are monitored against national targets and performance indicators. These are given a local interpretation through the PCT's Local Delivery Plan and the Council's Delivery and Improvement Statement (DIS). The focus of each organisation tends to be on the key targets which affect star ratings. For the Council these are the Performance Assessment Framework (PAF) activity and cost indicators. For the PCT, the Healthcare Commission star ratings targets, based on service process implementation. A national review carried out by the Valuing People Support Team in 2004 used a wide range of indicators to assess and compare the performance of Council's learning disabilities services.
- 62 There are specific health targets for learning disabilities incorporated into the PCT's LDP and monitored by the Health task group of the VPPB.
- 63 The PCT achieved a two star rating for its mental health services in 2004/5, an improvement from the previous years' one-star rating. All key targets were achieved and the PCT was in the top band in two of the three focus areas for the balanced scorecard indicators.
- 64 In 2004, the learning disabilities service (as part of the overall adult services) was rated as two stars with promising prospects. In the 2005 CSCI assessment for Adult Social Care Herefordshire was rated as 'serving some adults well' with 'uncertain prospects for improvement'.
- 65 The council performed well on a number of the indicators used in the Valuing People review in 2004.

- 66 As well as the nationally set targets and indicators, each service is working to the targets in the service strategies. These are agreed and monitored by the LITs for mental health and the VPPB for learning disabilities, through a system of quarterly reports and annual reviews, including for mental health the annual Autumn Assessment by the Strategic Health Authority.
- 67 The fact that the PCT and council have to report through the separate performance management systems operating for health and social care does not facilitate joint performance management. There is some concern that there is pressure for the joint service managers to give priority to the indicators relevant to their own organisation. This is demonstrated by the emphasis on the key health targets in reports to the mental health S31 Board. Information systems are geared towards one set of targets.

Recommendation

R9 The PCT and council should agree a joint set of targets and indicators for the integrated services and ensure that these are regularly reported to the partnership boards.

Managing resources and ensuring value for money

- 68 *The Audit Commission in its Governing Partnerships report highlighted the need for the Government to 'improve the integration of financial accounting frameworks and regulations to enable organisations working in partnership to report on joint expenditure and financial activity'. Better integrated systems would allow partnerships to align strategic and operational activity and develop effective performance management systems and processes. It should also provide a basis for assessing value for money. Partnerships will achieve value for money if they can achieve better outcomes for the same expenditure, or equal outcomes for less.*
- 69 *The PCT and the Council have made considerable progress in working together to tackle some of the practical difficulties around budget monitoring and reporting. Along with tighter budget monitoring and control, each service area is actively seeking to address the issues which caused the overspends in 2004/5, in order to prevent a recurrence. Some of the steps being taken will not result in savings in year, but are essential for the long term sustainability of the services within current resources.*
- 70 *An interim agreement has been reached on risk sharing in the event of future overspends, with the intention in due course of the host organisations carrying the risk. The budgets for the joint teams are integrated but for other parts of the service, such as placements and continuing care, health and social care elements of the budgets are managed separately. This may limit the ability to consider the budget in a more flexible way and use resources more effectively.*
- 71 *The current pressure on resources is forcing the services to consider value for money and a number of measures are being taken to improve efficiency as part of the recovery plans. There is scope for a more systematic and ongoing approach to ensure that value for money considerations are built into service planning, delivery and monitoring.*

Resources

- 72 *The initial contributions of each partner to the pooled budgets were based on historical allocations. Since then, the health contribution (for mental health) has increased at a greater rate than the contribution from social services. This is partly a result of the overall increased investment in the NHS, which has not been matched in local government.*
- 73 *The original and 2004/05 contributions of each partner for mental health and learning disabilities are summarised in Table 1.*

Table 1 Contributions to pooled budgets

The PCT contribution to mental health services has increased significantly

Pooled Budget	Partner	Original (2002) contribution £ million	2005/6 allocation £ million	Increase
Mental Health	Herefordshire PCT	8.2	13.3	62%
	Herefordshire County Council	3.5	4.1	17.5%
Learning Disability	Herefordshire PCT	2.7	3.0	10%
	Herefordshire County Council	5.6	6.3	13%

Source: Section 31 Agreements and 2004/5 Budget

- 74 For 2005/06 some investment has been made by both partners in response to the increased pressures on the mental health services. Mental health developments have been prioritised to ensure that they can be met within the available resources. There is a total of £700,000 development monies available for the next three years, together with money for additional prescribing costs. However, the cost of addressing priorities to meet star ratings targets has been estimated at £324,000 in a full year.

Budget allocations

- 75 The mental health budget has three elements:
- PCT provider - which covers the jointly provided health and social care mental health services for adults and older people (£8.6 million in 2004/05);
 - PCT commissioning - which includes external health providers, continuing healthcare and continuing nursing care (£4.8 million in 2004/05); and
 - Herefordshire Council - which includes community care placements and care homes.
- 76 The learning disabilities budget is similarly split into PCT and Council elements. For 2004/05:
- the council element included both directly provided and commissioned residential and home care services (£5.7 million);
 - the PCT provider element was mainly for the Southbank Close residential respite establishment. (£1.3 million + £273,000 contribution to health services staff); and

- the PCT commissioning element (£1.4 million for placements and independent bodies).
- 77 For learning disabilities the overspend of £1.5 million was entirely on the council element. For mental health most of the overspend was on the council element (£328,000) with an £86,000 overspend on the PCT commissioning element.
- 78 The fact that the budgets are currently split into health and social care (and that the overspends are seen by some as the result of historic and continuing underfunding from social services) does not encourage a partnership approach and true pooling of resources. Analysis of data from the Department of Health's listing of Section 31 agreements indicates that the Council's contribution, at 23 per cent of the total spend on mental health is not out of line with other areas. From a sample of twenty sites ranging from inner city to rural areas, the average contribution from social care was 20 per cent of the total budget for mental health. The allocation from social care is unlikely to increase significantly and, unless funding priorities for both health and social care are reviewed, both partners will need to work with the funding that they have. The learning disabilities service appears to be closer to accepting this, with plans to redesign services. To date, savings in mental health have been sought from efficiencies in the integrated provider services and tighter control on placements, but not from a consideration of overall service priorities and funding.
- 79 In the future, partnership arrangements in Herefordshire may develop, for example through Local Area Agreements, which could bring additional funding. In the meantime, to move forward under the current Section 31 agreements the partners will need to come to an acceptance of the contributions that each agency is able to make. This may mean reviewing which service elements are included in the pooling arrangements. In doing so, priority must be given to the needs of service users and consideration of alternative service models which may be able to meet those needs more cost effectively. In particular the scope to reduce external placements by developing local services, backed up by additional support for carers should be explored.

Recommendation

R10 The PCT and Council should review the current Section 31 agreements in the light of possible future developments in partnership working. If necessary they should review and agree which service elements should be covered under the Section 31 agreements, whilst considering whether alternative service models could reduce reliance on external placements and offer a more effective way of meeting user needs.

Budget monitoring

- 80 The service budgets for mental health and learning disabilities are managed by the operational managers, and budget monitoring is overseen by senior finance managers who are responsible to the Section 31 Officers in the PCT and Council. The use of the placement and continuing care budgets is overseen by joint health and social care panels.

- 81 The PCT and Council have been constrained by the different accounting regimes and cycles in health and social care eg with different month and year ends. During 2004 there were problems with the timeliness of reporting for both mental health and learning disabilities and overspends (particularly for learning disabilities) were not identified soon enough to take action. For Learning Disabilities, budget risks were identified and reviewed at regular 'budget clinics' - but this failed to re-align services sufficiently. The S31 finance managers have worked closely together to resolve the difficulties and move reporting timeframes together. This has allowed for more timely reporting which should allow the S31 Partnership Boards to identify and address problems more effectively in year.
- 82 The work to improve budget monitoring has included staff training and close working between finance and operational managers to get a better understanding of each element of the budget and to better identify impact of service delivery on financial forecasts. Monthly meetings are held to discuss performance against savings targets and agree any further action needed to address problems. The council is continuing to hold 'budget clinics' to discuss actions needed to mitigate the financial risks.
- 83 Arrangements are to be put in place to report performance on non financial indicators alongside budget monitoring.

Budget management

- 84 A balanced budget has been set for 2005/06 for Social Care but it makes assumptions including:
- Learning Disability Recovery Plan savings;
 - Risk Sharing Agreement on the pooled budgets; and
 - the deficit carried forward from 2004/05 of £714,000 will be held as a deficit. (This has now been written off).
- 85 Plans to reduce expenditure on learning disabilities services are summarised in a recovery plan. This notes plans to reduce expenditure through the redesign and development of the service. The modernisation process covers accommodation and support services, community teams and day opportunities. Opportunities to provide the services in a more cost effective way are being sought and the commissioning role has been developed to support this (see above).
- 86 However this redesign won't result in savings until 2006/07 and beyond. So the service needs to reduce current expenditure to reduce the potential overspend for 2005/06 as much as is achievable. A recovery plan paper in June listed £470,000 of potential savings in year from a range of measures including:
- £100,000 from re-negotiation of a supported living contract (to provide a lower level of service),
 - a reduction in day opportunities; and
 - £100,000 from use of the Learning Disability Development Fund (LDDF) and transfer of workers roles into community access services.

- 87 Savings have been achieved but have gone to minimise the base budget pressures on learning disabilities. The forecast outturn as at January 2006 stands at £874,000 over budget.
- 88 Further savings are being sought through reviewing placements, and for a small number of individuals to move them to placements offering better value for money. The council has carried out an analysis of existing placements to compare the costs of existing provision for individuals with similar levels of need and dependency. This cost comparison exercise has identified that, through more effective commissioning and procurement practices, the Council could potentially secure significant financial efficiencies.
- 89 However, there are some concerns about the capacity to undertake re-assessment of individuals receiving services from the learning disability team, due to staff vacancies. There is an expectation that review of individuals' needs will result in cost savings, although any associated reduction in service may adversely affect performance assessment indicators.
- 90 Herefordshire is participating in the national 'In Control' project. This allows for resources to be allocated to individuals based on complexity of need, and allows individuals to 'take control' of their own services by supporting them in putting together an individual package of care and support within the agreed financial resources. In other authorities it has been found to ensure that the allocation of resource is more in line with need.
- 91 The overspend on the mental health budget was in the council and PCT commissioning elements. Measures to tighten up on the number of placements will be key to containing expenditure within current resources. These have included quantifying the number of placements which are affordable, and tighter control of placements made. To support this, details of resources committed and turnover are reported to the S31 Partnership Board. Pressures from placements continue and have significantly increased the forecast outturn for 2005/06, which was £740,000 over budget at the end of December 2005.
- 92 For the longer term, the possibility of using the funding currently used for placements to provide services directly is being considered by the mental health service manager, working with the commissioning team.
- 93 In the short term, savings have been sought mainly from the PCT and joint provider element where there have been cost pressures from use of agency nurses, and locum consultants to fill vacant posts, and increasing drug costs associated with implementation of NICE guidance. The PCT has now provided additional funding for drugs.
- 94 Actions taken have included:
- nursing bank set up to reduce agency costs - resulting in a forecast saving of £157,000 for 2005/06 against the 2004/05 outturn;
 - monthly budget meetings (with social care attending);
 - team leaders and ward managers notified of budget problems and asked to assist in providing solutions;

- tighter control on non pay expenditure (approval by operational managers); and
 - limiting placements to urgent referrals.
- 95 Additional resources totalling £1.2 million have been committed to the pool in 2005/06. But cost pressures remain, for example the need for locum cover whilst recruiting for a consultant in old age psychiatry.
- 96 In the longer term continuing pressures on the social care element will arise from the increasing numbers of people with dementia.

Risk sharing

- 97 The original S31 agreements did not include agreements between the partners on risk sharing in the event of overspends. Both parties would like each organisation to take the full risk for the budget it hosts. However, the PCT is not currently willing to do this because of the issue around the relative contributions of each partner.
- 98 A compromise solution has been reached for 2005/6 for the mental health and learning disabilities pooled budgets. The host organisation will pick up the first £280,000 of any overspend and any additional overspend will be shared between the partners, according to their relative contribution to the budget.
- 99 From April 2006 both organisations hope to move to full host commissioner responsibility.
- 100 As noted above, unless both organisations accept the relative contributions, the issue of risk sharing may still cause friction. The solution may be to review what elements of the service budgets should be pooled in the first place.

Value for money

- 101 The current financial difficulties are providing an incentive to review the value for money of the services provided. This is happening in both mental health and learning disabilities. The measures being taken are detailed in the previous section.
- 102 Both organisations are seeking Gershon efficiency savings. In mental health this is being done through reviewing agency staff, staff:patient ratios on the inpatient unit, and seeking more cost effective agency arrangements for locum consultants. The crisis resolution team is starting to have an impact on acute admissions and length of stay on the adult wards.
- 103 Sickness absence rates are being reviewed across both organisations. In social care the service managers group is looking at Gershon efficiency savings across social care. This includes reviewing contracts and home care services.
- 104 The 'In Control' project in learning disabilities is a good example of a means of ensuring that resources are appropriately targeted in a way that meets the needs of service users.

- 105 Some use is made of benchmarking information. Available benchmarking information includes:
- unit costs of learning disabilities services including costs of residential and nursing homes and of home care;
 - numbers of out of sector/out of area placements in mental health and learning disabilities (West Midlands data collection);
 - reference costs for mental health; and
 - mental Health Financial Mapping data.
- 106 Support for developing effective and efficient working practices is available through the Care Services Improvement Partnership (CSIP) - via NIMHE for mental health and the Valuing People Support Team for learning disabilities. Although staff capacity for attending events is limited, service managers are able to access and share good practice examples.
- 107 To ensure that savings can be realised and best use is made of the pooled budgets in the future, value for money needs to be a key consideration in planning, delivery and monitoring of services.

Recommendation

R11 Agree mechanisms to secure and monitor value for money across the joint services including the use of value for money indicators such as unit costs and reference costs to identify and address problem areas. The scope for using the National Institute for Mental Health's (NIMHE) Ten High Impact Changes for Mental Health to improve efficiency should be explored.

Appendix 1 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	R1 To strengthen their partnership working through the pooled budget arrangements, the PCT and Council should update the Section 31 agreements for each service area to reflect developments since the original agreements were made. These should include:	3	Mike Metcalf/Jean Howard	Yes	This important and extensive piece of work which will start April 2006 will be completed by the 31 March 2007. It is envisaged, that Mike Metcalf will work with key Commissioners and Service Managers to address each bullet point and ensure this is reflected in the revised section 31 agreements. These will be ratified by the relevant Programme Boards.	31 March 2007
		3	Mike Metcalf/Jean Howard	Yes		
		3	<ul style="list-style-type: none"> • <i>joint strategic priorities and expected benefits for service users;</i> • <i>specific details of which resources are to be pooled and for what;</i> 	3	Brian Hanford/Andrew Tanner	Yes

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	<ul style="list-style-type: none"> <i>financial management arrangements including risk sharing and reporting;</i> 	3	B Hanford/Joint Commissioning Manager/Mike Metcalf	Yes	The Section 31 Agreements will outline the Risk Sharing Agreement and Risk Protocol.	30 September 2006
	<ul style="list-style-type: none"> <i>performance management arrangements including joint targets and indicators and how and when they should be reported;</i> 	3	Mike Metcalf/Jean Howard	Yes	The Programme Board will explore the development of Performance Management reporting and joint targets.	30 September 2006
	<ul style="list-style-type: none"> <i>arrangements for ensuring feedback from service users including joint complaints systems; and</i> 	2	Mike Metcalf/Jean Howard			31 March 2007
	<ul style="list-style-type: none"> <i>arrangements for ensuring value for money.</i> 	2	B Hanford/ Andrew Tanner/ Joint Commissioning Manager	Yes	Andrew Tanner and Brian Hanford to work with Joint Commissioning Manager (Adults and Community) to explore best value and benchmarking of services.	30 September 2006

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
10	R2 Agree a joint service strategy for learning disabilities setting out the specific health and social care contribution to the over-arching learning disabilities strategy.	3	Mike Metcalf	Y	A Valuing People Partnership Board Strategy has already been adopted. The next phase is to develop the LD Commissioning Plan and define the specific health and social care contributions.	30 September 2006
10	R3 The PCT and Council should work together, and with other partners, to jointly agree future service plans for mental health for adults and older people. These should be prioritised according to assessed need and available resources and supported by medium term financial plans.	3	Mike Metcalf/Diane Topham	Y	A detailed Commissioning Plan for adult and older adult mental health services has been mandated by the Programme Board and work will be led by Diane Topham in 2006/07.	31 March 2007

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
11	R4 Ensure commissioning strategies for both mental health and learning disabilities services link to practice based commissioning.	1	Mike Metcalf/Diane Topham/Bill Buck	Y	As per R2 and R3. These will link to practice-based commissioning as this develops.	31 March 2007
13	R5 Agree arrangements for jointly managing complaints and include these in the Section 31 agreements.	2	Helen Phillips/ACS Complaints Manager	Y		31 March 2007
13	R6 Ensure that service users are able to contribute to the agreement of service priorities.	1	Mike Metcalf	Y	This has already occurred in the development of the LD Strategy via the wider reference group, LD Newsletter, and a subsequent Stakeholder Day. The agreed process for the MH Commissioning Plan incorporates service user focus groups and extensive consultation through the wider reference group, including a stakeholder event in the summer.	Now/ ongoing.

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
13	R7 Agree a communications plan as part of the modernisation process for learning disabilities.	1	Mike Metcalf	Y	This has already been done, and communication is a standing item on the LD Commissioning Group's agendas.	Now/ ongoing
15	R8 In updating the partnership agreements the PCT and Council should agree a joint supporting plan to tackle any remaining barriers to integration.	2	Mike Metcalf/Jean Howard	Y		31 March 2007
17	R9 The PCT and council should agree a joint set of targets and indicators for the integrated services and ensure that these are regularly reported to the partnership boards.	3	Mike Metcalf/Jean Howard	Y	The Programme Boards have already commissioned regular progress reports on targets for each service.	Now/ ongoing

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
20	R10 The PCT and Council should review the current Section 31 agreements in the light of possible future developments in partnership working. If necessary they should review and agree which service elements should be covered under the Section 31 agreements, whilst considering whether alternative service models could reduce reliance on external placements and offer a more effective way of meeting user needs.	3	Mike Metcalf/Jean Howard	Y	As per earlier comments - this will form part of revising the agreements.	31 March 2007

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
24	R11 Agree mechanisms to secure and monitor value for money across the joint services including the use of value for money indicators such as unit costs and reference costs to identify and address problem areas. The scope for using the National Institute for Mental Health's (NIMHE) Ten High Impact Changes for Mental Health to improve efficiency should be explored.	3	B Hanford/ Andrew Tanner /Joint Commissioning Manager		<p>It is accepted that an exercise surrounding VFM, benchmarking and unit cost comparisons needs to be undertaken.</p> <p>In LD services this is already underway as part of an independent needs analysis and benchmarking exercise within the council.</p>	30 September 2006

AUDIT COMMISSION REPORT- REVIEW OF THE E-GOVERNMENT PROGRAMME

Report By: Principal Audit Manager

Wards affected

County-wide

Purpose

To present to Members the Audit Commission's report on the Review of the E-government Programme.

Considerations

1. The Audit Commission has requested that the attached report is presented to the Audit Committee.
2. The Audit Committee needs to consider how it intends to deal with this report.

Risk Management

3. The Council now has in place a Statement of Internal Control Assurance Framework, which was approved by the Audit Committee. Part of the process involves actions that arise from the Council's Annual Audit and Inspection letter and associated reports. Lack of action on the Council's part could have an adverse effect on the Council's Use of Resources score at the next assessment.

RECOMMENDATIONS

THAT the Committee considers how it would like to deal with the Audit Commission's report on the Review of the E-government Programme.

BACKGROUND PAPERS

- CIPFA guidance on the Statement of Internal Control.

Review of E-government Programme

Herefordshire Council

Audit 2004-2005

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

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

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

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Introduction

'E-government is not an end in itself. It is the heart of the drive to modernise government. Modernising local government is about enhancing the quality of local services and the effectiveness of local democracy.'

ODPM, The National Strategy for Local E-government, November 2002.

- 1 E-government means exploiting the power of information and communications technology to help transform the accessibility, quality and cost-effectiveness of public services. It can be used to revitalise the relationship between citizens and the public bodies who work on their behalf. E-government is more than technology or the internet or service delivery. It is about putting citizens at the heart of everything we do and building service access, delivery and democratic accountability around them. Local e-government is the realisation of this vision at the point where the vast majority of public services are delivered.
- 2 All local authorities are expected to achieve 100 per cent capability in electronic delivery of priority services, as defined by priority service outcomes (2004), by the end of 2005, in ways that customers will use. Between 2002 and 2005 the ODPM provided £675 million of e-government funding to help achieve this target.
- 3 During the financial year 2003/04, local government spent nearly £4 billion on introducing new technologies. Other funding departments have also invested significantly in increasing access to ICT and the internet to enable citizens to access services in new ways, and in improving systems in operation within councils.
- 4 However, the public sector as a whole does not have a good track record in delivering technology-based projects. Factors identified as barriers to success include:
 - large, complex projects with unrealistic goals;
 - inadequate specification and uncontrolled changes;
 - poor project management, often by inexperienced staff;
 - mismanagement of contractors and suppliers;
 - lack of benefits evaluation; and
 - political and multi-agency issues.
- 5 Although use of programme and project management methods cannot guarantee project success, adoption of sound project management practices, and having a framework within which to define objectives and manage inevitable change, should substantially reduce the risk of project failure.

Background

- 6 The Audit Commission's e-government review in March 2003 highlighted a number of weaknesses in Herefordshire Council's e-government programme arrangements, and during the course of 2003 there were increasing concerns about the council's ability to deliver its ambitious e-modernisation agenda.
- 7 Internal reports found that e-modernisation projects were poorly run and did not meet timescales or objectives. Sixty-two percent of users and customers canvassed expressed the view that e-modernisation was not delivering benefits. The scope and objectives of key projects were radically altered without the impact on benefits being adequately managed; lack of funding was a main cause for the reduction in scope.
- 8 By early 2004, the management of this programme had been fundamentally changed. New arrangements were put in place to ensure all ICT-related projects were run in line with the PRINCE2 method. A project and programme support office was being set up to co-ordinate standards and assurance arrangements. An audit of progress against BVPI 157 targets showed that compliance of 82 per cent had been achieved by April 2005.
- 9 As part of the audit programme, we therefore agreed with the Council to assess both the effectiveness of the new management arrangements and what the investment in e-modernisation and the achievement of BVPI 157 targets has meant for the people of Herefordshire.

Audit approach

- 10 We looked at the management of the e-modernisation programme and reviewed in detail one of its constituent projects, the e-Gateway project, against Office of Government Commerce good practice.
- 11 We assessed what impact the programme has had on the citizens of Herefordshire.
- 12 We did this by:
 - examining documents relating to the e-modernisation programme and the e-Gateway project;
 - completing assessment matrices to compare current arrangements against best practice;
 - providing a self assessment questionnaire on the user focus aspects of the programme which was completed by the Council; and
 - conducting interviews with key staff and members.

Main conclusions

- 13 Herefordshire Council is moving in the right direction in terms of its e-government programme. Following an internal review of the programme in 2004, delivery is now planned and controlled and tangible benefits are starting to become apparent. However, the Council is not as far advanced as we would expect given that over £8 million has been invested in e-government in Herefordshire over the last five years. The current state of development falls far short of the original vision for e-government, that '...by 2005 all citizens of Herefordshire will be able to interact effectively with a range of partnership services, at a time and place convenient to them, using a variety of communication channels'.

Management arrangements

- 14 The governance and management of the ICT service and e-government programme has been strengthened through the introduction of new structures and control standards by the new Head of ICT (who is now the Head of Service – Corporate and Customer Services). Improvements in project management arrangements and ICT procurement should mitigate future risk both of poor selection of ICT solutions and lack of control over poorly performing projects.
- 15 The membership of the information policy group and Herefordshire in Touch Programme Board has been rationalised and they are now ensuring the programme focuses on service improvements and benefits realisation. Members are becoming more engaged with e-government, but this is still at an early stage. Feedback from all the Council representatives we interviewed was positive, and there is increased confidence in the ability of the ICT service to deliver. However, this is tempered by the risk that the Council relies heavily on the Head of ICT to provide the impetus for ensuring the new arrangements are implemented and perform effectively.

Delivery – sample project

- 16 The e-Gateway project was selected for review as it has been running from 2001 and could therefore show the difference in project management effectiveness pre and post the change in management arrangements in 2004.

Phase 1 (2001 to April 2004)

- 17 This phase of the project was poorly managed. There was a lack of clarity over the organisation of and responsibility for the project; this is shown by the lack of key project documentation. Stakeholders were also increasingly unclear about the purpose of the project and their own roles.
- 18 The Council and Herefordshire Partnership recognised and accepted the inadequacies of the original arrangements and should be commended for taking decisive action to remedy them. However the project had been in existence for three years before the newly appointed Head of ICT identified that serious technical and governance problems warranted a fundamental review.

- 19 During this time nearly £600,000 had been spent on the project. Although the new project salvaged what it could from the original systems, investment in scoping and consultancy services was lost, in addition to the time spent by Council and stakeholder staff, much of which must have been wasted effort. The reputation of the Council with stakeholders also suffered from the failure to deliver.

Phase 2 (June 2004 to 2007)

- 20 The project was re-launched with additional funding of over £2.6 million from the Council and external bodies.
- 21 The project management arrangements put in place from June 2004 to May 2005 were of high quality and complied with the best practice standards we used for assessment. Products are now being delivered to plan. Improvements against targets are monitored and are being achieved.
- 22 However, since May 2005, when responsibility for the project changed, key project documentation has not been updated to reflect the new deliverables which are now planned until March 2007 and involve substantial expenditure. Compliance with the Council's PRINCE 2 standard has not yet been achieved on this stage of the project.

Recommendation

R1 Ensure that the project management arrangements for the latest stage of the e-Gateway project comply with the Council's PRINCE2 standards.

Impact on the community

Are e-government services based on consultation with and the needs of the community?

- 23 The Council works with partners in the Herefordshire Partnership and shares information to improve its understanding of community need. Direct consultation with citizens has been limited, but where relevant consultation has taken place there is evidence that it has informed decision-making, such as the siting of information kiosks. The Council has recognised, from its strategic review of the e-Gateway project, that regular communication with stakeholders is an area that needs improvement if it is to deliver services that meet the changing needs of its citizens.

Recommendation

R2 Develop and implement an e-government communications plan to ensure that all stakeholders are appropriately informed and consulted.

Does the e-government programme improve access to services that citizens need in ways they will use?

- 24 The Council has a range of access channels available, but to date the development of these has been unco-ordinated; access methods are therefore inconsistent and may be confusing to the citizen. Restricted and variable implementation of the CRM (customer relationship management) system across services means the Council has not realised full benefits from its investment and the impact on citizens is limited. E-government has not yet broken down departmental barriers in favour of the citizen experience; for example information on the website is very service specific and partner information is not yet readily available. Monitoring of performance against customer service standards is carried out by individual service managers and the Council does not have an accurate view of overall performance for improvement planning.

Recommendations

R3 Develop a strategic approach to the use of access channels across the Council to ensure appropriate, clear and consistent methods of access are available to citizens.

R4 Ensure that appropriate partner information is easily accessible from the Council website.

R5 Provide a means of electronic communication with all relevant services.

R6 Develop and implement a corporate approach to the performance management of customer services to drive service improvement.

Does e-government provision lead to improved service delivery?

- 25 The e-government programme is aligned with the Council's improvement plans and is being used to deliver service improvements. All IT and e-government related projects must now demonstrate to the information policy group that they will help achieve both e-government and service improvement targets and set out what benefits are anticipated. Investment is being made in the right 'building blocks' such as the network and training, to allow future improvements to be made. Business process re-engineering, together with the implementation of a new computer system has resulted in measurable improvements in revenues and benefits. However, there are still elements of the e-government programme, such as CRM, where fragmented implementation is leading to duplication of data entry and, therefore, higher costs.

Recommendations

R7 Review the implementation of the CRM system and assess the benefits of integration with back office systems.

Is e-government used to improve consultation with and the engagement of key stakeholders, service users and citizens?

- 26 The Council is making increasing use of web based consultation processes, and has recently purchased software that will allow it to co-ordinate the information and feedback from consultation exercises. The website is also used to promote face-to-face consultations. Access to democratic information, such as contact details and committee papers, is good.

Does e-government investment increase social inclusion?

- 27 ICT and e-government has been used in a number of ways to address social inclusion by different sections of the Council. Recent initiatives include improved access to e-services for young people in care and for people in rural areas and improved website accessibility. The Council's future plans in this area are not well defined and there is no evidence of a co-ordinated approach that would allow shared learning and economies of scale.

Recommendations

R8 Develop a corporate approach to the use of ICT and e-government to address social inclusion that allows for shared learning and economies of scale.

Appendix 1 – Management of the e-Gateway project

Introduction

- 1 The project to develop an e-Gateway for Herefordshire was first started in January 2001. Its aim is to provide a service delivery platform for Herefordshire Partnership organisations to meet their own funding, legislative, statutory and target objectives in delivering information and services via the Internet.
- 2 The project has been funded by Herefordshire Council and through external SRB funding, mainly from Advantage West Midlands (AWM), but also recently from Government Office West Midlands (GOWM). Stakeholder organisations, other than the Council, do not contribute financially.
- 3 The project was originally managed by the Herefordshire in Touch (HIT) Programme Board. However, delivery progress was slow and concerns were raised in 2003 about the adequacy of the management arrangements for the whole e-modernisation programme. The Council fundamentally reorganised the e-modernisation and ICT functions early in 2004, and by April 2004 the e-Gateway project was formally closed.
- 4 An independent review of the project was commissioned in April/May 2004 from an external consultancy. SOCITM validated the review process. The resulting strategic review was hard-hitting and concluded that:
 - the technology platform originally selected was not suitable and its future sustainability was in doubt;
 - there was a significant lack of due diligence in anticipated costs in the original selection process; and
 - management and control of the project was poor in the areas of strategic definition, communication and project team roles and responsibilities.
- 5 These conclusions were reported to the Herefordshire Partnership Board. As a result, it was decided to restart the project using a new technology platform, whilst recycling existing hardware and software where possible. A successful bid was made to AWM for further SRB funding and the project was restarted, using an experienced project manager from the external consultancy, in June 2004.
- 6 The first stage of the project was to implement the new technology platform and to migrate the existing websites. This was successfully completed in May 2005.
- 7 The project has now been taken over by an in-house project manager. It is anticipated that the project will run for another two to three years with deliverables planned to meet the milestones stipulated by the external funding requirements.

- 8 Deliverables and benefits are reported to the Council and to external funding organisations to show progress against:
- key performance indicators;
 - Herefordshire Council's IEG requirements;
 - the Herefordshire Partnership plan;
 - AWM regional goals; and
 - GOWM regional goals.

Project management method

- 9 The project has had four project managers to date; two on the original project and two for the re-started project.
- 10 Although the corporate project management method is PRINCE2, this standard had not been followed on the original project and there were inadequate project management controls and processes. An Internal Audit report in December 2003 found that there was a lack of fundamental project documentation needed to define the project and against which progress and controls should be monitored. This was confirmed by the strategic review in April 2004 which also found that stakeholders had no clear idea what the project was about, what it was intended to deliver and the role they needed to play.
- 11 A subset of PRINCE 2 was implemented for the re-started project in June 2004. Project monitoring requirements for the external funding bodies have also had to be complied with. The external project manager who ran the project until May 2005 was trained and experienced. The in-house project manager and his assistant, now in charge of the e-Gateway, are not trained in PRINCE2.

Issue	Good practice/information	Original project to April 2004	Current project July 2004
Business context			
<p>Has the requirement for the project been generated from a consideration of the:</p> <ul style="list-style-type: none"> • strategic context; • corporate plan; • corporate or departmental strategy; • likely costs; and • and benefits. 	<p>It is assumed that any project will start with the identification of a business requirement needing investment.</p>	<p>An Internal Audit (IA) report states the project was mandated in the modernisation programme brief (2002) as part of the HIT programme.</p> <p>However an 'e-Gateway strategic review' carried out by Xayce consultancy in April/ May 2004 states that the project had already been underway for 40 months at that point. This would mean it started in 2001. Discrepancies around the start of the e-Gateway can be attributed to lack of documentation from that period.</p>	<p>As part of the strategic review stakeholders were canvassed as to their expectations from the project. One of the options considered was to scrap the project completely.</p> <p>The results of the review were presented to the Herefordshire Partnership.</p> <p>The ambitions and key performance indicators that the project needs to deliver against are detailed in the benefits realisation model document.</p>

Issue	Good practice/information	Original project to April 2004	Current project July 2004
Feasibility			
<p>Has a feasibility study has been undertaken, where appropriate, and options researched, documented and considered?</p> <p>Have key suppliers been detailed and indicative costs made available?</p>	<p>This is a study usually undertaken to identify alternative solutions to a business problem or opportunity. It assesses if there is a business solution in the marketplace or if a product or service needs developing to meet the business requirements.</p> <p>Without this initial market research, considerable time can be wasted.</p>	<p>No documentation available.</p>	<p>A strategic review was carried out in April/May 2004 to determine if the original solution was:</p> <ul style="list-style-type: none"> • fit for purpose; and • worth further investment. <p>The method used for this exercise was then validated by SOCITM.</p> <p>A decision was taken on the basis of the final report (POL0185-002) to change the e-Gateway platform.</p> <p>This decision was signed off by the Herefordshire Partnership members in September 2004.</p>

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Issue	Good practice/information	Original project to April 2004	Current project July 2004
Business case			
<p>Has a detailed business case been prepared showing what is required and why?</p> <p>Has the business case been approved (by Committee/CE/CO/Project Board) before the project proceeds?</p>	<p>The business case should include the:</p> <ul style="list-style-type: none"> • objectives; • benefits; • criteria for success; • preferred option; • business justification; • business risks; • investment required; and • any potential return. 	<p>Bid documents for SRB funding were produced.</p> <p>The 2004 stakeholder analysis, carried out as part of the strategic review, concluded that 'there is no link between the strategic visions mandated in the bid documents and what actually needs to be delivered'.</p>	<p>A new bid for funding for 'e-Gateway phase 2' was submitted to AWM following approval of the way forward by the Herefordshire Partnership Board.</p> <p>This was approved in November 2004 subject to delivery milestones being achieved.</p> <p>Since 2004/05 European Regional Development Funding has also been agreed through a bid to GOWM.</p>

Issue	Good practice/information	Original project to April 2004	Current project July 2004
Funding			
<p>Has the organisation identified and agreed funding which is sufficient for the project to proceed?</p> <p>Have all likely costs (capital, one off, recurring) been identified?</p> <p>Has funding been agreed by those with the required level of authorisation for the investment?</p> <p>Has an investment appraisal been carried out and a decision made in line with the organisation's investment strategy?</p>	<p>Funding has been identified within the capital programme or from specific funds (for example modernisation) which are sufficient to meet costs identified in the business case and initial project plan.</p> <p>A comprehensive and realistic budget has been established which provides for all likely elements of cost associated with project management, including consultancy costs where appropriate.</p>	<p>For phase 1 of the project, until 2004, over £700,000 was provided from SRB, the Council and other public funds (see Appendix 2).</p> <p>The strategic review stated there was 'significant lack of due diligence in anticipated costs on selecting the technology platform'.</p>	<p>For the current project funding is from SRB, Herefordshire Council and ERDF (See Appendix 2). The other stakeholders do not contribute financially. Spend is detailed in the SRB quarterly monitoring returns submitted to the Performance Manager.</p>

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Issue	Good practice/information	Original project to April 2004	Current project July 2004
Project initiation document			
<p>Is a PID (or equivalent) available and containing the following elements:</p> <ul style="list-style-type: none"> • background; • project scope, objectives, approach; • quality plan and acceptance criteria; • risk log; • project and stage plans; • organisation and controls; • business case/feasibility study summary; and • communication plan? 	<p>The PID prepares the information necessary to decide whether there is sufficient justification to proceed with the project and sets out the plans and controls according to which the project will be run.</p>	<p>Although the project started in January 2003, a PID was not produced until July 2003. This did not contain all the elements that would be expected from a PID, and the document was not used.</p>	<p>A detailed PID was produced for the project to migrate to the new RedDot platform. This is of good quality and contains most key elements. The business case, objectives and anticipated benefits are not detailed in this document. These are held in other documents (strategic review, SRB bid and returns, benefits realisation model report). No up-to-date PID has yet been produced for the project that was handed over to in-house project managers in May 2005.</p>

Issue	Good practice/information	Original project to April 2004	Current project July 2004
Organisational structure			
<p>Has an organisational structure been agreed which defines responsibility, accountability and reporting structures for the project?</p>	<p>It is important to establish the organisation structure and roles and responsibilities at the PID stage, complete with job descriptions.</p> <p>This avoids potential conflict and duplication or omission of effort at a later stage if boundaries cross.</p>	<p>Reporting structures for the project were not clear.</p> <p>The project reported into the Head of e-Modernisation and the HIT Programme Board.</p> <p>The programme board contained up to 40 members and was too unwieldy for effective decision-making.</p> <p>The project also reported into AWM, via a programme manager to justify the SRB funding.</p>	<p>The reporting structure is detailed in the project PID.</p> <p>Reporting lines are complex due to the need to report to external funding bodies, stakeholders and to council management.</p>

Issue	Good practice/information	Original project to April 2004	Current project July 2004
Project board			
<p>Has a project board has been established which:</p> <ul style="list-style-type: none"> • has a project sponsor/executive; • includes user and supplier representatives; • does not contain more than six members; • has the appropriate authority to make project decisions (for example, can approve the cost of the project within predefined limits and can commit resources required by the project); and • understands and has agreed the responsibilities and specific tasks of the board and of each member? 	<p>Members of the project board need to understand, and preferably have awareness training in, their role and responsibilities.</p> <p>The project board also needs to commit to be available when needed to make project-related decisions.</p> <p>PRINCE2 recommends that the project board has between three and six members. A large project board can become unwieldy and inhibit decision-making.</p>	<p>A number of deficiencies in the roles and responsibilities for the project were identified from the stakeholder interviews carried out in 2004.</p> <p>‘The majority of stakeholders stated that they had no clear idea as to the ownership of the project, the roles they were supposed to take or who they should talk to about participation. There were no clear engagement or governance structures for people to refer to.’</p>	<p>The HIT programme board (eight people) is considered to be the project board, but this does not follow the PRINCE2 model.</p> <p>This board does not receive all project reports (for example highlight reports) from the project team, and reporting is done via a Programme Manager using the quarterly returns required by the external funding bodies.</p> <p>Project management reporting is sent to the Head of ICT and then to the Council’s management team for project management decisions (eg risk management). This structure is considered to work well.</p>

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Issue	Good practice/information	Original project to April 2004	Current project July 2004
Project manager			
<p>Is there a trained and/or experienced project manager who understands his/her responsibility is to:</p> <ul style="list-style-type: none"> • ensure the project produces the required products; • ensure products are of the required standard; • ensure tasks are completed within the specified constraints of time and cost; • report progress and risks to the Project Board; • assess and report on project risks? 	<p>This role is often assigned to available personnel within an organisation without the appropriate qualifications. This is recognised as a key reason for failure of many projects as Project managers have to learn their mistakes 'on the job' and are unsure of their responsibilities.</p>	<p>There were two project managers for the original project.</p> <p>PM1 – January 2003 to July 2003.</p> <p>PM2 – July 2003 to April 2004.</p> <p>The first project manager was a contractor who did not comply with PRINCE2 standards.</p> <p>The second project manager spent most of his time sorting out budget issues and closing down the project.</p> <p>There was little perceived support for project managers when unapproved purchasing decisions were made by departments.</p> <p>Stakeholders were unclear about who was running the project.</p>	<p>An external project manager was engaged from Xayce in June 2004 (having already carried out the re-scoping exercise).</p> <p>An in-house project manager took over the role in May 2005.</p> <p>The new project manager and his assistant are not trained in the PRINCE2 method though they both have experience of running projects to PRINCE2 standards.</p>

Issue	Good practice/information	Original project to April 2004	Current project July 2004
Project assurance			
<p>Have trained and/or experienced personnel been identified at the start of the project to undertake project assurance? Do they have sufficient independence from the project management team?</p>	<p>This is the independent monitoring of project progress on behalf of the project board. This can encompass business, technical and user issues.</p>	<p>Internal Audit (IA) carried out a review of the project dated January 2004 and a number of recommendations were made. However, this was hampered by:</p> <ul style="list-style-type: none"> • little project documentation being available; and • no access to information being collated for an internal review of the HIT programme. 	<p>One of the Council's project managers has project assurance responsibilities for major projects. A limited amount of work has been done to ensure the project manager is complying with council standards.</p>

Issue	Good practice/information	Original project to April 2004	Current project July 2004
Team and users			
<p>Are team members with the required level of expertise allocated to the project?</p> <p>Are these team members named on the project plan?</p> <p>Has the actual availability of these team members been checked and committed to?</p>	<p>Team members could include managers of affected services, support staff, IT representatives, users etc.</p> <p>When the project plan is signed off, this should commit the project board to ensure those staff are available at the required time. Actual, rather than theoretical, availability should therefore be checked.</p>	<p>No detail available on staff availability and skills.</p> <p>The Jan 2004 IA report showed tensions over the level of support between the Head of e-Modernisation and the then Head of ICT.</p> <p>ICT was not included in the decision-making on the original choice of platform and technical delivery was fragmented.</p>	<p>Roles and responsibilities of team members are now defined, with ICT involved as appropriate.</p> <p>The migration project had very tight and immovable timescales for some elements due to the need to comply with the new Freedom of Information Act that came into force in January 2005. Staff were required to work additional hours in order to complete content entry deadlines.</p> <p>For remaining projects, content entry will be the responsibility of site owners/users.</p>

Issue	Good practice/information	Original project to April 2004	Current project July 2004
Scope			
<p>Has the scope of the project been defined and agreed eg:</p> <ul style="list-style-type: none"> • the products and outcomes from the project; • whether any other project initiation requests address the same business need and whether they might be combined or interfaced; • existing processes, systems etc included; • organisations and user departments included within the project scope; and • what the project does not include. 	<p>Setting out the scope of the project at this stage helps to prevent 'scope creep'. This is where extra requirements are gradually added to the original project adding to its complexity and impacting on resource and timescales.</p> <p>This is one of the main causes of the failure of large projects.</p>	<p>There was a lack of clarity over what the e-Gateway was. There were a large number of stakeholders each with their own interpretation of how the e-Gateway would meet their needs.</p> <p>The re-scoping review found that 85 per cent of stakeholders 'had no clear idea of what the project would deliver'.</p>	<p>A strategy for the e-Gateway was developed in 2004 following the re-scoping exercise.</p> <p>Work packages and deliverables were defined. This was presented to the Herefordshire Partnership Board and included in the quarterly returns to the external funding bodies.</p> <p>A detailed PID for the agreed project was produced. This has not yet been updated to reflect the new deliverables post January 2005.</p>

Issue	Good practice/information	Original project to April 2004	Current project July 2004
Acceptance criteria			
<p>Have the key factors over which the product/service will be accepted been clearly defined eg:</p> <ul style="list-style-type: none"> • meeting statutory guidelines; • minimum acceptable quality; • when the outcome is acceptable (for example, smooth running for a given period); • availability; • impact on staff; • impact on the public; • security. 	<p>This should be used as a baseline for quality reviews when designing and testing.</p>	<p>The lack of clarity over scope and deliverables meant that no detailed acceptance criteria were set down.</p>	<p>No acceptance criteria are detailed in the PID.</p>

Issue	Good practice/information	Original project to April 2004	Current project July 2004
Risk management			
<p>Is a risk log is available summarising the following?</p> <p>All the events that may adversely affect the project have been identified and their probability assessed.</p> <p>Actions have been taken to reduce the probability and/or impact, or contingency plans have been put in place for if the event should occur.</p> <p>Ownership has been allocated to each risk.</p>	<p>Risk management addresses the likelihood of undesirable events and their potential impact. By successfully managing risk it is possible to reduce the likelihood of the event happening and/or reduce the harm done.</p>	<p>No risk log available for review.</p>	<p>A risk log was included as part of the regular highlight reports to the Head of ICT and Director of Policy and Community. Ownership was assigned and mitigating actions taken.</p> <p>The HIT Programme Board, although nominally the project board does not receive detailed project communications but only the quarterly returns. This is not an issue in itself as long as the documents all deliver the same messages at a level appropriate to the audience.</p>

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Issue	Good practice/information	Original project to April 2004	Current project July 2004
Communication			
<p>Is there is a clear plan for communicating project objectives, tasks and progress to:</p> <ul style="list-style-type: none"> • corporate management; • the project sponsor and project board; • the project team; • users and stakeholders; • suppliers; • contractors; and • other third parties? 	<p>It is difficult to ensure that there is adequate communication on requirements, progress and problems. Explicit communication plans and reporting channels and frequencies are therefore needed.</p> <p>The PID should identify how and when communication is appropriate, for example, meetings, newsletters, intranet, awareness raising workshops.</p>	<p>Poor communication was ranked as the number one issue on the original project. Stakeholders interviewed stated that inadequate information was provided on:</p> <ul style="list-style-type: none"> • what the project would deliver; • what services the project would make available; • who was responsible for specific elements of the project; • progress of the project and of work requested; and • reasons for delays or changing scope. 	<p>A decision was taken at the start of the Phase 2 project to limit communication with stakeholders to details of tangible deliveries in order to manage expectations.</p> <p>This is seen as an area for improvement (see Lessons learned in project closure report). The new project manager is to develop a communications plan but this is not yet available.</p>

Issue	Good practice/information	Original project to April 2004	Current project July 2004
Change control			
<p>Have protocols for handling changes to the project or specification been defined and agreed?</p> <p>Are roles and responsibilities for assessing and authorising change controls clear?</p>	<p>Changes to the original plans and requirements will inevitably be required.</p> <p>In order to control this and avoid 'scope creep' the protocols for managing changes should be defined at PID stage.</p> <p>Each change should be logged and its priority assessed against others by individuals with specific responsibility for this by the Project Manager.</p> <p>Once outside tolerance the Project Board must agree to increase resources, change the requirements or close the project.</p>	<p>No documentation on change control known of.</p>	<p>The project manager had delegated responsibility for authorising changes. This was not within tolerance constraints.</p> <p>The project manager produced quarterly SRB plans for the project that were reviewed and agreed by the Herefordshire Partnership.</p>

Issue	Good practice/information	Original project to April 2004	Current project July 2004
Project plan			
<p>Is there a high level project plan showing the major products of the project, when they will be delivered and at what cost?</p> <p>Is it included as part of the project initiation document (PID) for agreement?</p> <p>Does the project plan have short stages, each capable of delivering a product/service.</p> <p>Does the first stage show detail of resource, tasks, and deliverables?</p> <p>Is there a start and end date for each stage and for the project as a whole?</p> <p>Does the plan include milestone checkpoints for specific reviews of progress and risks?</p>	<p>The project plan is often produced initially as a high level document and then never amended.</p> <p>It should be monitored and updated throughout the lifecycle of the project and is a crucial document for the project board.</p>	<p>No project plan available to review.</p>	<p>A project plan was developed for the project that ran from July 2004 to March 2005. Delivery was made on target.</p> <p>For the project post-March there is a high level list of deliverables up to March 2006 and reporting is made to the funding bodies against these milestones.</p>

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Issue	Good practice/information	Original project to April 2004	Current project July 2004
Costs			
<p>Have proper mechanisms been established for the authorisation, coding and reporting of all project costs?</p>	<p>Project costs and forecasts must be monitored on a regular basis by the project manager to ensure that tolerance limits are not exceeded.</p>	<p>Spend against budget was detailed in the quarterly returns to the funding bodies. The strategic review found at the time of closure £583,790.80 had been spent on the project including IT services staff costs.</p>	<p>Spend against budget is detailed in the quarterly returns to the funding bodies.</p>
Documentation and filing			
<p>Is a filing system defined, including:</p> <ul style="list-style-type: none"> • documented structure; • responsibility for project filing; • version control; and • audit trails. 	<p>Where a project is taking place over several sites, and where different groups and organisations are involved, it is easy for project documentation to become fragmented. Each version of a document should have a unique version number and date. Documentation should be easily accessible by the project management team.</p>	<p>Little project documentation was produced. This was confirmed by the Internal Audit report on the project in January 2004.</p>	<p>Project filing is maintained in a documentation library on the intranet. This is now standard procedure for all projects. The new SAP system will eventually be used for storing and using project documentation.</p>

Issue	Good practice/information	Original project to April 2004	Current project July 2004
Project outcome			
<p>Has the project initiation document (and any approved updates to this) been examined to check the actual results and benefits of the project against expectations?</p> <p>Where a project has been closed prematurely, has what has been achieved been documented?</p> <p>Have follow on action recommendations been made, where appropriate?</p>	<p>In many projects the anticipated benefits are 'oversold' when developing the business case in order to secure funding. Project team members are then reluctant to compare actual outcomes against what they originally proposed. This does need to be done, however, as part of the process of 'continuous improvement'.</p>	<p>The outcomes of the original project were too high level and vague to be useful for measuring outcomes.</p> <p>There was no PID against which outcomes could be measured.</p> <p>When the project was closed in April 2004, only one website (PLEA) had been developed.</p>	<p>Achievement against milestones is reported to the funding bodies in the quarterly monitoring reports.</p>
Lessons learned report			
<p>Were lessons learned reports produced for each stage of the project?</p> <p>Following the internal review of the project, has a final report been prepared and made available outside the project (for example, to the organisation's quality assurance team)? This should be used by future projects.</p>	<p>Each organisation should learn from its experiences, both good and bad, in order to make continuous improvements.</p> <p>A corporate group should be responsible for maintaining lessons learned information from each project so that good practice and information on potential risks can be shared across the whole organisation.</p>	<p>No lessons learned report available for review from the original project that was closed in April 2004.</p> <p>However, the re-scoping exercise gathered together all the weaknesses of the original project and documented these in the strategic review document.</p>	<p>Included in the project closure report (May 2005). See below.</p>

Issue	Good practice/information	Original project to April 2004	Current project July 2004
End project report			
Has an end project report been prepared for the project board?	The end project report should set out how well the project has performed against the original PID, including in terms of: <ul style="list-style-type: none"> • cost; • timescales; and • business case. 	There is no end project report for the original project and no PID against which to assess outcomes.	An end project report (project closure) was produced in May 2005, even though further project stages are underway. This report documented the outcome of the project that was run by the external project manager up to 31 March 2005. It included an evaluation of the outcomes of the project against plans, lessons learned and follow on actions.
Archiving files			
Have project records been archived for audit use or to inform future projects (for example, metrics)?	Metrics from the project can be used to inform and refine estimating on future projects.	Project documentation was scarce and fragmented.	Project filing is maintained in a documentation library on the intranet.

Issue	Good practice/information	Original project to April 2004	Current project July 2004
Post-project review			
<p>Has a date been set for a post-project review, usually three to six months after closure of the project?</p>	<p>A post-project review will assess the actual benefits of the product(s) against the business case (ie whether the expected benefits have been realised and if the product has caused any problems in use).</p>	<p>The re-scoping exercise gathered together all the weaknesses of the original project and documented these in the strategic review document.</p>	<p>End project reviews will take place for AWM (March 2006) and GOWM (March 2007) when their respective funding streams come to an end. There are no plans yet to carry out a post-project review at the Council, but this would be expected for compliance with its PRINCE2 standard.</p>

Appendix 2 – e-Gateway funding analysis

- 1 2001/02 to 2003/04 figures are taken from SRB reports.
- 2 2004/05 to 2006/07 are taken from PID, last updated April 2005.

		Phase 1				Phase 2			
		2001/02	2002/03	2003/04		2004/05	2005/06	2006/07	
SRB capital				298,379		774,534	239,225		
SRB revenue		70,434	1,126	33,284					
Council		1,254	38,193	124,546		196,039	103,864	46,556	
ERDF capital						346,698	140,359		
ERDF revenue						308,434	263,691	263,820	
Other public funding			72,096	68,170					
Total per year		71,688	111,415	524,379		1,625,705	747,139	310,376	
Total per phase					707,482				2,683,220
Total project	3,390,702								

Appendix 3 – Programme outcomes and the impact on the citizens of Herefordshire

Are e-government services based on consultation with and the needs of the community?

- 1 The Council's consultation programme has limited influence over its investment in e-government. The HIT (Herefordshire in Touch) programme carried out a MORI poll which highlighted the need for one stop shops, an e-Gateway, wider access to broadband and improved ICT skills in the workforce. However, since then there has been little e-government related consultation directly with citizens. As part of the strategic review of the e-Gateway project stakeholders were canvassed as to their expectations from the project, but this revealed that poor communication had meant stakeholders were unclear about fundamental aspects of the project. Social care clients are being consulted on their views of the use of tablet PCs for recording assessments. There is a risk that the Council's investment in e-government does not deliver services that meet the changing needs of its citizens.
- 2 Where relevant consultation has taken place there is evidence that it has informed decision-making. Stakeholder analysis played a key role in the creation of the initial stages of the e-Gateway project. Lessons learned from the strategic review of the e-Gateway included the need for improved communication with stakeholders and a communications strategy is to be produced. Discussions with rural community groups about the implementation of kiosks have led to the consideration of placing them in pubs rather than schools.
- 3 There are processes in place to keep intelligence up-to-date for the Council and its partners, but this information is not yet being consistently used to evaluate the impact of specific e-government investments on citizens. Mechanisms have been put in place to monitor the uptake of information and services online, although these are in the early stages of development. The Council has a wealth of information about Herefordshire, collected by the research team, and the corporate GIS project is intended to deliver the capability to maintain, search for and access all GIS based data across the council through a web-based interface.
- 4 The Council works with partners in the Herefordshire Partnership to share information to improve its understanding of community need. The Herefordshire Information and Research Network (HIRN) provides expertise and help for a variety of tasks including development of databases, survey design, mapping of information and statistical analysis and makes available data and research findings about Herefordshire. The revised community involvement strategy requires departments to log consultations and share information and this is available to partner organisations.
- 5 The consultation finder that was due to be introduced during 2005 will also provide a platform for partners to share information.

Does the e-government programme improve access to services that citizens need in ways that they will use?

- 6 There is a range of access channels, both mediated and self service, available including:
 - telephone;
 - written;
 - face-to-face;
 - web; and
 - email.
- 7 There are also proposals for a contact centre and kiosks. However, to date, the approach to the development of these has not been co-ordinated which means that access may not always be made available via the most effective channels.
- 8 INFO is a customer service initiative that aims to provide easier access to information and services for the residents and visitors to Herefordshire. Primarily, INFO deals with requests for Herefordshire Council services and can also signpost customers to the other local organisations. Access to INFO can be via a dedicated telephone number, email address or the INFO Shops and points located across the county.
- 9 The integration of the INFO shops with other services, for example with the library and leisure facilities at Bromyard, enhances the ability to offer longer opening hours and is a good model for sustaining access.
- 10 The Council still has a number of websites, such as education, which have not been consolidated on to the e-Gateway platform, and not all services are available at all one-stop shops. The provision of email contact addresses on the website is not consistent. This can be confusing for the citizen and makes it difficult to access information.
- 11 There is a customer charter for INFO, which is being revisited as part of the development of the customer services strategy, and is published on the website, although it does not cover the electronic provision of services. However, performance against the charter is not available and it is not clear if the charter applies across all services.
- 12 Currently standards are monitored by performance managers in individual services and monitoring is not consistent across the authority. So the Council does not have an accurate view of performance against the standards.
- 13 The INFO shops have carried out customer satisfaction surveys, both exit and on street, and results for surveys carried out in summer 2005 indicated that nearly all users were satisfied with the service received, the majority rating them as good or excellent.

- 14 The Council's own analysis of the telephone statistics has revealed that callers are receiving a poor service from some departments. The Council has problems with answering Direct Dial (DDI) calls and the percentage of missed calls is at least 50 per cent in two departments. Overall, across the Council in the first quarter 2005/06, the DDI loss rate on all calls was 19 per cent.
- 15 The Council uses a number of channels to publicise information on its services to the communities and citizens that it serves. These include the Council and Herefordshire Partnership websites, Herefordshire Matters, which is sent to all citizens and has featured promotion of the website, local area forums and Herefordshire Partnership Newsletters. Promotion of online services through the website has been supplemented by directing users to pay online in their council tax statements. Citizens should be aware of the various access channels available to them.
- 16 The Council considers that until broadband is more widely available across Herefordshire increased promotion of electronic services is unlikely to deliver increased take up.
- 17 While the e-Gateway project has been created by the Herefordshire Partnership to give citizens electronic access to services regardless of organisational boundaries, there is currently limited use of e-government to break down departmental barriers in favour of the user citizen experience. Although the website is now organised around the LGOL categories, information provision is still very service specific and partner information is not yet readily available on the Council's website. For example the information relating to care for older people provided on the website is hard to find and does not include NHS related information.

Does e-government provision lead to improved service delivery?

- 18 The e-government programme is aligned with the Council's improvement plans and is being used to deliver service improvements, although this is under development.
- 19 The Information Policy Group (IPG), chaired by the Director of Policy and Community, has a corporate overview. It meets on a monthly basis to consider all IT/e-government related business cases and all projects must demonstrate how each project will help achieve both e-government and service improvement targets and what benefits will ensue. A new benefits tracking method has been introduced to improve the monitoring of benefits delivery. As part of PRINCE2 project closure, an assessment is made of project delivery against the business case although currently not all project closures complete this activity.

- 20 There are some examples of business process re-engineering (BPR) being used to drive service improvement. As part of the implementation of Academy within revenues and benefits, processes and structures were redesigned to provide more emphasis on front line staff. The time taken for new claims to be processed was reduced from 40 days to just over 10 days. However, BPR in relation to customer relationship management (CRM) and INFO shops, is only just starting in the rest of the Council, with environmental health and social services. In the latter customer service officers have been introduced to reduce the number of unnecessary assessments by social workers thus freeing them up to spend more time with vulnerable people.
- 21 Although the Council is using CRM techniques to a limited extent within certain departments this is fragmented, inconsistent and not applied corporately leading to duplication and higher costs. The CRM system has only been implemented within the one-stop shops and across a limited number of services. It is not integrated with back office services and there are constraints with reporting from the system. For example, there is no direct link to the social services system and social care offices do not have the CRM system.
- 22 Some of the right building blocks to enable future improvements are being put in place. A £3 million investment is currently being undertaken to upgrade the Council's network. Over 18 person training weeks have been delivered since the HIT project began, with another 15 planned for this financial year. Due to the current economic climate within Herefordshire and the impact of job evaluation, the permanent recruitment of IT professional for support has proved challenging. However, a number of contract IT staff have been engaged to augment the permanent staff where skills and experience were deemed lacking and to work with permanent staff to ensure skills transfer for future sustainability.
- 23 Capacity has not been a business critical issue in the sense that ICT have made good progress in terms of its direction of travel delivering a number of key initiatives. We recognise there is still work to be done and staff and management alike are optimistic that the strategic priorities of Herefordshire Council and its partners will be achieved to plan.
- 24 While the Cabinet is already involved with the e-government agenda and member engagement with e-government has increased over the last 12 months it is not clear whether there is wholehearted support from the wider membership for some of the structural changes that are required to lever the maximum benefits from investment in e-government. To date scrutiny has not been concerned with IT or e-government issues but the Strategic Monitoring Committee will now receive regular reports. This will allow members to monitor the progress of the programme and the delivery of benefits.

- 25 The approach to the management and use of service user and customer information to configure e-government services effectively is under development. The Council can check key metrics such as on online payment figures and online jobs application figures. However it is not clear how this information is used to configure services. To increase the robustness of the usage statistics for the web, new reporting software is being implemented. It is intended that will be used to inform decision-making. Telephone answering statistics reports are produced and analysed as are INFO shop surveys.

Is e-government used to improve consultation with and the engagement of key stakeholders, service users and citizens?

- 26 The Council is making use of e-government to improve communication with service users, citizens, partners and stakeholders.
- 27 There are a number of examples of web-based consultation. The review of the Herefordshire Plan in 2005 was used as a pilot for the use of electronic consultation techniques. The 2004 council tax consultation was also available on the web. The LTP consultation pages provide details of other relevant consultations and feed back where appropriate. However, information about the various consultations is not effectively co-ordinated across the website. This should change following the implementation of a software package which has recently been procured to track consultations and ensure an effective feedback loop on the web.
- 28 The web also has been used to promote face to face consultations such as the budget and UDP consultations at Local Area Fora (2004) and the review of the community strategy (via the partnership website).
- 29 Access to democratic information is good. All councillors have an email address, it is possible to search for a councillor on the website and it is anticipated that each member will have a webpage by the end of the year. All agendas, papers and decisions are available on the Council's website.

Does e-government investment increase social inclusion?

- 30 ICT and e-government have been used in a number of ways to address social inclusion. However the approach is not co-ordinated with various projects being developed by different parts of the Council. This means that scarce resources may not be used effectively and learning may not be shared.
- 31 Accessibility has been improved across the website which is now compliant with eGMS and eGIF standards as well as the Disability Discrimination Act. The website is monitored for DDA infringements with a view to ensuring that all citizens within Herefordshire can access the site. However, although Herefordshire has many seasonal workers, mainly from Eastern Europe and Portugal, who are heavy users of the internet facilities in libraries at weekends and in the evenings, there is no use of any language other than English on the website.

- 32** All young people in care have access to a PC. However, carers' concerns regarding vulnerable children having direct access to the Internet mean that not all of them can access the web or run their own email address from home. For those that do, or can use email via a pc at school or college, the 'Voices' group has its own email address and phone number. These details are supplied to carers, social workers and all children in care and messages are regularly picked up by the Voices workers. All young people in care also have access to the mobile number of the children's rights and advocacy worker. In addition, many workers text and/or call young people they are working with via mobile phone.
- 33** Social care staff have been trialling the use of tablet PCs to record SAP assessments of older people in their homes. This has enabled social workers to spend more time with the clients and less on administration as they are able to print the assessment as entered.
- 34** The Council's future plans to address social exclusion through investment in e-government are not well defined. However, the Herefordshire In Touch Programme's community access point project is investigating the provision of subsidised broadband access, learning opportunities and online advice via the e-Gateway with a view to reducing social exclusion. Community access points (CAP) will be set up through consultation with community groups, dependent on them being able to meet criteria for access and sustainability. An investigation of INFO Shop's requirements for mobile usage in connection with mobile libraries is also being undertaken.
- 35** The InSITE website, supported by the Council, is part of Youth Times, a publishing, training and local democracy scheme for young people and aims to improve their engagement with democratic processes. This site has recently been migrated to the e-Gateway.

Appendix 4 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	R1 Ensure that the project management arrangements for the latest stage of the e-Gateway project comply with the Council's PRINCE 2 standards.	2	SW RK MF MT	Yes	<p>The Council contends that project management arrangements do comply with PRINCE2 standards. An action plan is now in place to ensure the continual update of key documentation.</p> <p>Links will be placed in the PID to update its content to the working documents including SRB returns, benefits realisation etc.</p> <p>Change control procedures are now in place for all projects in accordance with PRINCE2 guidelines.</p> <p>The project manager is to undergo PRINCE2 training and the formal project review process that is in place with the Head of Information, Technology and Customer Services and senior managers acts as a means of capturing any potential issues that may arise.</p>	Active from 1 January 2006. Expected completion end of April 2006.

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
7	R2 Develop and implement an e-government communications plan to ensure that all stakeholders are appropriately informed and consulted.	2	RK	Yes	<p>An action plan is underway to involve even more closely Partnership stakeholders. Part of this will include an updated centralised communication plan. In addition, the Herefordshire Connects Programme, customer access points and customer services strategy implementation projects are being aligned with the e-Gateway programme to ensure better communication to all stakeholders with a clear and consistent message.</p> <p>Stakeholder management will be revisited during the e-Gateway strategy work. Alignment of CAPS, e-Gateway and the Herefordshire Connects programme will include a citizen consultation to determine priorities.</p>	<p>Active from 1 January 2006. Communications plan completed 20 February 2006.</p> <p>Scheduled meetings with stakeholders for mid-March.</p> <p>Herefordshire Connects Phase 1 complete April 2006.</p>

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	R3 Develop a strategic approach to the use of access channels across the Council to ensure appropriate, clear and consistent methods of access are available to citizens.	2	PD EP RK	Yes	Contained within draft customer service strategy.	Strategy approved 2005. Herefordshire Connects Programme Phase 1 completes April 2006 to determine sequencing of projects.
8	R4 Ensure that appropriate partner information is easily accessible from the Council website.	2	JH EP	Yes	The authority will ensure that Partnerships be made more visible on the site by moving the link to the homepage. Organisational responsibility will be allocated to appoint a department to ensure Partnership information is up-to-date and correct.	Complete.
8	R5 Provide a means of electronic communication with all relevant services.	3	JH RB Directorate heads	Yes	Email addresses for all services available on site. Herefordshire Connects to determine priorities for e-enablement.	Emails 1 February 2006. Herefordshire Connects April 2006.

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	R6 Develop and implement a corporate approach to the performance management of customer services to drive service improvement.	3	JH	Yes	This is already underway. The corporate performance management project is underway to ensure a consistent approach to improvement. Herefordshire Connects has identified performance management as one of three key streams of work to be undertaken.	Herefordshire Connects April 2006.
8	R7 Review the implementation of the CRM system and assess the benefits of integration with back office systems.	3	JH	Yes	CRM requirements gathering has now been completed across the entire organisation. (Herefordshire Connects) is underway and some of these requirements may alter.	Kicked off 1 November 2005.
9	R8 Develop a corporate approach to the use of ICT and e-government to address social inclusion that allows for shared learning and economies of scale.	2	JH	Yes	The Authority will incorporate this into the corporate ICT strategy project already underway.	Current.

MONITORING OFFICER REPORT 2005/2006**Report By: Head of Legal and Democratic Services****Wards Affected**

County-wide

Purpose

1. To note the Authority's performance for 2005/06 with regard to complaints to the Ombudsman, Whistleblowing and those matters within the responsibility of the Monitoring Officer's control as the Head of Legal and Democratic Services.

Background

2. The Committee should be aware that the role of the Monitoring Officer is a statutory office whose duties are set out in the Local Government and Housing Act 1989 and the Local Government Act 2000. The main responsibilities of the Monitoring Officer are to ensure that the Council and its Elected Members act with probity in accordance with the law and in accordance with its Constitution and to avoid determinations of maladministration being issued by the Local Government Ombudsman.
3. The Monitoring Officer is also responsible for carrying out investigations and reporting to the Standards Committee of the Council any breaches of the Code of Conduct of members referred to it by the Standards Board for England.

RECOMMENDATION**THAT the Report be noted****Considerations****Complaints Panel 2005-2006**

4. The Complaints Panel comprising the Chief Executive sitting with two Group Leaders sit, when required, in order to determine complaints against the Authority which have not been resolved at either Stage 1 or Stage 2 of its Complaint Handling Procedure. During the period covered by this report, the Complaints Panel met on 7 occasions and considered a total of 15 individual complaints. Of those complaints considered, only one was partially upheld, which resulted in a compensatory payment of £125 being made to the complainant. An analysis of the subject matter of complaints dealt with by the Panel during this period reveals that 66% related to planning issues; 8% related to highway matters, the remainder related to complaints made in connection with either noise, public services or sub-committee procedures.

Further information on the subject of this report is available from
Alan McLaughlin, Head of Legal and Democratic Services on 01432 260200

Ombudsman

5. The Local Government Ombudsman office investigates complaints about Councils with the aim of putting things right if they have gone wrong: it is unbiased and independent. The Ombudsman has similar power to the High Court to order anyone to produce information or documents for their investigation. The Council's Best Value Performance Impact Plan sets targets for the number of complaints classified as maladministration. The Ombudsman has yet to finalise the end of year report which will not be available until the 30th June 2006.
6. The table below shows the total number of complaints received by the Ombudsman for Herefordshire in 2004/05 and the two previous years. It should be noted that the Ombudsman has made no findings of maladministration against Herefordshire during this period.

	2002/03	2003/04	2004/05
Total number of complaints determined by the Ombudsman	45	37	37
Total number of complaints to the Ombudsman settled locally.	6	3	1

Whilst no complaints were upheld against the Council the local settlement for 2004/05 involved Highways with regard to their footpath responsibilities and it was accepted by the Council that the complainant did not receive the best service he should have. A local settlement was reached which was accepted by the complainant and the Ombudsman on the basis would review its policies and procedures and to feed the results of that exercise back to the complainant. As far as I am aware this has been done.

7. The table below sets out the number of complaints received by the Ombudsman by subject area, as classified by the Ombudsman, for 2004/05.

Complaints received by subject area	Education	Highways	Housing (not incl HB)	Housing Benefit	Local Taxation	Other	Planning	Social Services	Total
2004/05	3	7	0	4	3	3	15	2	37
2003/04	3	9	2	0	1	6	12	4	37
2002/03	12	1	8	1	1	3	16	3	45

Whistleblowing

8. This process is to allow officers and the public to inform the Monitoring Officer of any issues regarding the probity of officers and their behaviour. Over the period (1st April 2005 – 31st March 2006) there has been one matter reported which has been investigated and lessons learned. There is however still an ongoing grievance procedure outstanding in relation to this matter.

Standards Committee

9. The Standards Committee is chaired by Mr Robert Rogers, an independent member who resides within the County. The Committee comprises its chair, several independent members and also several elected members of the Authority. The Committee sits on a regular basis and in the period of this report sat on 7 occasions. The business of the Committee is split between considering applications for dispensation for parish councils; conducting hearings to determine local investigations referred to the Authority by the Standards Board for England and considering matters relating to governance issues generally. In its disciplinary role, the Committee has heard more matters arising from local investigations than any other Committee within the West Mercia area. This in no small part is due to the large number of parish and town councils within the County compared to those in neighbouring areas.

Register of Gifts and Hospitality

10. The Monitoring Officer is required to monitor and maintain a register of the gifts and hospitality offered to both members and officers of the Council. It is incumbent on members and officers to register such gifts and hospitality over £25 and £10.00 respectively even if it is only offered and not accepted.
11. Over the last three months only one registration has been made. One of the Councillors won vouchers to the value of £1,000 in the Halo draw.

Register of Members Interests

12. All members of the Council are required to register any personal and prejudicial interest that might affect or give the public the perception of affecting their decision making. The register of such interest is retained by the Monitoring Officer.
13. Apart from the register, members are required to notify the Monitoring Office at any meeting of the Council of any personal or prejudicial interest prior to the start of any such meetings and these are recorded in the minutes.

Risk Management

14. Officers and Members are regularly briefed by Legal Services on any changes in legislation or case law that may impact on the delivery of services or impose statutory duties on the Authority. New legislation and significant case law is monitored by Legal Services and when impact is foreseen in respect of any of the Council's Directorates, an Impact Assessment Report which can be electronically accessed through the intranet is prepared. Key Managers are advised by e-mail when new Impact Assessment Reports become available. The process of impact assessment reporting is underpinned by a programme of training rolled out to both officers and members. In the period covered by this report, there have been nine such seminars, covering Member diversity training, court room skills for officers called as witnesses, panel training in respect of school admission appeals and a variety of specialist legal topics germane to officers working in Highways and Transportation, property work and Freedom of Information issues.
15. Complaints of any nature either to the Ombudsman or referred to the Standards Committee can result in a risk to the Council's reputation. In the case of the Ombudsman, compensation can be recommended.
16. The failure of officers and/or members to register gifts or interest can have an effect on the Council's reputation. In the case of a member it could be referred and investigated by the Standards Board for England or the Standards Committee who are required to publish the results of any such investigations.

BACKGROUND PAPERS

- None identified

AUDIT SERVICES ASSURANCE REPORT 2005/6**Report By: Principal Audit Manager****Wards affected**

County-wide

Purpose

To update Members on progress made in relation to the Audit Plan and to bring to their attention any key internal control issues. In addition the report updates Members on the actions or the current position on key issues raised for 2004/5 that required attention.

Financial Implications

None

Reasons

Compliance with good practice as set out in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.

Background

The Audit Commission in their Annual Audit and Inspection Letter identified that the Council needed to develop the role of the Audit Committee in providing leadership on audit and governance issues, including documenting the overall assurance framework.

Consideration of the Assurance Report aids the development of the Audit Committee's role.

Considerations**Key Issues Identified in 2005/6**

1. The Audit Committee considered the Annual Assurance Report for the year ending 31st March 2005 on 30th September 2005. Two key issues were identified as being relevant to the Council's Statement of Internal Control. The first related to the overspend in Social Care and the second to the need for improvements in the Council's overall disaster recovery arrangements.
2. In relation to the overspend in Adult and Children Social Care, It had been identified and reported to Cabinet that there was a significant risk that the overspend for 2005/6 would reach approximately £1,500,000. The Assistant County Treasurer (Policy and Audit) was seconded to assist the Director of Adult and Community Services in the day-to-day financial management of the Adult Social Care budget. The final outturn was an overspend of some £828,000.

3. With regards to the Children Social Care Service the projected overspends was reduced to approximately £195,000. An action plan was developed to increase family support and recruit and retain skilled foster careers.. The final outturn was an underspend of £61,000.
4. The Audit Services view is that positive action has been taken to solve the issues previously identified
5. It is pleasing to report that the audit review of the Council's disaster recovery arrangements were satisfactory, however some improvements were required at sites not under the control of ICT.

Progress On The Plan

6. Two key elements have effect the overall completion of the Audit Plan for 2005/6. Firstly the level of time spent verifying performance indicators and secondly the time taken to flowchart and document procedures for all the Council's fundamental systems. To help align the Audit Plan to available resources in consultation with the Directors priorities were identified and the work as detailed in paragraph 7.1 of the main report was deferred.
7. The deferral did not impact adversely on the level of work required to give an end of year opinion on the Council's system of internal control.
8. In relation to the Use of Resources the Internal Control element scored a 2 out of 4. An action plan is now in place with a view to improving the Internal Control score by the time of the next assessment.
9. The Audit Service's review in relation to the Statement of Internal Control showed that the Council's procedures and protocols compared favourable with the CIPFA checklist and overall was found to be satisfactory.
10. Fifteen fundamental systems were reviewed with three being given a good audit opinion, ten being given a satisfactory audit opinion, with the remaining two been given a marginal opinion.
11. There were three systems that warranted a mention due to their Audit Opinion, management action has been taken, there will be Audit follow up work in these areas and the Audit Committee will be updated accordingly.
12. Only three Critical 1 recommendations were made during the year, management took prompt action on the recommendations made.
13. Mangement responses to Audit recommendations continue to be positive during the year they agreed to take action on 96%. Audit follow up work of previous recommendations on a sample basis shows that action was being taken on only 81%, which is not an acceptable level
14. The Audit Commission continues to be able to rely on the work of the section.

Areas for Improvement

15. Other than the four areas identified in the Council's Statement of Internal Control there were no other areas identified for improvement.

Risk Management

16. If Audit Services does not complete all fundamental system reviews and a cross section of other reviews there is the likelihood that the Principal Audit Manager will not be able to give an opinion on the Council's overall internal control environment. Although certain areas of work had to be deferred this did not impact adversely on the level of work required to give an end of year opinion on the Council's System of Internal Control.

RECOMMENDATION

THAT the Assurance Report be approved.

BACKGROUND PAPERS

- None Identified

Herefordshire Council

Audit Service Assurance Report 2005/6

1. Introduction

1.1 The CIPFA Code of Practice for Internal Audit In Local Government requires the Head of Internal Audit to formally submit an annual report to members. In line with good practice this Assurance Report:

- Includes an opinion on the overall adequacy and effectiveness of the organisation's internal control environment.
- Discloses any qualifications to that opinion, together with the reasons for the qualification.
- Presents a summary of the audit work undertaken to formulate the opinion.
- Draws attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Statement on Internal Control.
- Compares the work actually undertaken with the work planned and summarises the performance of the Internal Audit function.
- Comments on the compliance with the CIPFA Code of Practice.

1.2. In compliance with the Code of Practice, the Council now has an Audit Committee with terms of reference:

"To provide:

- *Independent assurance of the adequacy of the Council's risk management framework and the associated control environment.*
- *Independent scrutiny of the Council's financial and non- financial performance to the extent it affects the Council's exposure to risk and weakens the control environment; and*
- *To oversee the reporting process".*

1.3. The Accounts and Audit Regulations 2003 established requirements related to systems of internal control and the review and reporting of those systems. Regulation 4 of the Accounts and Audit Regulations 2003 requires that from 1st April, 2003 '*The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk.*'

1.4 Herefordshire Council also has an obligation to include in its Statement of Accounts a statement on the system of internal financial control. The statement should set out the framework within which financial control is managed and reviewed and the main components of the system, including arrangements for internal audit. This statement reports on significant identified weaknesses and the actions undertaken to rectify them. A separate report on the Council's Statement of Internal Control will be made to the Audit Committee on 30th June 2006.

Herefordshire Council

Audit Service Assurance Report 2005/6

2. Audit Approach

- 2.1 Internal Audit is the independent appraisal function established by management to review the internal control system as a service to the Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.
- 2.2 Audit Services acts as an aid to management and produces reports as a result of each of the reviews undertaken. It works in partnership with management to find solutions to any issues identified and seeks its agreement to any recommendations for improvement. Recommendations are developed with managers to produce action plans.
- 2.3 Audit Services is generally well received and helps management to achieve its objectives within a culture of strong stewardship.
- 2.4 The Audit Service would like to take this opportunity to thank all staff for their help and co-operation during audit visits.

3. Background

- 3.1 The four-year strategic plan is based on a risk assessment evaluation, which utilises a 'Traffic Lights' Methodology, with Red being high risk, Amber being medium risk and Green being low risk. Within each risk area consideration is also given to residual risk for specific functions or establishments based upon its last Audit opinion and current knowledge.
- 3.2 The Annual Plan emanates from the four-year Strategic Plan. To ensure that Directorate and Department priorities are considered, the Annual Plan is developed in consultation with Directors, Heads of Departments and Heads of Service. Both the four-year and Annual Plans have been approved by Cabinet.
- 3.3 Audit Services' terms of reference has been formally agreed by Cabinet in the form of an Audit Charter, which outlines the independence of Audit Services and its reporting protocols.
- 3.4 The Audit Commission has completed its review of Audit, which involved comparing audit activity with the CIPFA Code of Practice. The review has confirmed its ability to place reliance on the work of Audit Services.
- 3.5 The actual cost for Internal Audit Services amounted to £438,521 compared to a budget of £455,177.

4. Action Taken On 2004/5 Key Issues

- 4.1 The Audit Committee considered the Annual Assurance Report for the year ending 31st March, 2005 on 30th September, 2005. Two key issues were identified as being relevant to the Council's Statement of Internal Control. The first related to the overspend in Social Care and the second to the need for improvements in the Council's overall disaster recovery arrangements.
- 4.2 In relation to the overspend in Adult and Children Social Care, the Assistant County Treasurer (Policy and Audit) has been seconded to assist the Director of Adult and Community Services in the day-to-day financial management of the Adult Social Care budget. This action has led to a favourable outcome with the actual overspend amounting to £828,000 compared to the original estimate of £1,500,000.

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4.3 With regards to the Children Social Care Service an action plan has been developed to increase family support and recruit and retain skilled foster careers. The actual outturn for 2005/6 was an underspend of £61,000, which proved satisfactory when compared to the original estimate of an £195,000 overspend.

5. CPA-Use of Resources

5.1 Although the Council's Use of Resources score was a 3 out of a possible 4, the internal control element scored a 2 out of 4. The Audit Commission Annual Audit and Inspection Letter for 2004/05 stated that the Council's systems of Internal Control met the minimum requirements for the Use of Resources assessment. To improve the Council needs to develop:

Improvement	Management Action
Risk Management, particularly with respect to partnership working and quarterly reporting to Cabinet on risk management issues.	<i>Directorates have been asked to include on DMT agendas, major projects e.g. Accommodation Strategy/Hereford Connects have risks logs associated with them. Corporate risk logs are circulated regularly for amendment. Risk Management issues are reported to Cabinet on a two monthly basis as part of the integrated Performance Reports. The Audit Manger has attended a CIPFA seminar on risk management in partnerships and a risk management protocol for partnerships is being developed.</i>
The assurance framework, in particular mapping strategic objectives to risks, controls and assurances.	<i>The Audit Committee has adopted a Statement of Internal Control Assurance Framework, which meets the Audit Commission's requirements.</i>
the role of the Audit Committee to provide effective leadership on audit and governance issues.	<i>The Council's Audit Committee is now fully operational and the terms of reference as set out in the CIPFA Guidance on Audit Committees have been adopted.</i>

5.2 An action plan has now been developed with the aim of improving the internal control score by the time of the next assessment. Progress will be reported to the Audit Committee.

6. Statement of Internal Control

6.1 A separate report will be presented to the Audit Committee. However Audit Services review showed that the Council's procedures and protocols compared favourable with the CIPFA checklist and overall was found to be satisfactory. However four areas were identified for improvement.

7. Summary of other Audit Work Undertaken

7.1 Two key factors affected the overall completion of the Audit Plan for 2005/6. Firstly the level of time spent verifying performance indicators and the flowcharting and procedure documentation of all the fundamental systems. To help align the Audit Plan to available resources in consultation with the Directors priorities were identified and the following work has been deferred.

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- Social Care Contract letting;
- Supply Cover Administration;
- Older People Payment to independent Providers;
- Physical Disabilities-Direct Payments to Service Users;
- Private Finance Initiative;
- CHRIS;
- Government Grants;
- Waste Management Contract;
- Info in Hereford- Garrick House;
- Agency Payments;
- P&C Grants and Donations; and
- Early Years Development - site visits.

7.2 The deferral of the above work did not impact adversely on the level of work required to give an end of year opinion on the Council's system of internal control.

Fundamental Systems

7.3 Fundamental systems are systems whose failure could cause major disruption or loss of financial control to the Council. The audit opinions for each of these reviews is:

Table 1 Summary Fundamental Audit Opinions	2005/6	2004/5	2003/4
Audit Opinion	Number	Number	Number
Good	3	1	0
Satisfactory	10	10	9
Marginal	2	1	2
Un-satisfactory	0	0	0
Unsound	0	0	0
TOTAL	15	12	11

7.4 It should be noted that where a fundamental system has a marginal or worse opinion, it is likely that the Audit Commission will make reference to it in its management letter.

7.5 The marginal opinions relates to the newly implemented Academy System for Council Tax and Housing Benefit systems, which was not fully embedded at the time of the Audit. This meant the residual risks within the systems were higher than would normally be the case. Management action is being taken and the Audit Manager is confident that when all issues concerned with the implementation are resolved, most of the recommendations can be implemented easily. Confidence in the management of both services remains high.

Corporate Governance arrangements (including Anti Fraud arrangements)

7.6 The Council has in place key corporate governance documents in place and table 2 highlights their availability.

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Table 2 Schedule of Key Corporate Governance Arrangements Documents				
Policy/Document	Availability			
	Public	Partners	Staff	Members
Standing Orders	✓	✓	✓	✓
Financial Standing Orders and Regulations	✓	✓	✓	✓
Scheme Of Delegations	✓	✓	✓	✓
Whistle-Blowing Policy	✓	✓	✓	✓
Anti-fraud and Corruption Policy	✓	✓	✓	✓
Complaints Procedure	✓	✓	✓	✓
Code of Conduct for Employee	✓	✓	✓	✓
Standing Orders for the Regulation of Contracts	✓	✓	✓	✓
Corporate Plan	✓	✓	✓	✓
Operating Plan	✓	✓	✓	✓

- 7.7 Owing to the importance the Council places on its partnership arrangements, which is recognised nationally, it is advisable that Council partners are reminded of the Council's key corporate governance documents.
- 7.8 The Council has established a Standards Committee and has adopted a Code of Conduct for members incorporating the mandatory requirements of the model code. In addition, members have signed a formal declaration accepting the terms of the code.
- 7.9 All Directors and Heads of Service have given written assurance through a signed statement as to the operation of internal control and risk management within their Directorate/Service. In addition, all officers at Head of Service level and above have made individual declarations with regards to gifts and hospitality.
- 7.10 The Audit Committee had its first meeting on 30th September, 2005 with two additional meetings since. Good progress is being made with regards to the Committee's overall governance role. Training has been given to members covering risk management, money laundering and the Council's Statement of Accounts including the Statement of Internal Control. However a review of Corporate Governance Arrangements has highlighted the need for a Code of Corporate Governance in line with good practice.
- 7.11 A number of special investigations have been under taken which were not related to any fundamental system. A report will be submitted to the Corporate Management Board on lessons learnt, which will be communicated to Heads of Service and Key managers in due course.
- 7.12 The Council took part in the National Fraud Initiative (NFI) data matching exercise with 1292 case matches (971 Housing Benefit and 321 non-housing benefit) generated for review. With regards to the non-housing benefit cases there were no instances of fraud. However there were a significant number of invalid national insurance numbers, details of which have been drawn to the attention of the Payroll Manager for investigation and correction. With regards to Housing Benefit fifty were identified for further investigation, of these there were three formal cautions issued, one administrative penalty, two prosecutions, and nine classed as claimant administrative errors. Some £27,700 was identified as over payments.

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Performance Management Framework

- 7.13 The Council has a comprehensive Performance Management Framework, which was first adopted in May 2003. Since then, significant developments and improvements have been made to elements of the framework, which has led to a revised Performance Management Framework being approved by Cabinet in June 2005. Further developments include the new Performance Improvement Cycle, which will be reflected in a further revision to the Council's Performance Management Framework. Key performance Indicators are established and monitored with outturns forming part of the Integrated Performance Reports to Cabinet.
- 7.14 The Audit Services report on the Council's Performance Management Framework found that the Council had a satisfactory system, which was working and links between the elements were growing. While there was room for improvement, no element or area proved to be weak or failing. Some Directorates were progressing quicker than others and the sharing of best practice was identified as the most obvious route to overall improvement.
- 7.15 The element requiring the most improvement was the Staff Review and Development process. Although many managers took this activity seriously, the documentary evidence indicates that the process was "fitted in" when convenient and the annual SRD round was often late. Many of the SRD forms examined showed some links to Service Plans but not all.
- 7.16 As part of it's joint working arrangements with the Audit Commission Audit Services is currently carrying out a review of eighteen performance indicators, in addition to four within the Children and Young People Directorate at the request of the Director. The final out come on all performance indicators will be reported to the Audit Committee at a later date.

ICT Protocols and Controls

- 7.17 Last year the key area for improvement was the Council's disaster recovery protocols. It is pleasing to note that the review on the Council's disaster arrangements proved to be satisfactory.

Establishment Visits/Verification and Probity

- 7.18 There was evidence that procedures operating generally at pre-contract stage were satisfactory. The reviews identified a few areas where exiting controls could be strengthened. With regards to establishment visits there was an overall improvement when compared to last year. Audits highlighted the need for improvements with regards to inventories and the need for guidance to schools in relation to CRB checks.

Schedule of Audits

- 7.19 Appendix 1 summarises the audit reviews carried out during 2005/6 and Appendix 2 outlines opinion and star rating definitions.

Other Corporate issues

- 7.20 The Corporate Assessment outcome for the Council as a whole continued to be a positive one with the Council's overall score being that of a three star authority and under the new direction of travel statement, the authority was seen as improving adequately.

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- 7.21 Although the Council had a Performance Management Framework there was a need for it to be robustly and consistently implemented across the Council.
- 7.22 In overall terms there was a positive assessment of the review of Services for Children and Young People, however there was a major qualification to the overall assessment and that was in relation to the important area of ' Staying Safe'.
- 7.23 The Council has in place action plans to address the issues raised and the Corporate Management Board and Cabinet carry out regular monitoring of these plans. The Council has also set up Prince 2 Project Boards to ensure that the required improvements are met in full.

Audit Opinions

- 7.24 It is normal practice for all audits except for recommendation follow-ups to be given an audit opinion. All audits rated as unsatisfactory or worse and any fundamental or major systems found to be marginal or worse must be brought to the attention of the Audit Committee. Only three audits met the criteria these are outlined below.

Audit	Opinion	Action being taken
Anti-Money Laundering Procedures	Unsatisfactory	Training has been completed and all outstanding requirements have been met.
Recruitment and Selection	Unsatisfactory	The report mainly confirmed management concerns with the policy of delegation out to Directorates. Many of the actions identified for improvement have now been carried out as a result of setting in place the central recruitment team and associated processes as from 3rd April 2006.
TALIS	Unsatisfactory	Poor access and related controls, with improvements relating to backup and server security required.

'Critical 1' recommendations

- 7.25 As previously reported an improvement to recommendation reporting was introduced for 2005/6 and entailed the introduction of a new category of audit recommendation called 'Critical1'. These are recommendations where non-compliance will be a high risk to the Council and where action is required urgently or with in an agreed timescale.
- 7.26 Only three 'Critical 1' recommendations have been made to date. The first related to the need for improved controls in relation to the use of the school mini bus at a secondary school. It is pleasing to report that the school has taken action and most of the required actions have been completed. The second related to the need to ensure that the details of legislation and acts listed on the various types of Council warrant cards were correct, complete and current. Appropriate action has now been taken and the Head of Human Resources is happy that possible risks have now been eliminated.

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7.27 The third relates to LPSA targets and the need for completion of the Council's PI Proforma to ensure that the required information and data can be easily identified. The council has now formed the Performance Improvement Project Group who will be using Prince 2 methodology to ensure full compliance with Council policy

Results of Recommendations Follow-up

7.28 Recommendation follow-up is featured in the Audit Plan for the year 2004/05. The outcome of the follow up work is summarised in the following table:

Summary of Follow up Outcomes				
Status	2005/6		2004/5	
	Number	Percentage %	Number	Percentage %
Fully/Substantially Implemented	165	67	225	69
Partly Implemented	34	14	65	20
Not Implemented	47	19	36	11
Total	246	100	326	100

Compliance with the Code/ Audit Performance

7.29 In their last Annual Audit and Inspection Letter the Audit Commission highlighted that in relation to the Code of Practice for Internal Audit in Local Government consideration needed to be given to the requirement that the Head of Internal Audit reports directly to a member of the Corporate Management Board. This is now in place as part of the restructure within the Resources Directorate. It was also highlighted that the completion of fundamental systems slipped. There have been improvements in this area for the current year.

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7.30 The following table shows audit performance on local performance indicators:

Local Performance Indicators					
	2004/05		2005/06		2006/07
Description	Target	Actual	Target	Actual	Target
The half year Assurance report to is delivered to Members	October 04	November 04	October 05	February 06	November 06
The end of year Assurance report is delivered to Members	June 04	September 04	June 05	September 05	June 06
90% of Service Managers are satisfied with the Audit Service	90%	88%	90%	95%	90%
100% of SRDs are completed by 31st May	100%	100%	100%	100%	100%
Management accepts 95% of Level 1 and Level 2 recommendations.	95%	95%	95%	96%	95%
The Audit Plan is agreed by the start of the new financial year.	April 04	May 04	April 05	April 05	April 06
Ensure that the Councils Statement of Internal Control for previous Financial year is Published	August 04	August 04	July 05	July 05	June 06

7.31 A review of performance highlights the need for assurance reports to be considered by members in a more timely manner. Now that the Audit Committee is in place this should ensure this.

Audit Benchmarking Survey

7.32 The Audit Service took part in the CIPFA Benchmarking Club Audit Customer Satisfaction Survey with the overall audit performance being good. The survey covered:

- Audit Services Work;
- Audit Staff;
- Conduct of Audits;
- Audit reporting; and
- Customer Service.

7.33 Three areas were identified for improvement. The first was Value for Money Reviews, which was of high importance to customers with audit performance being adequate. The second related to timing of audits again given high importance by customers with audit performance being adequate. And the third related to recommendations being constructive, practical and cost effective this was given high importance by customers with audit performance being adequate. These areas of customer concerns have been addressed with the introduction of audit protocols with each Directorate.

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8. Audit Opinion

I am of the opinion that the Council's overall level of Internal control is satisfactory. However management need to ensure it follows agreed procedures for responding to external audit reports and recommendations. It also needs to ensure implementation of its Use of Resources improvement plan.

R A FORD
PRINCIPAL AUDIT MANAGER

June 2006

SCHEDULE OF AUDIT REPORTS AND OPINIONS

NAME	OPINION
Fundamentals	
Asset Register - Testing and Report	Good
Asset Register Procedures and Flowcharting	N/a
Treasury Management - Testing and Report	Good
Treasury Management Procedures and Flowcharting	N/a
Cash and Deposit- Testing and Report	Good
Cash and Deposit- Procedures and Flowcharting	N/a
SAP FMS	Satisfactory
Education FMS - Testing and Report	Satisfactory
Education FMS- Procedures and Flowcharting	N/a
Bank Reconciliation - Testing and Report	Satisfactory
Bank Reconciliation – Procedures and Flowcharting	N/a
Debtors - Testing and Report	Satisfactory
Debtors- Procedures and Flowcharting	N/a
Creditors - Testing and Report	Satisfactory
Creditors- Procedures and Flowcharting	N/a
FMS Budget, Creation Monitoring and Reporting - Testing and Reporting	Satisfactory
FMS Budget, Creation Monitoring and Reporting – Procedures and Flowcharting	N/a
Payroll Non-Education - Testing and Report	Satisfactory
Payroll Non-Education – Procedures and Flowcharting	N/a
Payroll Education - Testing and Report	Satisfactory
Payroll Education – Procedures and Flowcharting	N/a
FMS Feeder Systems - Testing and Reporting	Satisfactory
FMS Feeder Systems- Procedures and Flowcharting	N/a
NDR - Testing and Report	Satisfactory
NDR- Procedures and Flowcharting	N/a
Council Tax- Testing and Report	Marginal
Council Tax- Procedures and Flowcharting	N/a
Housing Benefit – Testing and Reporting	Marginal
Housing Benefit- Procedures and Flowcharting	N/a
Non-Fundamental Systems	
Salaries and Wages EP Cheques	Satisfactory
Social Care- Financial Management & Budgetary Control	Satisfactory
Anti Money Laundering Procedures	Unsatisfactory
Recruitment and Selection	Unsatisfactory
Environment Health Fees and Charges	Marginal
Control of ID Cards	Marginal
Strategic Housing Financial Management & Budgetary Control	Satisfactory
Performance Management	
Performance Management Framework	Satisfactory
LPSA 1	Satisfactory
CH 141- Referrals of Children in Need	Satisfactory
CH 143- Percentage of Children in Need	Marginal
CH145- Care Assessments of Children in Need	Marginal
CH01- Number on Child Protection Register	Good
ICT	
SAPS-Cedar Interface	Satisfactory
Network Planning	Satisfactory
Revenues and Benefits- Academy System Risk Review	Satisfactory
Disaster Planning	Satisfactory
Access Controls - MVM System	Marginal

SCHEDULE OF AUDIT REPORTS AND OPINIONS

NAME	OPINION
TALIS Libraries System	Unsatisfactory
Gap Analysis	Satisfactory
Establishments	
Wigmore High School	Marginal
Bishop of Hereford Bluecoat School	Satisfactory
Fairfield High School	Satisfactory
St. Paul's C.E. Primary School	Marginal
John Masefield High School	Marginal
Broadlands Primary School	Marginal
Minster College	Marginal
Kingsland C.E. Primary	3 Stars
Our Lady's R.C. Primary	2-Stars
Fownhope St. Mary's C.E. School	3-Stars
Info in Hereford- Bromyard	Satisfactory
Info in Hereford- Leominster	Satisfactory
Hereford Library	Marginal
Verification/Probity	
Data Protection – Revenues and Benefits	Satisfactory
Contract Letting- Children Services	Satisfactory
Contract Letting- Resources- (Property Services)	Satisfactory
Contract Letting- Adult and Community-Transport	Satisfactory
Contract Letting- Adult and Community	Marginal
Supporting People Contracts	Satisfactory
Supporting People Grant Claim	Good
Minster College SSCO	Marginal
Whitecross High SSCO	Marginal
Diversity Standard Level 1	N/a
Petty Cash- LMS and Finance	Satisfactory
Recommendation Follow up	
Section 106 Agreements	N/a
Penalty Charge Notices	N/a
Private Water Supply	N/a
SRB HIT Programme	N/a
Introduction Credit Card Payments	N/a
Homecare Assistant Payroll	N/a
Car Mileage/Travel and Subsistence	N/a
Fairer Charging	N/a
Independent Living Fund	N/a

Quantification and Classification of Internal Control Levels

Control Level	Definition
Good	A few minor recommendations (if any).
Satisfactory	Minimal risk; a few areas identified where changes would be beneficial.
Marginal	A number of areas have been identified for improvement.
Unsatisfactory	Unacceptable risks identified, changes should be made.
Unsound	Major risks identified; fundamental improvements are required.

The Audit Opinion is based on a number of factors including the number of Level 1 and, to a lesser extent, Level 2 recommendations. Weighting is given to different aspects of the Audit e.g. a high weighting for budgetary control. It is expected that larger systems and establishments will receive higher numbers of recommendations and allowance is made for this.

Overall Rating for your School (based on total number and level of recommendations identified).

Star rating	Assessment	Definition
△△△△△	High level of control	A few minor recommendations (if any).
△△△△	Majority of control objectives met.	Minimal risk; a few areas identified where changes would be beneficial.
△△△	Some control objectives met.	A number of areas have been identified for improvement.
△△	Below minimum requirements	Unacceptable risks identified, changes should be made.
△	Poor level of control	Major risk identified; fundamental improvements are required.

Ranking of Recommendations

Rank	Definition
1 Critical	As Rank 1 but - IMMEDIATE ACTION IS REQUIRED . These will be shown as Rank 1 (Critical) on the Recommendation Sheet and highlighted under the Opinion in the Main Report.
1	Necessary due to statutory obligation, legal requirement, Authority Policy, or major risk of loss or damage – PROMPT ACTION REQUIRED .
2	Necessary in order for sound internal control and confidence in the system to exist – Major Point, should be pursued in the short term, ideally next 6 months.
Good Practice	Suggestions made that should improve the efficiency or security of the system or establishment. These suggestions will be shown in Appendix 3, not as part of the Recommendation Sheet. They will not be taken into account when giving an Audit Opinion.

APPROVAL OF THE COUNCIL'S STATEMENT OF INTERNAL CONTROL FOR 2005-2006

Report By: Principal Audit Manager

Wards affected

County-wide

Purpose

To note the work and process followed in relation to the completion of the Council's Statement of Internal Control.

Financial Implications

None

Reasons

1. The CPA Uses of Resources highlights the Criteria for judgement in relation to the Statement of Internal Control as follows:
 - An appropriate member group has responsibility for review and approval of the Statement of Internal Control (SIC) and considers it separately from the accounts (Level 2);
 - The Council has conducted an annual review of the effectiveness of the system of internal control and reported on this in the Statement of Internal Control (Level 2);
 - The sources of assurance to support the Statement of Internal Control have been identified and are reviewed by senior officers and members (Level 2);
 - There are action plans in place to address any significant internal control issues reported in the Statement of Internal Control (Level 2);
 - The Council has put in place an assurance framework that maps the council's strategic objectives to risks, controls and assurances. (Level 3)
 - The assurance framework provides members with information to support the Statement of Internal Control (Level 3);
 - The assurance framework is fully embedded in the Council's business process (Level 4); and
 - The Council can demonstrate corporate involvement in/ownership of the process for preparing the Statement of Internal Control (Level 4);

2. The Council currently scores a 2 for the Internal Control element of the Use of Resources Assessment and is aiming to score at least a 3 at the next assessment.

Considerations

3. Audit Services has reviewed the Corporate and all Directorate Risk Registers as part of the process to prepare the risk based Audit Plan for 2006/07.
4. The Interim Assurance Report was presented to the Audit Committee on 20th February 2006 and there were no issues of concern.
5. The Audit Commission has carried out a stock-take of outstanding recommendations it wishes to see pursued. The current position is set out in a separate report to the Audit Committee.
6. The Principal Audit Manager has reminded Directors and Heads of Service of their obligations by meeting with Directors and the Council's Senior Management Team.
7. Written end of year assurances have been received from all Directors and Heads of Service.
8. The review of the Council's Register of Gifts and Hospitality for Officers has been completed and written assurances have been received from the Chief Executive, all Directors and Heads of Service confirming or updating their declarations.
9. The Monitoring Officer's report has been presented to the Corporate Management Board for consideration as part of the process.
10. Current status on key action/improvement plans:
 - a. Joint Area Review – The revised action plan was presented to Cabinet on 25th May 2006. Regular progress reports will be made to Cabinet, with Audit Services carrying out an independent check on progress at the request of the Director.
 - b. CPA Use of Resources- a draft action plan was presented to the Audit Committee on 7th April, consultation with other members of the Corporate Management has been completed. Progress on the plan will be reported to the Audit Committee.
 - c. CPA Corporate Assessment – improvement plan is being integrated into the Council's overall Improvement Programme.
11. Risk Management is embedded at Corporate and Directorate levels and the Council has well defined procedures for recording and reporting financial and non-financial risks. There is now a need to embed risk management at Key Manager level to ensure a consistent approach across the Council.
12. The final Integrated Performance Report for the year was presented to Cabinet on 15th June 2006. The report summarised progress including action being taken to address under performance.

13. The Principal Audit Manager has completed his work on the CIPFA Assurance Checklist. The Council's procedures and protocols compared favourably with the checklist and over all were found to be satisfactory.
14. Comments have been sort from the Audit Commission on the Council's Statement of Internal Control.
15. The Corporate Management Board at their meeting on 19th June 2006 reviewed and commented on the evidence used to support the Council's Statement of Internal Control, their comments have been included in the Statement attached in Appendix 1.
16. Following the Corpororate Management Board's review of the Council's Statement of Internal Control there were four areas identified for improvement:
 - a. The Council does not have a Code of Corporate Governance in line with best practice;
 - b. There is now a need to embed risk management at Key Manager Level to ensure consistency across the Council;
 - c. 'Staying Safe' improvements within the Children and Young People Directorate raised as part of the Joint Area Review; and
 - d. There is a need to ensure that the Council's Performance Management Framework is robustly and consistently followed across the Council.

Risk Management

16. If the Council does not make satisfactory progress on embedding the assurance framework it could have an adverse effect on the Council's target to improve it's CPA Use of Resources Judgement Assessment score.

RECOMMENDATIONS

THAT the Committee approve the Statement of Internal Control.

BACKGROUND PAPERS

- CIPFA guidance on the Statement of Internal Control.

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Statement of Internal Control 2005-2006**

1. Scope of responsibility

Herefordshire Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised.

In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on *an ongoing process* designed to *support the Council's operation and* manage risk in a balanced and effective manner, acknowledging that an element of risk is inevitable if policies, aims and objectives are to be achieved

3. The internal control environment

The key elements of the internal control environment at Herefordshire Council include:

- Establishment and monitoring of the Council's statutory obligations and organisational objectives, evidenced through the Council's Corporate and Annual Operating Plans, guidance on directorate and service plans, effective arrangements for compliance with and monitoring of legislative changes;
- An integrated Corporate, Service and Financial Planning process;
- The Performance Management Strategy which sets out the Council's approach to performance management;
- The Council's Constitution sets out members and officers responsibilities, and delegations to officers and committees in addition to the terms of reference of all the Council's committees;
- The Council has systems and process as outlined in the Council's Risk Management Strategy in place to identify principal risks to the achievement of the Council's objectives, supplemented by the consideration of risk in committee reports and the decision making process;
- The Director of Resources has overall responsibility for embedding the Council's risk management process;

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- There are written Financial Regulations and Contract Standing Orders, which are subject to regular review;
- Adoption of Statutory and professional standards such as the Codes of Practice recommended by the Chartered Institute of Public Finance and Accountancy;
- Financial administration procedures agreed by the Section 151 officer;
- The Council has in place a written Whistleblowing Policy, an Anti Fraud and Corruption Policy and a Code of Conduct for employees all of which have been regularly brought to the attention of all staff;
- An Audit Committee is now operating as part of the Council's internal control process it's first meeting was held on 30th September 2005;
- An independent audit function, which submits regular assurance reports to the Council's Audit Committee;
- Adoption of a Statement of Internal Control assurance process approved by the Audit Committee on 20th February 2006; and
- Devolved financial management arrangements where managers are responsible for managing their services within available resources and in accordance with agreed policies and procedures.

4. Review of effectiveness

Herefordshire Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The Corporate Management Board carries out this review at officer level with the Audit Committee undertaking the review at member level.

The Principal Audit Manager informs both the Corporate Management Board and the Audit Committee of any significant issues that warrant their attention.

The review of the effectiveness of the system of internal control is informed by the work of the Council's Internal Audit Service, officers of the Council who have responsibility for the development and maintenance of the control environment and also by comments made by the Audit Commission and other review agencies/inspectorate.

Internal Audit Service

Herefordshire's responsibility for maintaining an effective internal audit function is set out in Regulation 6 of the Accounts and Audit Regulations 2003. This responsibility is delegated to the Director of Resources, the officer with responsibility for the administration of the Council's financial affairs as set out in section 151 of the Local Government Act 1972.

The Audit Services Team operate in accordance with best practice, professional standards and guidelines. The team independently and objectively reviews, on a continuous basis the extent to which reliance can be placed on

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the internal control environment. This is evidenced by the opinion given on the Council's overall system of control by the Principal Audit Manager.

The Audit Committee receives interim and annual reports on internal audit activity and approves the annual plan for the forthcoming year.

The Monitoring Officer

The role of the Monitoring Officer is a statutory office whose duties are set out in the Local Government and Housing Act 1989 and the Local Government Act 2000. The main responsibilities of the Monitoring Officer are to ensure that the Council and its elected Members act with probity in accordance with the law and in accordance with its Constitution and to avoid determinations of maladministration being issued by the Local Government Ombudsman

The Monitoring Officer is also responsible for carrying out investigations and reporting to the Standards Committee of the Council any breaches of the Code of Conduct of members referred to it by the Standards Board for England.

Officers of the Council

Individual Directors and Heads of Service are responsible for establishing and maintaining an adequate system of internal control within their own Directorate and services respectively and for contributing to the control environment on a corporate basis.

Written assurances have been received from all directors and all heads of service that they:

- have actioned recommendations from internal audit, external audit and other inspection reports or are in the process of being actioned within the timetable agreed; and
- are satisfied with the operation of internal control within their area of responsibility.

Audit Commission and other review agencies/inspectorate

In their Annual Audit and Inspection letter 2004-2005 the Audit Commission stated that the Council's systems of internal control met the minimum requirements for the Use of Resources assessment. To improve the Council needed to develop:

- risk management, particularly with respect to partnership working and quarterly reporting to Cabinet on risk management issues;
Directorates have been asked to include on DMT agendas, major projects e.g. Accommodation Strategy/Hereford Connects have risks logs associated with them. Corporate risk logs are circulated regularly for amendment. Risk Management issues are reported to Cabinet on a two monthly basis as part of the integrated Performance Reports
The Audit Manger has attended a CIPFA seminar on risk management in partnerships and a risk management protocol for partnerships is being developed;

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- the assurance framework, in particular mapping strategic objectives to risks, controls and assurances; *The Audit Committee has adopted a Statement of Internal Control Assurance Framework, which meets the Audit Commission's requirements; and*
- the role of the Audit Committee to provide effective leadership on audit and governance issues. *The Council's Audit Committee is now fully operational and the terms of reference as set out in the CIPFA Guidance on Audit Committees have been adopted.*

The Council's Use of Resources assessment gained a 3 out of 4 however the internal control element was assessed as a 2 out of 4, an action plan has now been developed with the aim of improving the internal control score by the time of the next assessment.

Benefits Fraud Inspectorate

The inspectorate gave the service a 3 star rating, which equated to a good performance overall. It found that the Council's service in relation to claims administration, user focus, and resource management was good, with security arrangements being excellent.

Corporate Assessment and Joint Area Review

The outcome for the Council as a whole continued to be a positive one with the Council's overall score being that of a three star authority and under the new direction of travel statement, the authority was seen as "Improving Adequately".

Although the Council had a Performance Management Framework there was a need for it to be robustly and consistently implemented across the Council.

In overall terms there was a positive assessment of the review of Services for Children and Young People, however there was a major qualification to the overall assessment and that was in relation to the important area of ' Staying Safe'.

The Council has in place action plans to address the issues raised, the Corporate Management Board and Cabinet carry out regular monitoring of these plans. The Council has also set up Prince 2 Project Boards to ensure that the required improvements are met.

5. Significant internal control issues

The Council is required to report upon any significant internal controls issues. These include issues which:

- have seriously prejudiced or prevented achievement of an objective
- resulted in the need to seek significant additional funding;
- had a material impact in the accounts;
- resulted in formal action by the Monitoring Officer, Chief Finance Officer or have been reported as significant by the Head of internal Audit; and

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- attracted significant public interest.

There were four issues identified for improvement:

- The Council does not have a Code of Corporate Governance in line with good practice. *A Code of Corporate Governance will be developed in line with CIPFA/SOLACE guidance and be submitted for approval by 31st August 2006;*
- Risk Management is embedded at Corporate and Directorate levels and the Council has well defined procedures for recording and reporting financial and non-financial risks. There is now a need to embed risk management at Key Manager level to ensure a consistent approach across the Council. *The Director of Resources is now the Council's lead officer and an action plan has been developed to speed the process and includes training, guidance for Directorate Management Teams, a survey of key managers and a review of the current Risk Management Strategy for completion by 31st August 2006;*
- 'Staying Safe' improvements within the Children and Young People Directorate raised as part of the Joint Area Review. *A Prince 2 Project Board is now in place to ensure that satisfactory progress is made on the Cabinet's approved action plan; and*
- There is the need to ensure that the Council's Performance Management Framework is robustly and consistently followed across the Council. *A Prince 2 Project Board is now in place to ensure that satisfactory progress is made on the Cabinet's approved action plan.*

Cllr R. Phillips
Leader of the Council

N. Pringle
Chief Executive

S. Rees
Director of Resources

June 2006

STATEMENT OF ACCOUNTS 2005/06

REPORT BY DIRECTOR OF RESOURCES

AUDIT COMMITTEE

30TH JUNE 2006

Wards Affected

County-wide

Purpose

To examine, consider and approve the Council's accounts for 2005/06 as presented in the Statement of Accounts attached (Appendix 1).

Key Decision

This is not a Key Decision.

Recommendation

THAT the Committee:

- (a) **approve the Statement of Accounts including the final revenue and capital outturn for 2005/06;**
- (b) **approve the formal signing of the Statement of Accounts by the Chairman of the Committee on behalf of the Council;**
- (c) **note the information in respect of redundancies and early retirements (Appendix 2); and**
- (d) **note the information in respect of bank accounts (Appendix 3).**

Reasons

It is a statutory requirement that the Council's 2005/06 Statement of Accounts is formally approved by 30th June 2006.

Considerations

1. Reports on the final revenue and capital outturn figures 2005/06 were presented to Cabinet on 15th June 2006. Formal approval of the Council's accounts is now required, as specified in the Accounts and Audit Regulations.
2. The Statement of Accounts is a technical document prepared with compliance with Accounting Codes of Practice as a prime requirement. The Codes of Practice are heavily influenced by external standards (e.g. Financial Reporting Standards).

Further information on the subject of this report is available from
David Keetch, Assistant County Treasurer, (01432) 260227

3. This year's Statement of Accounts shows some changes compared with last year including:
- (a) The annual review and updating of the Statement of Accounting Policies;
 - (b) various other changes to the Accounting Codes of Practice have again required a number of additional notes and comments;
 - (c) an introduction from Mike Wilson our Cabinet Member for Resources has been added together with a glossary of terms; and
 - (d) a summary version of the Statement will be produced and published shortly.
4. Some brief comments on the main points reflected in the Statement are as follows:

Capital Outturn

- (a) With regard to capital spending some £31.845million was spent compared with the original forecast investment of £37.131million. The main reasons for the slippage were the transfer into 2006/07 of the major schemes in respect of Hereford City Centre Enhancements and Extra Care Housing. No conditional funding resources have been lost and the Council has maximised the use of its resources available.
- (b) The actual 2005/06 Capital Programme was funded from Supported Capital Expenditure (£13.916million), Prudential Borrowing (£5.131million), Capital Grants (£10.169 million), Revenue Contributions (£802,000) and useable Capital Receipts (£1.827million).

Revenue Outturn

- (c) The Council Directorates showed a net underspending of £3.720million in 2005/06. The Cabinet approved on 15th June 2006 budget carry forwards into 2006/07 of an equivalent sum based on a set of principles recommended by Corporate Management Board and designed to ensure that budget carry forwards support key corporate priorities.

Balance Sheet

- (d) Council Revenue balances in hand amount in total to some £14.525million as at 31st March 2006, which is an increase of £34,000 compared to the previous year. Within this sum is the Council's minimum prudent reserve of £3million. The Directorate underspendings carried forward of £3.720million is also part of the balance.
- (e) The amount held in earmarked reserves has increased by £2.698million to £13.942million. The main variations are the transfer into a specific reserve of the amount retained in respect of Waste Disposal (£1.386million) and the creation of the new reserve to help fund the Herefordshire Connects project (£1.928million).
- (f) Provisions made in the accounts increased during the year from £1.135million to £2.555million. A large element of this sum is the insurance provision of £1.020million, which is held to cover the cost of policy excesses

in relation to expected property and liability claims. This provision has again been reviewed and the review has indicated that other than the normal payments into the fund, no additional topping up is necessary. This is largely due to the fact that the level of the insurance claims received in 2005/06 was fairly modest. A new provision of £1.067million has been set up in respect the new Landfill Allowances Liability arrangements.

- (g) The value of the Council's fixed assets shown in the Balance Sheet is £317.082million, which has increased by £38.736 million (13.9%) compared with 2004/05, largely due to an increase in the value of land and building. This valuation compares favourably with the Council's long term borrowing as at 31st March 2006 of £81.853million. The Council's long term borrowing rose by £23.557million during the year largely because of the need to fund the capital programme.
- (h) The valuation of the Council's fixed assets is reviewed on a five year rolling programme by the Council's Property Valuers in accordance with recommended practice.
- (i) The Council's useable capital receipts were £20.07million at 31st March 2006 some £1.779million more than at 31st March 2005, reflecting applications of £2.1million in support of the capital programme and receipts during the year of £3.9million.
- (j) The Council's temporary borrowing fell substantially by £8.965million during the year to £1.386million at 31st March 2006. This is part of the Council's overall cashflow management.
- (k) The level of the Council's long-term debtors again fell during the year to £409,000. The decrease of £129,000 was due to the number of staff car and computer loans outstanding falling and the rapidly diminishing amount to be repaid in respect of former Housing Revenue Account mortgages.
- (l) The value of the Council's short-term debtors increased significantly from £17.899million to £26.580million during the year with the significant increases being the value of the sundry debtors outstanding (£4.7million) and £2.8million due to the collection fund. A large debtor outstanding at 31st March 2006 from the PCT was largely paid off in early April.
- (m) The level of creditors rose slightly during the year with the total at 31st March 2005 being £563,000 higher than the previous year at £28.5million. Included in this sum is approximately £9.4million of invoices paid in April but charged back into 2005/06.
- (n) The total of the short term investments held by the Council was at £37.899million on 31st March 2006, some £4.7million more than the previous year. This is owing to the overall management of the Council's cashflow rather than one specific reason.

Pension Scheme (Financial Reporting Standard 17)

- (o) The Local Government Pension scheme actuaries have assessed that at 31st March 2006, the difference between the underlying assets and liabilities for retirement benefit attributable to the authority was a deficit of £100.614 million. This is a slight reduction in the deficit of £1.6million during

the year. The deficit will have to be made good by increased contributions over future years as assessed by the actuary subject to the regular three yearly reviews and OPDM guidance as appropriate. Following the March 2004 revaluation, stepped increases in contribution of approximately 0.6% of pensionable pay will now apply each year for the period 2005/06 to 2010/11.

Formal Signing of the Statement of Accounts

5. Once approved by the Audit Committee, Accounts and Audit Regulations require the Chairman of the Committee to sign the Statement on behalf of the Council.

Publication of the Statement of Accounts

6. In order to make the published Statement of Accounts widely available, copies of the audited statement will again be sent to Info centres and Libraries. The statement will also be included in full on the Council's website together with the Auditors Management letter, once the external audit is complete. A summary leaflet will also be produced this year in line with Use of Resources best practice guidance.

External Audit

7. The external audit of the accounts will commence during July, with the accounts being available for public inspection from 8th August 2006 and the formal appointed day for the Audit is expected to be 12th September 2006. The accounts will formally be on display for 25 working days.
8. A further report giving information on the outcome of the audit and recommendations made by the auditors in relation to changes in the accounts will be presented to this Committee at the end of the audit in September. The more wider aspects of the audit will be dealt with during the consideration of the auditors annual audit and inspection letter.

Redundancies and Early Retirements

9. Whilst reporting on the final accounts, the opportunity has been taken, in accordance with good practice recommended by the Audit Commission, to report on the position with regard to redundancies and early retirements during 2005/06. Members will note that the number of posts and therefore the costs involved were similar to 2004/05 although the actuarial strain figures were higher than in the previous year (see Appendix 2).

Bank Accounts

10. A report on the changes to the Council's Bank Accounts during 2005/06 is also being reported to this Committee (see Appendix 3).

Finally

11. I should like to record my thanks to all staff involved, across Directorates, in the 2005/06 closedown process.

Alternative Options

There are no alternative options.

Risk Management

The Council has a statutory duty to approve the Statement of Accounts by no later than 30th June 2006. Failure to do so would have consequences for the Council's reputation and the Use of Resources assessment.

Consultees

The relevant internal officers have been consulted. No external consultation was considered.

Background Papers

None identified.



HEREFORDSHIRE
COUNCIL

HEREFORDSHIRE COUNCIL

STATEMENT OF ACCOUNTS

2005-2006

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INTRODUCTION

The 2005/06 financial year was a successful one for the Council. Despite very significant financial pressures in Social Care we have maintained good control over the Council's finances.

There were pleasing indications during the year that the Council's finances were being well managed. The Audit Commission, the Government public spending watchdog, gave the Council a good mark for our Use of Resources assessment.

During the year, the Council appointed a new Director of Resources, Sonia Rees. Sonia has already begun to have a positive impact on our financial policies and arrangements. Sonia is also committed to making our financial documents, including our Statement of Accounts, more readable and user friendly.

We will for the first time this year be publishing and circulating a leaflet size summary version of the Accounts.

Sonia would welcome comments and feedback on this document or indeed any other financial documents or information produced by the Council so that we can be sure we are providing you with the information you need on our financial performance.

Mike Wilson
Cabinet Member - Resources

EXPLANATORY FOREWORD

The following Statement of Accounts for Herefordshire Council present the overall financial position for the Authority for the year ended 31st March 2006 and have been produced in accordance with the Code of Practice recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Revenue Expenditure and Income

Summary

The 2005/06 accounts show an under spend against budget for the year of £4.1 million on net revenue expenditure. This resulted in a transfer to revenue balances of £34,000 compared with a net anticipated transfer from balances of £4.06 million, of which £3.8 million related to 2004/05 under spends brought forward. The additional £4.1 million is attributable to the following:

	£000
Service area under spends	3,720
Treasury management including interest received	1,850
Transfer (to)/from earmarked reserves	(1,386)
Other changes	(87)
Total under spend	<u>4,097</u>

Service Area Underspends

The net under spend for the Council's Directorates of £3.7 million was made up as follows:

	Under/(Over) Spends £000
Directorate	
Adult & Community Services	(1,567)
Children and Young People's services	1,541
Corporate and Customer Services	1,514
Environment	847
Human Resources	70
Resources	135
Corporate costs	1,180
Total under spend	<u>3,720</u>

The position is the net result of a number of under and over spends. The most significant of these were:

- Adult and Community Services
 - An over spend of £828,000 on Adult Social Care, the main pressure areas being Learning Disabilities, Mental Health and Physical Disabilities. Overspends in these areas were offset by savings in Older People's Services and Commissioning. In addition, £714,000 of overspends from 2004/05 were written off.
 - An over spend of £593,000 on Homelessness.
 - An under spend of £430,000 on Community Services, mainly in respect of social and economic regeneration.
- Children and Young People's Services
 - Over spends in the year amounted to £1.3 million, the most significant being the Schools Music Service (£320,000) and Joint Agency Management SEN placements (£342,000).

- The over spends were more than offset by the under spends on Schools Transport (£953,000) and SEN placements (£452,000). There was also an under spend of £895,000 on ring-fenced schools budgets.
- Corporate and Customer Services
 - The main budget variation was an under spend of some £903,000 on ICT services due to project delays.
- Environment
 - Over spends for the year on Highways and Transportation budgets of £684,000 on winter maintenance, street cleansing and public toilets were more than offset by under spends of £761,000 on street lighting, road maintenance, public rights of way and car parking.
- Resources
 - Over spends on administrative buildings (£561,000) were more than offset by under spends on industrial estates (£400,000) and retail properties (£182,000).
- Corporate Costs
 - Significant corporate savings included an under spend on the net cost of Housing Benefits (£411,000) and unbudgeted income from the Local Authority Business Growth Incentive Scheme (£602,000) and West Mercia Supplies (£262,000).

Carry Forward arrangements

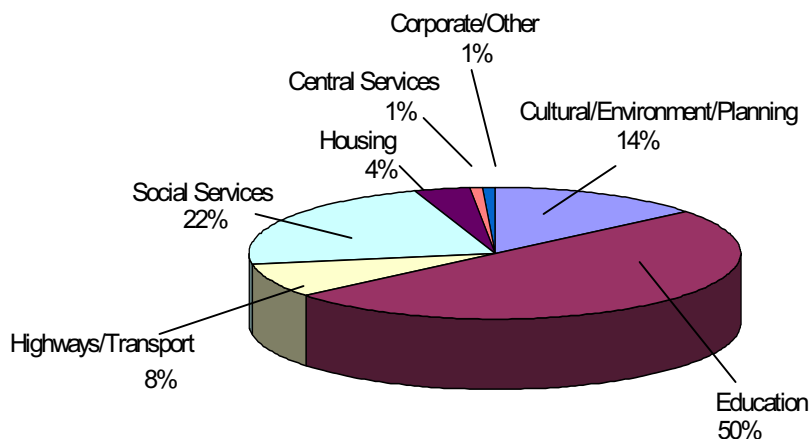
The arrangements in respect of carry forwards have been reviewed during the financial year. The agreed principle is that managed under spends can be carried into the following financial year to fund one off expenditure providing all other budget targets have been met. Under spends can also be carried forward in order to ensure external funding is received or where any savings should not accrue to the Council (e.g. Education ring fenced funding).

For 2005/06, after taking account of earmarked schools funds, £2.825 million of under spends are being carried forward into 2006/07, with £692,000 being used for corporate budget pressures and £2.133 million available to Directorates.

Analysis of Revenue Expenditure and Income

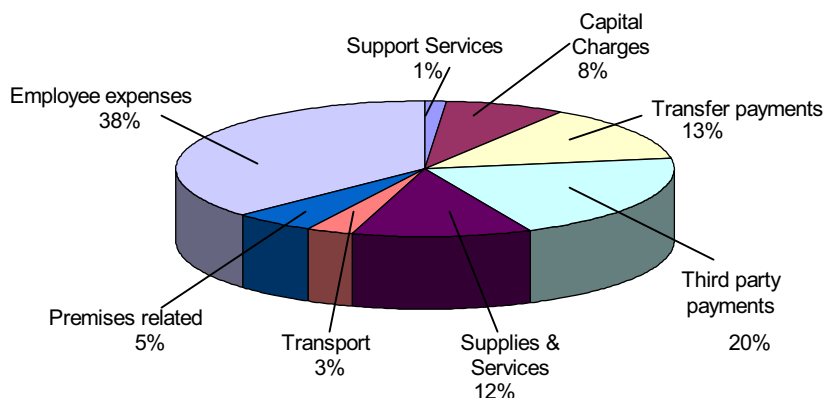
The net cost of services within the Consolidated Revenue Account is £193,495 million, made up of the following services:

Analysis of Net Expenditure by Services



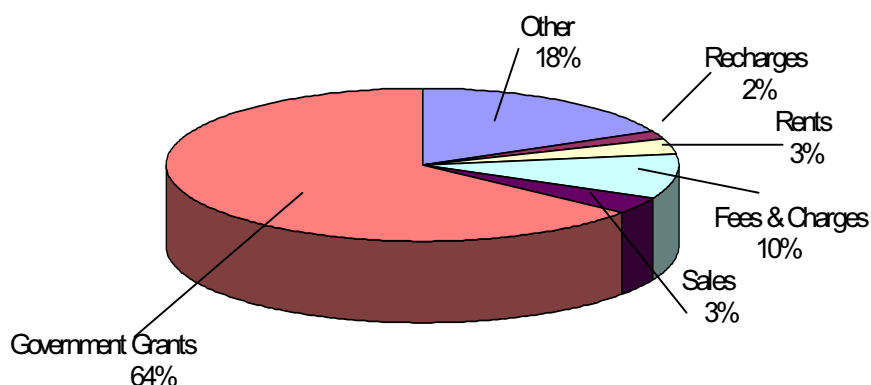
The gross cost of services was £326,308 million, which was spend on the following types of expenditure:

Analysis of Gross Service Expenditure



The gross income for the year from services was £132,813 million and came from the following sources:

Analysis of Income within Services

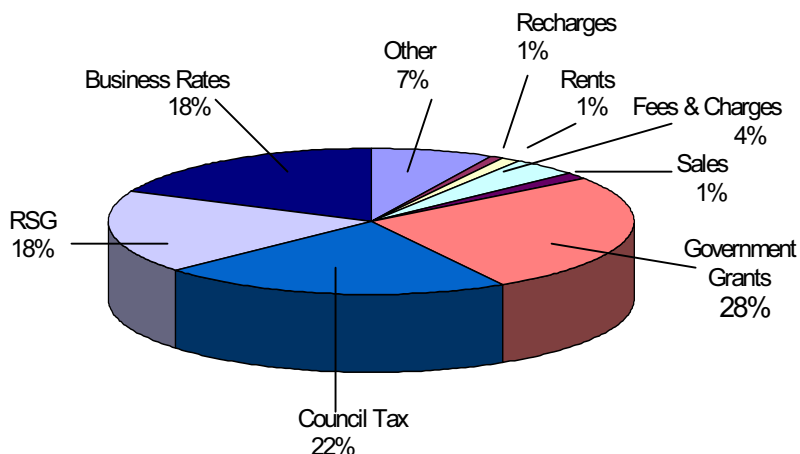


The figure for Government grants includes £38.3 million in respect of the payment and administration of Housing and Council tax benefits.

In addition to the income and expenditure allocated to services there are number of items shown on the Consolidated Revenue Account below the net cost of services. These include precepts and levies from other bodies, debt charges, investment income, and appropriations to and from reserves. After these items, the net total cost to be funded from government grants and Council tax was £186.5 million. The Council received £58.4 million of Revenue Support Grant (RSG), £58.9 million from the Non-Domestic Rate Pool (Business Rates) and £68.9 million from Council Tax. After transferring £300,000 from Collection fund surpluses, this resulted in a surplus of £34,000 to be added to general reserves.

The total sources of income for the Council, including service income, RSG, Business Rates and Council Tax were:

Total Revenue Income



Capital Programme

With regard to capital spending some £32 million was incurred compared with the original forecast investment in the Council's assets of £37 million. This reflects revisions in forecast spend identified and monitored throughout the year. No conditional funding resources have been lost and the Council has maximised the use of resources available.

Herefordshire Council used supported borrowing of £13.9 million, capital receipts reserve funding of £1.8 million, grants of £10.2 million, revenue contributions of £0.8 million and prudential borrowing powers of £5.1 million to fund capital expenditure in 2005/06.

Summary of Capital Expenditure

	£000
Housing Renewal Programme	1,357
Affordable Housing Grants	2,710
Education new build and refurbishment	4,861
Improvements to existing schools	1,591
Highways and Bridges	9,773
ICT Services	4,385
Other schemes	7,168
	<u>31,845</u>

The Council maintains as a minimum a full three-year rolling capital programme reflecting commitments, but fundamentally linked to the Council's strategic plans and estimated sources of funding. The total programme detailed by the sources of funding is as set out below.

	2006/07	2007/08	2008/09
	£000	£000	£000
Sources of funding			
Supported Capital Expenditure (Revenue)	13,197	12,646	10,690
Prudential Code Borrowing	8,069	5,000	5,000
Capital Receipts Reserves	4,855	4,429	5,445
Unfunded	-	-	1,035
Grants and Contributions	9,432	1,534	107
	<u>35,553</u>	<u>23,609</u>	<u>22,277</u>

When the usual sources such as grants and supported borrowing cannot fund a scheme in full then the use of unsupported Prudential Borrowing can be considered. The Council has approved an unsupported Prudential Borrowing level of £5,968,000 (plus slippage from previous years) for 2006/07 and has given indicative approval for £5,000,000 of unsupported borrowing in future years.

The Council's Borrowing

The Council had a total of £82.3 million outstanding loan debt at 31st March 2006 of which £0.4 million was repayable within 12 months.

The Council's Reserves

The Council retains a minimum level of general reserves of £3 million as a contingency against unforeseen emergencies and events. The Council's overall revenue balances of £14.5 million reflect this sum, together with the 2005/06 budget carry forwards £2.8 million. The remaining unallocated sums will be retained for future commitments and reviewed in the context of the Council's medium term financial strategy.

Pensions

In accordance with Financial Reporting Standard 17 'Retirement Benefits' (FRS 17), Note 12 to the Balance Sheet sets out the Council's assets and liabilities in respect of the Local Government Superannuation scheme. The net deficit shown as at 31st March 2006 is £101 million, which is approximately 52% of the market value of the assets. Whilst this deficit does not have to be met immediately from the Council's reserves, action must be taken over a period of years to eliminate it.

Herefordshire Council staff are members of the Worcestershire County Council Pension Fund, which was revalued as at 31st March 2004. Further to the revaluation, the Council's employers' contribution will increase from 16.5% of pensionable pay to 19.9%, phased over 6 years up to and including 2010/11. Annual increases will be approximately 0.6% of pay. The period over which the Council's deficit will be dealt with has been increased from 13 years to 25 years, in line with Government advice. The fund position is reviewed every three years.

Magistrates Courts service and PFI Contract

As from 1st April 2005 Magistrates Courts transferred to become part of the new Her Majesty Magistrates Courts Service. From this date the Council ceased to have to make any contributions towards the cost of the Magistrates Courts Service. The Council also ceased from this date to have any role in the PFI contract, in partnership with Worcestershire County Council, for the provision of Magistrates Courts within the two Counties. Contributions towards the scheme are no longer payable by the Council.

The 2005/2006 Statement of Accounts

The Council's accounts are detailed in the following pages and comprise:

1 The Consolidated Revenue Account

As the name suggests this account brings together all income receivable and expenditure incurred in delivering the Authority's services during 2005/06.

2 The Collection Fund

This statement shows all income collected from Council Taxpayers and Business Ratepayers (NNDR). Expenditure includes precept payments to the West Mercia Police Authority and Hereford & Worcester Fire Authority, representing income collected from Council Taxpayers on their behalf, and NNDR contributions payable to Central Government.

3 The Consolidated Balance Sheet

This shows the Authority's financial position as at 31st March 2006 i.e. the end of the financial year 2005/06, and represents the value of all assets and liabilities.

4 The Statement of Movement in Reserves

This statement brings together all contributions to, and application of, reserves during the financial year.

5 Cash Flow Statement

This represents a summary of all cash flowing in and out of the Authority arising from transactions with third parties. All internal transactions between the various accounts maintained by the Authority are excluded.

6 Trust Funds

This shows a summary of the accounts maintained by the Authority on behalf of various Charitable Trusts.

The Statement of Accounts was authorised for issue on 30th June 2006

Further information about the Council's finances is available from the Director of Resources, Herefordshire Council, Brockington, 35, Hafod Road, Hereford, HR1 1SH.

**Sonia Rees
Director of Resources
30th June 2006**

STATEMENT OF RESPONSIBILITIES

The Authority's Responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Resources;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the statement of accounts.

The Director of Resources' Responsibilities

The Director of Resources is responsible for the preparation of the authority's statement of accounts in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom. The Statement of Accounts is required to set out fairly the Authority's financial position as at 31st March 2006 and its income and expenditure for the financial year.

In preparing this statement of accounts, the Director of Resources has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code of Practice.

The Director of Resources has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certificate of the Director of Resources

I certify that the Statement of Accounts present fairly the financial position of Herefordshire Council at 31st March 2006 and its income and expenditure for that period.

Sonia Rees
Director of Resources
30th June 2006

STATEMENT ON INTERNAL CONTROL

1. Scope of responsibility

Herefordshire Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised.

In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on *an ongoing process* designed to *support the Council's operation and* manage risk in a balanced and effective manner, acknowledging that an element of risk is inevitable if policies, aims and objectives are to be achieved.

3. The internal control environment

The key elements of the internal control environment at Herefordshire Council include:

- Establishment and monitoring of the Council's statutory obligations and organisational objectives, evidenced through the Council's Corporate and Annual Operating Plans, guidance on directorate and service plans, effective arrangements for compliance with and monitoring of legislative changes;
- An integrated Corporate, Service and Financial Planning process;
- The Performance Management Strategy which sets out the Council's approach to performance management;
- The Council's Constitution sets out members' and officers' responsibilities, and delegations to officers and committees in addition to the terms of reference of all the Council's committees;
- The Council has systems and processes as outlined in the Council's Risk Management Strategy in place to identify principal risks to the achievement of the Council's objectives, supplemented by the consideration of risk in committee reports and the decision making process;
- The Director of Resources has overall responsibility for embedding the Council's risk management process;
- There are written Financial Regulations and Contract Standing Orders, which are subject to regular review;
- Adoption of Statutory and professional standards such as the Codes of Practice recommended by the Chartered Institute of Public Finance and Accountancy;

- Financial administration procedures agreed by the Section 151 officer;
- The Council has in place a written Whistleblowing Policy, an Anti Fraud and Corruption Policy and a Code of Conduct for employees all of which have been regularly brought to the attention of all staff;
- An Audit Committee is now operating as part of the Council's internal control process, it's first meeting was held on 30th September 2005;
- An independent audit function, which submits regular assurance reports to the Council's Audit Committee;
- Adoption of a Statement of Internal Control assurance process approved by the Audit Committee on 20th February 2006; and
- Devolved financial management arrangements where managers are responsible for managing their services within available resources and in accordance with agreed policies and procedures.

4. Review of effectiveness

Herefordshire Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The Corporate Management Board carries out this review at officer level with the Audit Committee undertaking the review at member level.

The Principal Audit Manager informs both the Corporate Management Board and the Audit Committee of any significant issues that warrant their attention.

The review of the effectiveness of the system of internal control is informed by the work of the Council's Internal Audit Service, officers of the Council who have responsibility for the development and maintenance of the control environment and also by comments made by the Audit Commission and other review agencies/inspectorate.

Internal Audit Service

Herefordshire's responsibility for maintaining an effective internal audit function is set out in Regulation 6 of the Accounts and Audit Regulations 2003. This responsibility is delegated to the Director of Resources, the officer with responsibility for the administration of the Council's financial affairs as set out in section 151 of the Local Government Act 1972.

The Audit Services Team operate in accordance with best practice, professional standards and guidelines. The team independently and objectively reviews, on a continuous basis the extent to which reliance can be placed on the internal control environment. This is evidenced by the opinion given on the Council's overall system of control by the Principal Audit Manager.

The Audit Committee receives interim and annual reports on internal audit activity and approves the annual plan for the forthcoming year.

The Monitoring Officer

The role of the Monitoring Officer is a statutory office whose duties are set out in the Local Government and Housing Act 1989 and the Local Government Act 2000. The main responsibilities of the Monitoring Officer are to ensure that the Council and its elected Members act with probity in accordance with the law and in accordance with its Constitution and to avoid determinations of maladministration being issued by the Local Government Ombudsman.

The Monitoring Officer is also responsible for carrying out investigations and reporting to the Standards Committee of the Council any breaches of the Code of Conduct of members referred to it by the Standards Board for England.

Officers of the Council

Individual Directors and Heads of Service are responsible for establishing and maintaining an adequate system of internal control within their own Directorate and services respectively and for contributing to the control environment on a corporate basis.

Written assurances have been received from all directors and all heads of service that they:

- have actioned recommendations from internal audit, external audit and other inspection reports or are in the process of being actioned within the timetable agreed; and
- are satisfied with the operation of internal control within their area of responsibility.

Audit Commission and other review agencies/inspectorate

In their Annual Audit and Inspection letter 2004/05 the Audit Commission stated that the Council's systems of internal control met the minimum requirements for the Use of Resources assessment. To improve the Council needed to develop:

- risk management, particularly with respect to partnership working and quarterly reporting to Cabinet on risk management issues;
Directorates have been asked to include on DMT agendas, major projects e.g. Accommodation Strategy/Hereford Connects have risks logs associated with them. Corporate risk logs are circulated regularly for amendment. Risk Management issues are reported to Cabinet on a two monthly basis as part of the integrated Performance Reports
The Audit Manger has attended a CIPFA seminar on risk management in partnerships and a risk management protocol for partnerships is being developed;
- the assurance framework, in particular mapping strategic objectives to risks, controls and assurances; *The Audit Committee has adopted a Statement of Internal Control Assurance Framework, which meets the Audit Commission's requirements;* and
- the role of the Audit Committee to provide effective leadership on audit and governance issues. *The Council's Audit Committee is now fully operational and the terms of reference as set out in the CIPFA Guidance on Audit Committees have been adopted.*

The Council's Use of Resources assessment gained a 3 out of 4, however the internal control element was assessed as a 2 out of 4. An action plan has now been developed with the aim of improving the internal control score by the time of the next assessment.

Benefits Fraud Inspectorate

The inspectorate gave the service a 3 star rating, which equated to a good performance overall. It found that the Council's service in relation to claims administration, user focus, and resource management was good, with security arrangements being excellent.

Corporate Assessment and Joint Area Review

The outcome for the Council as a whole continued to be a positive one with the Council's overall score being that of a three star authority and under the new direction of travel statement, the authority was seen as "Improving Adequately".

Although the Council had a Performance Management Framework there was a need for it to be robustly and consistently implemented across the Council.

In overall terms there was a positive assessment of the review of Services for Children and Young People, however there was a major qualification to the overall assessment and that was in relation to the important area of ' Staying Safe'.

The Council has in place action plans to address the issues raised, the Corporate Management Board and Cabinet carry out regular monitoring of these plans. The Council has also set up Prince 2 Project Boards to ensure that the required improvements are met.

5. Significant internal control issues

The Council is required to report upon any significant internal controls issues. These include issues which:

- have seriously prejudiced or prevented achievement of an objective
- resulted in the need to seek significant additional funding;
- had a material impact in the accounts;
- resulted in formal action by the Monitoring Officer, Chief Finance Officer or have been reported as significant by the Head of internal Audit; and
- attracted significant public interest.

There were four issues identified for improvement:

- The Council does not have a Code of Corporate Governance in line with best practice. *A Code of Corporate Governance will be developed in line with CIPFA/SOLACE guidance and be submitted for approval by 31st August 2006;*
- Risk Management is embedded at Corporate and Directorate levels and the Council has well defined procedures for recording and reporting financial and non-financial risks. There is now a need to embed risk management at Key Manager level to ensure a consistent approach across the Council. *The Director of Resources is now the Council's lead officer and an action plan has been developed to speed the process and includes training, guidance for Directorate Management Teams, a survey of key managers and a review of the current Risk Management Strategy for completion by 31st August 2006;*
- 'Staying Safe' improvements within the Children and Young People Directorate raised as part of the Joint Area Review. *A Prince 2 Project Board is now in place to ensure that satisfactory progress is made on the Cabinet's approved action plan; and*
- There is the need to ensure that the Council's Performance Management Framework is robustly and consistently followed across the Council. *A Prince 2 Project Board is now in place to ensure that satisfactory progress is made on the Cabinet's approved action plan.*

Cllr R. Phillips
Leader of the Council

N. Pringle
Chief Executive

S. Rees
Director of Resources

STATEMENT OF ACCOUNTING POLICIES

1. General

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2005, which is recognised by statute as representing proper accounting practices.

2. Accruals of Income and Expenditure

Revenue and capital transactions are accounted for on an accruals basis. Customer and client receipts are accounted for in the period to which they relate. The cost of supplies and services are accrued and accounted for in the period during which they were consumed or received. Interest payable on external borrowings and interest income is accounted for in the year to which it relates. Debtors and creditors are included in the accounts on an actual basis where known, or on an estimated basis where precise amounts are not established at the year-end.

3. Reserves and Provisions

The Council maintains a number of provisions and earmarked reserves to cover future expenditure.

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. Provisions are charged to the cost of services when the authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are made they are charged to the provision set up in the balance sheet. The largest and by far the most material provision is an insurance provision, which has been subject to an independent evaluation.

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts from the Consolidated Revenue Account after service expenditure has been calculated. When expenditure to be financed from a reserve is incurred it is charged to the appropriate revenue account and included in the net cost of services. The reserve is then appropriated back into the Consolidated Revenue Account so that there is no charge against Council Tax for the expenditure.

4. Fixed Assets

(a) Categories

The Fixed Assets are categorised into the groupings required by the Code of Practice on Local Authority Accounting as follows:

Intangible Fixed Assets

Tangible Fixed Assets

Operational assets

- Other land and buildings
- Vehicles, plant and equipment
- Infrastructure assets
- Community assets

Non-operational assets

- Investment Properties
- Assets under construction
- Surplus assets held for disposal

Contrary to the CIPFA capital accounting guidance, tenanted farms will continue to be disclosed as non-operational assets (Investment Properties) in the 2005/06 accounts, as these properties do not contribute to service objectives of the Council.

(b) Recognition

Expenditure on the acquisition, creation and enhancement of a fixed asset is capitalised on an accruals basis. To be capitalised, the expenditure must be for assets yielding benefits to the Council for more than one year.

(c) Measurement

In accordance with Statements of Asset Valuation Principles and Guidance Notes issued by The Royal Institute of Chartered Surveyors (RICS), fixed assets are included in the balance sheet on the following basis:

Operational land, properties and other operational assets	lower of net current replacement cost or net realisable value in existing use (net of depreciation where appropriate)
Infrastructure and community assets	historical cost, less depreciation
Non-operational land, properties and other non-operational assets	lower of net current replacement cost or net realisable value

(d) Revaluations

When an asset is included in the balance sheet at current value, it is formally revalued at intervals of not more than five years and the revised amount is included in the balance sheet. The difference between the value and the amount at which the asset was included in the balance sheet immediately prior to the latest revaluation is credited or debited to the fixed asset restatement account, except in some cases of impairment. Where an impairment loss on a fixed asset occurs and it is a loss caused by a clear consumption of economic benefits, the loss is credited to the asset management revenue account and debited to the service revenue account.

(e) Disposals

Income from the disposal of fixed assets is credited to the usable capital receipts reserve, and accounted for on an accruals basis. Upon disposal, the net book value of the asset disposed of is written off against the fixed asset restatement account.

(f) Depreciation

Depreciation is charged on all fixed assets with a finite useful life excluding freehold land and non-operational investment properties. The Council depreciates its fixed assets on a straight-line basis over the estimated expected useful life after allowing for any residual value of the asset. Land and buildings are valued separately to enable depreciation to be charged on buildings only. New assets are not subject to a depreciation charge in the year of acquisition.

(g) Charges for the use of Fixed Assets

General fund service revenue accounts, central support services and statutory trading accounts, are charged with a capital charge for all fixed assets used in the provision of the service. Such charges cover the annual provision for depreciation, where appropriate, plus a capital financing charge determined by applying a specified notional rate of interest to the net amount at which the asset is included in the balance sheet. The notional interest is 3.5% for assets carried at current value and 4.95% for assets carried at historical cost. No charges are made for freehold land, and non-operational investment properties, including assets under construction. Interest payable and provision for depreciation are charged to an Asset Management Revenue account.

Where an asset suffers an impairment representing the clear consumption of economic benefits, an impairment loss is charged to the service that uses the asset.

However, in order to disclose the authority's corporate net operating expenditure, capital charges to services need to be reversed out and replaced by depreciation and external interest payable for financing. This reconciliation is performed in the Asset Management Revenue Account.

Net operating expenditure contains accounting entries that are not revenue-based and should not have an impact on Council Tax. Consequently, after the disclosure of net operating expenditure, a reconciliation is needed to reverse out non-revenue items (depreciation and amortised grants deferred) and to replace them with the Minimum Revenue Provision. This is accomplished in the Consolidated Revenue Account in the line 'Appropriation to/from Capital Financing Account'.

(h) Deferred charges and Intangible assets

Deferred charges refer to expenditure, which qualifies as capital for control purposes but does not result in the acquisition, creation or enhancement of a tangible fixed asset. All deferred charges expenditure is written out to revenue as it is incurred.

Capital expenditure which results in the acquisition of an intangible fixed asset (e.g. software) is recorded in the balance sheet at cost and written off to the service revenue account over the assets expected useful life, where determinable.

A reconciliation is needed, after the disclosure of net operating expenditure, to reverse out capital financed deferred charges and amortisation of Intangible assets. This is done by an adjustment in the Capital Financing Account.

5. Capital Receipts

A proportion of the capital receipts earned during 2005/06 were used to finance capital expenditure in the year. Unapplied receipts will be carried forward and used in future years.

Since the sale of the housing stock to Herefordshire Housing Ltd the Council continues to receive a share of preserved Right To Buy receipts.

6. Capital Accruals

The capital programme is funded on an accruals basis under the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice.

7. Grants

Revenue and Capital grants are accounted for on an accruals basis, with revenue grants credited to the appropriate revenue account and capital grants to the Capital Contributions Deferred account. Amounts are released from the contributions deferred account to the asset management revenue account, in line with depreciation on assets to which the grant relates.

8. Basis for Redemption of Debt

In accordance with the Local Government and Housing Act 1989 and subsequent regulations a minimum revenue provision was made to provide for the repayment of borrowing, representing 4% of the net Capital Financing Requirement after deducting adjustment 'A' (as required by legislation) and Prudential Borrowing (which is being repaid over the estimated expected useful life of the asset acquired).

9. Investments

Internal investments are shown in the Consolidated Balance Sheet at original cost.

10. Leases

Rentals for operating leases are charged to revenue on an accruals basis.

11. Stocks and Work-in-Progress

Stock has been included in the accounts at current cost.

12. Allocation of Central Support Costs

The accounts follow the principles of total absorption costing in accordance with the 'Best Value Accounting Code of Practice', which means that the outturn for services includes all direct, indirect and overhead costs incurred in providing the service. This is known as the principle of 'total cost'.

Central Support costs include the range of services provided by internal support divisions, including Finance, Property, Legal, Committees, Administration, and Human Resources. The costs have been recharged to services on the following basis;

Legal, Committees and Administration	Estimated time spent
Human Resources	Estimated time spent and pro-rata to the number of staff in Directorates.
Finance	A combination of estimated time spent and numbers of transactions.
Property services	Estimated time spent and pro-rata to property maintenance
Accommodation	Staff numbers in each building.

I.C.T. charges are also made to services based on an annual subscription charge for core services plus additional charges for development work at an hourly rate.

INFO in Herefordshire 'one-stop shops' have been recharged to services based on the number of queries and transactions dealt with during the year.

Certain central costs including corporate policy, PR, research and e-modernisation are also recharged to services at the year-end.

Further allocations are made to services in respect of Service Strategy and Regulation costs within Directorates, such as Adult and Community Services, Environment and Children and Young People's Services.

13. Pensions

The cost of providing pensions for employees is charged to the accounts in accordance with Financial Reporting Standard 17 'Retirement Benefits'. This reflects the requirement to account for retirement benefits when it is committed to give them even if the payment is many years in the future.

14. Private Finance Initiative

Under FRS 5, assets employed in the provision of services under Private Finance Initiatives (PFI) contracts are recorded on either the balance sheet of the Authority or the service provider, depending on which party has access to the benefits and risks associated with the assets.

As explained in Note 17 of the Consolidated Revenue Accounts notes, the Council has 2 PFI contracts, one in partnership with Worcestershire County Council for the provision of waste management services and the other for the provision of a secondary school at Whitecross. The assets employed in the provision of services under both contracts are deemed to be the service operator's assets under the provisions of FRS 5. Accordingly they are not recorded as Fixed Assets in the Council's balance sheet.

However under FRS 5 it is appropriate to recognise the residual value of the assets that will transfer to the Council's ownership at the end of the PFI contract. The assets are valued and an annual sum is calculated on a straight-line basis over the duration of the PFI contract. The sum is transferred from the revenue PFI payment to the Balance Sheet to be accrued as a Long Term Debtor. At the end of the PFI contract the Long Term Debtor is transferred to a Fixed Asset category.

15. Car and Computer Loans

The Council operates a car loan scheme in order to assist staff to purchase cars for use during their work. The interest rate is designed to produce a break-even position for the Council.

In addition the Council offers interest free loans to allow staff to purchase computers to assist them to improve their I.T. skills at work.

16. Car Leasing

The Council operates a car leasing scheme as an option for staff requiring cars for business use. This is at no additional costs to the Council in comparison to the cost of mileage allowances for staff using their own cars.

17. Herefordshire Jarvis Services

In accordance with the accounting treatment set out in FRS 9 'Associates and Joint Ventures' no group accounts are required for the partnership with Herefordshire Jarvis Services. This is conducted as a contractual arrangement with the transactions included in the consolidated revenue account and capital accounts.

18. Exceptional/Extraordinary Items

There are no exceptional or extraordinary items to report in the accounts.

19. Estimation Techniques

Where precise amounts are not known at the year-end, figures are included in the accounts on an estimated basis using the best information available at that time. In particular, the Housing Benefit Subsidy figures are included in the accounts on the basis of an estimated claim form, as the claim is completed and audited at a later date. There are no estimates in the 2005/06 accounts which would materially affect the fair presentation of the accounts had a different estimation technique been applied.

CONSOLIDATED REVENUE ACCOUNT

2004/05 Net £000	2005/06 Expenditure £000	2005/06 Income £000	2005/06 Net £000
1,281 Central services	13,209	11,544	1,665
(94) Court services	235	0	235
25,387 Cultural, environmental and planning services	45,681	18,454	27,227
87,101 Education services	130,546	34,360	96,186
15,078 Highways, roads and transport services	22,998	6,933	16,065
4,768 Housing services	42,762	35,310	7,452
39,433 Social services	68,029	24,618	43,411
3,933 Corporate and democratic core	4,242	612	3,630
453 Non-distributed costs	(3,072)	0	(3,072)
2,682 Other services	1,678	982	696
180,022 Net Cost of Services	326,308	132,813	193,495
4,029 Precepts and Levies			2,040
0 Pooled Capital receipts			437
68 (Surplus)/Deficit from Trading accounts			816
956 Deferred charges written off			0
(10,036) Return on Pension assets			(10,135)
12,510 Pensions interest			13,758
(10,464) Asset Management Revenue Account			(8,718)
(87) Gains and losses on repurchase of borrowing			0
(1,681) Interest and Investment Income			(1,945)
175,317 Net Operating Expenditure			189,748
(1,791) Pensions appropriation			359
0 Pooled receipts appropriation			(437)
244 Revenue Contribution to capital			802
(3,079) Appropriations to/(from) Capital Financing Account			(6,652)
1,837 Transfer to/(from) Reserves			2,698
172,528 Amounts to be met from Government Grants and Local Taxation			186,518
Sources of Finance			
(65,464) Council Tax			(68,926)
(400) Transfer from Collection Fund			(300)
(62,011) Revenue Support Grant			(58,372)
(49,297) Contribution from Non-Domestic Rates			(58,954)
(177,172)			(186,552)
(4,644) Net (Surplus)/Deficit for the year			(34)
(9,847) Balance on General Fund brought forward			(14,491)
(14,491) General Fund Revenue Balance 31st March			(14,525)

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

1. Precepts and levies

The following precepts and levies were charged to the Consolidated Revenue Account;

2004/05	2005/06
£000	£000
1,851 Parish Councils	1,979
1,610 River Authorities	108
297 Magistrates Court	0
<u>271</u> Former HWCC debt financing	<u>(47)</u>
<u>4,029</u>	<u>2,040</u>

The reduced levies to River Authorities resulted from a change in funding arrangements for the Environment Agency. Also, from 1st April 2005 Magistrates Courts transferred to Her Majesty's Magistrates Court service and the Council ceased to make any contributions to the cost of the service.

2. The Asset Management Revenue Account

The Asset Management Revenue Account reverses out the capital charges made to services under the capital accounting system and replaces them with depreciation (net of government grants and contributions deferred) and real interest charges paid by the Council.

The transactions on the Asset Management Revenue Account for the year to 31st March 2006 are as follows:

2004/05	2005/06
£000	£000 £000
Income	
(15,377) Capital Charges	(18,159)
<u>(4,399)</u> Release of grants and contributions deferred	<u>(1,932)</u>
(19,776)	(20,091)
Expenditure	
6,396 Provision for Depreciation	7,227
186 Amortisation of Intangible Assets	841
66 Provision for Impairment	4
<u>2,664</u> External Interest charges	<u>3,301</u>
9,312	11,373
<u>(10,464)</u> Balance transferred to the Consolidated Revenue Account	<u>(8,718)</u>

3. Minimum Revenue Provision

The Local Government and Housing Act 1989 requires the council to set aside an amount from revenue, the minimum revenue provision (MRP), to meet its liabilities in respect of capital expenditure financed by external borrowing. The method of calculation is defined by statute.

The Code of Practice requires that for the purposes of compliance with these statutory requirements the provision for depreciation (net of the contribution from grants and contributions deferred), impairments and the net write-down of deferred charges, to be regarded as part of the MRP, with the difference being treated as a transfer to/from the capital financing account.

This will ensure that amounts included in net operating expenditure relating to capital investment (depreciation and deferred charges) do not have an impact on the amount to be raised from the Council Tax and are replaced instead by the statutory charges (MRP).

2004/05		2005/06
£000		£000
4,097	Minimum Revenue Provision	4,853
6,396	Less: Provision for depreciation	7,227
(4,399)	Release of grant and Contributions deferred	(1,932)
66	Provision for impairment	4
4,927	Deferred Charges write-off	5,395
186	Amortisation of Intangible Assets	841
0	PFI deferred charge	(30)
<u>7,176</u>		<u>11,505</u>
<u>(3,079)</u>	Transfer from Capital Financing Account to Consolidated Revenue Account	<u>(6,652)</u>

4. Pensions

Herefordshire Council participates in two pension schemes, the Local Government Pension Scheme and the Teachers' Pension Scheme. Both schemes provide employees with defined benefits related to pay and service, but for the purposes of FRS 17 the Teachers' Pension scheme is treated as if it was a defined contribution scheme.

(a) Teachers' Pensions scheme

This is an unfunded scheme administered by the Department for Education and Skills. It provides teachers with defined benefits on their retirement, and the authority contributes towards the costs by making contributions based on a percentage of pensionable salaries. The contribution rates for employees and employers are set on the basis of a notional fund.

In 2005/06 the Council paid £6.14 million in respect of teachers' pension costs, which represented 13.5% of teachers' pensionable pay. In addition, the Council is responsible for all pension payments relating to added years it, or its predecessor authority, has awarded, together with the related increases. In 2005/06 these amounted to £111,218, representing 0.24% of pensionable pay.

(b) Local Government Pension Scheme

Other employees are eligible to join the Local Government Pension Scheme administered by Worcestershire County Council. This is a funded scheme, which means that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

Although the benefits will not actually be payable until employees retire, the authority has a commitment to make the payments and this needs to be disclosed at the time the employees earn their future entitlement. Under FRS 17 the cost of retirement benefits is included in the Net Cost of Services when it is earned by employees, rather than when it is paid as pensions. However, the charge required to be made against Council Tax is based on the cash payable in the year, so the real cost of the retirement benefits is reversed out of the Consolidated Revenue Account after Net Operating Expenditure.

The following transactions have been made in the Consolidated Revenue Account during the year:

2004/05 £000		2005/06 £000
	Net Cost of services	
6,329	Current Service cost	6,949
163	Past service cost (gain)	(4,057)
175	Curtailment cost	930
	Net Operating Expenditure	
12,510	Interest cost	13,758
(10,036)	Expected return on assets in the scheme	(10,135)
	Appropriations	
<u>(1,791)</u>	Movement on Pensions Reserve	<u>359</u>
<u>7,350</u>		<u>7,804</u>
	Amount charged against Council Tax	
<u>7,350</u>	Employer's contribution payable to the scheme	<u>7,804</u>

Note 12 to the Consolidated Balance Sheet contains details of the assumptions made in estimating the figures included in this note. The note to the Statement of Total Movements in Reserves details the movement in the pensions liability due to the revision of previous estimated figures.

5. Operating leases

The Council is required to disclose the amount paid in respect of leases in the year and the amount of lease rentals received from lessees:

2004/05 £000		2005/06 £000
	The amount of lease rentals paid to lessors	
944	Other Land & Buildings	938
799	Vehicle, Plant & Equipment	739
	Rental received in the year for operating leases	
2,347	Other Land & Buildings	2,669

6. Publicity

Section 5 of the Local Government Act 1986 requires local authorities to record expenditure on publicity. In 2005/06 the total was £1,132,000 split as set out below;

2004/05 £000		2005/06 £000
567	Recruitment advertising	658
11	Other advertising	10
453	Other publicity	464
<u>1,031</u>		<u>1,132</u>

7. Trading Operations

The Council has a number of trading units where the service manager is required to operate in a commercial environment and generate income from other parts of the authority or external customers.

Significant trading accounts are summarised as follows:

	2005/06 £000	2005/06 £000
Markets		
The Council owns and manages open and closed markets, generating income from permanent and temporary letting of premises and market stalls.	Turnover (804)	
	Expenditure 543	
	Surplus	(261)
	[Surplus 2004/05 351]	
Industrial & Commercial Estates		
The Council owns and manages a number of industrial and commercial estates in the County	Turnover (1,830)	
	Expenditure 420	
	Surplus	(1,410)
There was an increase in income in the year due to the receipt of backdated rent following a rent review.	[Surplus 2004/05 835]	
Retail Properties		
The Council owns retail premises in Hereford City centre from which it receives commercial rents	Turnover (591)	
	Expenditure 18	
	Surplus	(573)
	[Surplus 2004/05 (621)]	
ICT Services		
Information and Communications Technology Services are provided to all Council Directorates	Turnover (5,902)	
	Expenditure 6,718	
	816	
	ICT reserve (758)	
In 2005/06 £758k of ICT costs were funded from an ICT reserve, set aside in previous years from trading surpluses.	Deficit	58
	[Deficit 2004/05 68]	

8. Section 137 of the Local Government Act 1972

Section 137 of the Local Government Act 1972, as amended, empowers local authorities to make contributions to certain charitable funds and not-for-profit bodies. The expenditure is limited to £5 per head of population. The Council was permitted to spend £889,000 under this power in 2005/06 and its actual expenditure was £562,743.

9. Building Regulations Charging Account 2005/06

The Local Authority Building Control Regulations require the disclosure of information regarding the setting of charges for the administration of the building control function. However, certain activities performed by the Building Control section cannot be charged for, such as providing general advice and liaising with other statutory authorities. The statement below shows the total cost of operating the building control function divided between the chargeable and non-chargeable activities.

Total Building Control 2004/05 £000		Chargeable 2005/06 £000	Non- Chargeable 2005/06 £000	Total Building Control 2005/06 £000
Expenditure				
496	Employee Expenses	412	137	549
6	Premises	0	0	0
37	Transport	36	12	48
26	Supplies & Services	25	8	33
191	Central Support Service Charges	228	26	254
<u>756</u>	Total Expenditure	<u>701</u>	<u>183</u>	<u>884</u>
Income				
(756)	Building Regulation Charging	(788)		(788)
<u>0</u>	(Surplus)/Deficit for the Year	<u>(87)</u>	<u>183</u>	<u>96</u>

10. Members Allowances

Allowances are paid to members under the Local Authority [Members Allowances] [England] Regulations 2003. In 2005/06 members were paid a total of £597,544 under these regulations (£588,582 in 2004/05). This was made up of £348,820 Basic allowances, £207,812 Special responsibility allowances and £40,912 for travelling and subsistence.

11. External Audit Fees

The Audit Commission has been the Council's external auditors since the Council came into being in 1998. The annual audit of the accounts is carried out in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards.

Audit fees charged to the revenue account in 2005/06 amounted to £340,268 (£333,747 in 2004/05) comprising £175,121 for the Core Audit, £80,900 for Inspection fees and £84,247 for the audit of returns and grant claims.

12. Redundancies

The following table summarises the redundancies which occurred in 2005/06:

2005/06	Teachers	Others	Total
Number	5	22	27
Total Cost	£15,719	£297,235	£312,954
Average	£3,144	£13,511	£11,591

Where appropriate the figures include compensation payments under the Local Government Compensation for Redundancy Regulations, which came into force in 1996.

13. Employees remuneration

The Accounts and Audit Regulations 2003 require authorities to disclose the number of employees whose remuneration in the year, excluding pension contributions, was £50,000 and above, shown in bands of £10,000 as set out below. Remuneration is defined as all amounts paid to or receivable by an employee, including taxable expense allowances and the money value of benefits, but excluding pension contributions.

Remuneration band	No. of Employees
£50,000 - £59,999	20
£60,000 - £69,999	13
£70,000 - £79,999	3
£80,000 - £89,999	0
£90,000 - £99,999	2
£100,000 - £109,999	1
£110,000 - £119,999	0
£120,000 - £129,999	1

14. The Local Authority (Goods and Services Act) 1970

The Act empowers Local Authorities to provide goods and services to other public bodies. In 2005/06 services were provided to the following organisations:

2004/05 £000	Organisation	2005/06 £000
32	Hereford College of Art & Design	18
25	Hereford College of Technology	9
98	Hereford and Worcester Fire Brigade	93
53	Herefordshire Housing Ltd	16
208		136

15. Pooled Budget Arrangements

There are five Section 31 agreements between the Council and Primary Care Trust (PCT).

Three are hosted by the PCT:

- Mental Health;
- Hillside Intermediate Care;
- Blanchworth Contract, Kington.

The two agreements hosted by the Council are:

- Learning Disabilities;
- Integrated Community Equipment Store (ICES).

The agreements hosted by the Primary Care Trust were as follows:

Mental Health

Financial contributions as detailed on the Memorandum Account are as below. The Council's gross over spend for mental health was £414,000 but under the reciprocal risk sharing

agreement for 2005/06 the PCT will fund the first £280,000 of this sum. Therefore, the total over spend of £589,000 is being funded £134,000 from the Council and £455,000 from the PCT.

2004/05 £000		2005/06 £000
	<u>Budget</u>	
13,357	Herefordshire PCT	14,341
<u>4,411</u>	Herefordshire Council	<u>4,351</u>
<u>17,768</u>	Total Funding	<u>18,692</u>
	<u>Expenditure</u>	
13,357	Herefordshire PCT	14,516
<u>4,411</u>	Herefordshire Council	<u>4,765</u>
<u>17,768</u>	Total Expenditure	<u>19,281</u>
0	Net over/(under) spend	589

Hillside Intermediate Care

The main contributory factor for the over spend is the pressure on staff related costs, as agency staff have been employed to cover vacancies and sickness absence. The overspend is being split between the Council and the PCT.

2004/05 £000		2005/06 £000
	<u>Budget</u>	
827	Herefordshire PCT	802
<u>355</u>	Herefordshire Council	<u>357</u>
<u>1,182</u>	Total Funding	<u>1,159</u>
	<u>Expenditure</u>	
827	Herefordshire PCT	933
<u>355</u>	Herefordshire Council	<u>419</u>
<u>1,182</u>	Total Expenditure	<u>1,352</u>
0	Net over/(under) spend	193

Blanchworth Contract, Kington

The report for this pooled fund comprises the contributions from the two parties and a largely block payment to Blanchworth Care for the provision of the service.

2004/05 £000		2005/06 £000
	<u>Budget</u>	
447	Herefordshire PCT	486
<u>305</u>	Herefordshire Council	<u>332</u>
<u>752</u>	Total Funding	<u>818</u>
	<u>Expenditure</u>	
447	Herefordshire PCT	486
<u>305</u>	Herefordshire Council	<u>332</u>
<u>752</u>	Total Expenditure	<u>818</u>
0	Net over/(under) spend	0

The agreements hosted by Herefordshire Council were as follows:

Learning Disabilities

Financial contributions as detailed on the Memorandum Account are as below. The PCT's gross overspend for learning disabilities was £77,000, but under the reciprocal risk sharing agreement for 2005/06 the Council fund the first £280,000 of the PCT deficit, and therefore the full deficit of £915,000 will be funded by the Council:

2004/05 Budget £000	2004/05 Expenditure £000		2005/06 Budget £000	2005/06 Expenditure £000
		<u>Primary Care Trust</u>		
1,360	1,360	Commissioning Gross	1,326	1,326
1,334	1,468	Southbank Gross	1,346	1,472
	(134)	Southbank Income	0	(49)
0	0	LDP Initiatives	200	200
		PCT contribution to Health staff Gross	<u>276</u>	<u>276</u>
<u>273</u>	<u>273</u>	Net	<u>3,148</u>	<u>3,225</u>
<u>2,967</u>	<u>2,967</u>			
		<u>Herefordshire Council</u>		
10,415	12,500	Gross	12,217	13,194
<u>(4,083)</u>	<u>(4,654)</u>	Income	<u>(4,576)</u>	<u>(4,715)</u>
<u>6,332</u>	<u>7,846</u>	Net	<u>7,641</u>	<u>8,479</u>
<u>9,299</u>	<u>10,813</u>	Net Budget/Expenditure	<u>10,789</u>	<u>11,704</u>
	<u>1,514</u>	Net over/(under) spend		<u>915</u>

Integrated Community Equipment Service

2004/05 £000		2005/06 £000
	Gross Funding	
395	Herefordshire Council	406
(185)	Transfer Budget to Capital	0
68	Herefordshire PCT	70
<u>5</u>	Education	<u>12</u>
283	Total Funding	488
	Expenditure	
547	Revenue	492
<u>(295)</u>	Transfer to Capital	<u>0</u>
252	Total Expenditure	492
<u>(31)</u>	Net over/(under) spend	4

16. Related Party Transactions

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. During the year significant transactions with related parties arose as follows;

2004/2005			2005/2006	
Receipts	Payments		Receipts	Payments
£000	£000		£000	£000
Government departments and agencies				
73,783	0	- Office of the Deputy Prime Minister	69,302	15
35,187	0	- Department for Works and Pensions	37,966	1
20,374	0	- Department of Education and Skills	25,985	0
7,550	0	- Department of Health	11,858	0
182	0	- Department for Environment, Food & Rural Affairs	427	0
1,063	0	- Department for Transport	1,443	0
6,333	25	- Advantage West Midlands	3,015	28
1,492	0	- Government Office for West Midlands	933	0
552	0	- Home Office	597	0
70	0	- Cabinet Office	7	0
449	0	- Lottery	1,350	0
249	4	- Countryside Agency	183	0
94	0	- Legal Services Commission	8	0
2,982	142	- Learning and Skills Council	2,928	53
10	0	- Arts Council	112	0
0	2	- Basic Skills Agency	0	0
8	0	- Welsh Assembly	0	0
0	0	- Countryside Council for Wales	136	0
0	0	- Dept for Constitutional Affairs	144	0
0	0	- Welfare Food Reimbursement	14	0
0	8,342	Teachers pension scheme	0	8,924
Worcestershire County Council				
0	9,405	- Worcestershire pension scheme	0	9,385
112	2,719	- Other	155	2,645
8,580	6,198	Herefordshire Primary Care Trust	5,023	7,839
0	4,671	Mercia Waste	38	6,116
196	9,202	West Mercia Police Authority	103	9,768
93	3,759	Hereford & Worcester Fire Authority	103	3,998
78	559	Courtyard Trust	14	417
1,318	17,052	Herefordshire Jarvis Service	689	18,538
0	2,064	Owen Williams	1	2,140
115	1,467	Halo	210	1,973
15	1,587	West Mercia Supplies	9	2,201
3	2,796	Shaw Healthcare	36	4,147

The amounts shown above are the cash transactions with related parties.

In addition, there are a number of Councillors who serve on outside bodies and school governing bodies either as a representative of the Council or as a private individual. Details of these interests are recorded in the Register of Members interests, which is updated annually and open to public inspection.

An examination of the Register indicates that the Council's financial transactions with these bodies in 2005/06 are not material, with the exception of grants and other payments to local

charities, which total £160,534. The relevant members did not take part in the Council's decision to allocate these grants.

17. Private Finance Initiative

In 1998 Herefordshire Council, in partnership with Worcestershire County Council, entered into a 25 year contract with Mercia Waste Management Ltd for the provision of an integrated waste management system using the Private Finance Initiative. Under the contract the Authorities are required to ensure that all waste for disposal is delivered to the Contractor, who will take responsibility for recycling or recovering energy from the waste stream. In total the estimated cost over the life of the contract is approximately £500 million, of which around 25% relates to Herefordshire Council.

As at 31st March 2006, the waste disposal contract was still subject to a standstill agreement which temporarily suspends aspects of the contract pending a full renegotiation of the contract arrangements. It is hoped that the renegotiations will be concluded during the second quarter of 2006/07. Because of the need to complete the renegotiations, to obtain planning permission and to complete building works, the new, significantly different, arrangements for dealing with waste disposal are now not expected to begin operating until 2007/08 at the earliest, assuming the renegotiation is completed. The new arrangements are expected to cost significantly more than the existing contract. Estimates of the additional cost is reflected in the Council's medium term financial strategy.

The new Whitecross High School PFI project reached financial close in January 2005 and opened on the due date on 5th June 2006. The project has delivered a fully equipped 900-place secondary school with full facilities management services. The contract with Stepnell Ltd has an overall value of £74 million and lasts for 25 years. At the end of this period the school will transfer to the Council's ownership.

THE COLLECTION FUND

This account reflects the statutory requirement for Council Tax billing authorities to establish and maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax and Non-Domestic Rates (NNDR). The Collection Fund balances are consolidated with the Consolidated Balance Sheet.

2004/05 £000	Note	2005/06 £000 £000	
Income			
Council Tax:			
70,390 Income from council taxpayers	1	73,410	
8,789 Council Tax benefits		9,627	
79,179			83,037
34,234 Income from business ratepayers	2		34,814
113,413 Total Income			117,851
 Expenditure			
9,165 West Mercia Police Authority Precept			9,614
3,760 Hereford & Worcester Fire Authority			3,966
65,464 Herefordshire Council Precept			68,926
91 Bad debt write offs - Council Tax			132
26 Provision for bad debts (increase) - Council Tax			88
 Non Domestic Rates			
33,942 Contribution to national pool	2		34,525
292 Cost of collection allowance			289
112,740 Total Expenditure			117,540
 673 Surplus/(Deficit) for the year	 3		 311
 322 Balance brought forward	 3		 656
 995 Balance carried forward	 3		 967

There is a planned phased reduction of the accumulated surplus.

Notes to the Collection Fund

Note 1

Council Tax income is derived from charges raised according to the value of residential properties, which have been classified into eight valuation bands. Estimated values at 1st April 1991 are used for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the collection fund by the Council, West Mercia Police Authority and Hereford & Worcester Fire Authority, and dividing this by the Council Tax base (the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts etc.). The amount of Council Tax for a Band D property is multiplied by the proportion specified for the particular band to give an individual amount due. The average Council Tax for a Band D property in 2005/06 was £1,228.63 with a range between £1,199.16 to £1,270.11. The Council Tax base used for setting the Council Tax in 2005/06 was 67,152.

Band	Valuation Range	Charge Factor	Band D Equivalent
A	Up to £40,000	6/9	6,170.30
B	£40,001 to £52,000	7/9	12,179.00
C	£52,001 to £68,000	8/9	12,163.10
D	£68,001 to £88,000	9/9	11,151.80
E	£88,001 to £120,000	11/9	11,760.20
F	£120,001 to £160,000	13/9	7,994.60
G	£160,001 to £320,000	15/9	4,998.80
H	Over £320,000	18/9	293.00
Crown			196.10
			66,906.90
	Other adjustments		245.59
			67,152.49
Council Taxpayer Income		£000	£000
Council Tax debit @ 1 st April			92,396
Add:			
Redebits		60,993	
Banding Change		401	
Additional – 2 nd Homes		469	
Additional – Empty Properties		322	62,185
Less:			
Discounts		7,898	
Exemptions		2,815	
Benefits – Statutory		9,596	
Benefits – Non Statutory		31	
Disablement Relief		130	
Transitional Relief		(3)	
Void Assessments		162	
Empty Assessments		60,542	81,171
			73,410

Note 2

The Council collects non-domestic rates from ratepayers in the area and this amount, after the deduction of a cost of collection allowance is paid into a national pool.

	£
NNDR Contribution to the Pool	34,524,596.71
Cost of Collection Allowance	289,129.48
Income from Business Ratepayers	<u>34,813,726.19</u>
NNDR Entitlement	58,954,415.00

£34,524,596.71 is the contribution due to the NNDR pool for 2005/06 paid by Herefordshire Council to the Office for the Deputy Prime Minister (ODPM). This represents the amount from business ratepayers less an allowance for the cost of collection. The NNDR pool is held by central government and redistributed to all local authorities. Herefordshire Council received NNDR entitlement of £58,954,415, which is its redistributed share. This figure is calculated on a per head of population basis.

Business rateable value as at 31 st March 2006	£101,311,008	
Business rate multiplier	42.2p	
Non-domestic Ratepayers Income	£000	£000
Non-domestic debit @ 1 st April		41,687
Add:		
Transitional Premium		50
Less:		
Empty Allowances	2,217	
Transitional Relief	1,727	
Discretionary Relief	184	
Mandatory Relief	2,483	
Write-offs	279	
Interest on Refunds	33	6,923
Income due from non-domestic ratepayers	<u>33</u>	<u>34,814</u>

Note 3

Contributions to Collection Fund Surpluses

Council Tax	£000	£000
Surplus at 31.3.05		995
Less: Payments		
Hereford & Worcester Fire Brigade	1	
West Mercia Police Authority	38	
Herefordshire Council	300	339
	<u>300</u>	<u>656</u>
Surplus balance brought forward		656
Surplus financial year 2005/06		311
Surplus balance carried forward		967

CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH 2006

31.3.05 £000		Note	31.3.06 £000	31.3.06 £000
	Fixed Assets	1		
2,320	Intangible Fixed Assets		4,883	
	Tangible Fixed Assets			
	Operational Assets			
174,507	- Other land and buildings		201,852	
2,096	- Vehicles, plant, furniture and equipment		3,314	
60,033	- Infrastructure assets		67,477	
1,790	- Community Assets		1,790	
<u>37,048</u>	Non-operational Assets		<u>37,343</u>	
277,794				316,659
538	Long-term debtors	2		409
14	Long-term investments	3		<u>14</u>
<u>278,346</u>	Total Long-term Assets			<u>317,082</u>
	Current Assets			
129	Stocks and work-in-progress	4	131	
17,899	Debtors	5	26,580	
33,133	Short-term Investments	6	37,889	
0	Landfill Allowance	7	1,085	
<u>2,304</u>	Cash and bank		<u>2,041</u>	
53,465				67,726
	Current Liabilities			
27,900	Creditors	8	28,463	
10,351	Short term borrowing	9	1,386	
<u>4,551</u>	Cash overdrawn		<u>6,308</u>	
<u>42,802</u>				<u>36,157</u>
289,009	Total Assets less Current Liabilities			348,651
58,296	Long-term borrowing	9	81,853	
10	Debt Liability	10	8	
0	Pooled receipts liability	11	151	
102,186	Pensions liability	12	100,614	
<u>1,135</u>	Provisions	13	<u>2,555</u>	
<u>161,627</u>				<u>185,181</u>
<u>127,382</u>	Total Assets less Liabilities			<u>163,470</u>
22,499	Capital contributions deferred	14		34,344
96,087	Fixed asset restatement account	15		118,258
65,496	Capital financing account	16		61,726
(102,186)	Pensions reserve	12		(100,614)
465	Deferred credits	17		252
18,291	Usable capital receipts	18		20,070
11,244	Earmarked reserves	19		13,942
14,491	Revenue balances			14,525
<u>995</u>	Collection Fund balances			<u>967</u>
<u>127,382</u>	Total net worth			<u>163,470</u>

NOTES TO THE CONSOLIDATED BALANCE SHEET

1. Fixed Assets

(a) Movement in Fixed Assets

	<i>Operational assets</i>				<i>Non-operational assets</i>			<i>Intangible assets</i>	<i>Total</i>
	Other land and buildings	Vehicles plant and equip	Infra-structure assets	Comm-unity assets	Held for Invest-ment	Under Constr-uction	Surplus Assets		
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Net book value at 31st March 2005	174,507	2,096	60,033	1,790	32,606	2,251	2,191	2,320	277,794
Additions	7,792	2,028	10,480	273	224	478	76	3,404	24,755
Disposals/deletions	(142)				(52)		(2,150)		(2,344)
Revaluations	20,855			(287)	3,240		718		24,526
Reclassifications	2,224			14	(525)	(2,054)	341		0
Depreciation for year	(3,381)	(810)	(3,036)						(7,227)
Amortisation for year								(841)	(841)
Impairment losses for year	(3)				(1)				(4)
Net book value at 31st March 2006	201,852	3,314	67,477	1,790	35,492	675	1,176	4,883	316,659

(b) Valuations

For each class of fixed asset included in the Balance Sheet at current value the valuation has been carried out by Alison Hext Dip Est. Man. MRICS, an internal valuer employed by Property Services.

Operational assets, where there is evidence to support value are valued on Existing Use Value basis, and where they are of a specialised nature are valued on a Depreciated Replacement Cost basis. Non-operational assets are valued on an Open Market Valuation basis.

Assets are subject to a 5-year rolling revaluation programme. Where the Council is not aware of any material change in value, the valuations have not been updated other than part of the rolling programme.

During 2005/06 fixed assets of £113.890 million were revalued, consisting of £93.880 million Operational Land and Buildings and £20.010 million of Non-operational assets.

(c)Analysis of Fixed Assets

The major fixed assets held by the Council as at 31st March 2006 includes:

	31.03.06
Children and Young People's Services	
Primary Schools	76
Secondary Schools	14
Special Schools	5
Pupil Referral Units	2
Other Educational Establishments	5
Children and Family Centres	3
Youth Centres	8
Adult and Community Services	
Homes for older people	5
Day Centres	5
Homeless Shelter	1
Other Social Services Establishments	5
Libraries	6
Heritage, Museums & Galleries	5
Leisure Centres	6
Swimming Pools	4
Other Leisure/Community Facilities	4
Environment	
Principal County roads	350 km
Distributor/Access roads	2,911.5 km
Cemeteries	4
Crematorium	1
Public Conveniences	30
Travellers Sites	5
Bus Stations	2
Car Parks	42
Open Markets	2
Household Waste Sites	3
Other	
Smallholdings (non-operational assets)	74
General Buildings and Offices	26
Operational Depots	10
Registrars	2
Other Non operational Assets	235
Other Community Assets	157

2. Long-term Debtors

An analysis of Long-term debtors is as follows;

2004/05		2005/06
£000		£000
125	Staff car loans	100
24	Housing Advances	6
27	Computer loans	12
30	Ross Festival loan	0
59	Waste Management PFI	69
0	Whitecross PFI	21
<u>273</u>	HRA Mortgages	<u>201</u>
<u>538</u>		<u>409</u>

3. Long-term Investments

The following long-term investments were inherited from outgoing councils on 1st April 1998:

Council	Nominal Value £000	Market Value £000	Investment
Hereford City	1.126	0.950	3½% War Stock
	0.527	0.312	2½% Consolidated Stock
Leominster District	0.078	0.067	3½% Conversion Stock
	1.744	1.471	3½% War Stock
	0.394	0.233	2½% Consolidated Stock
	<u>3.869</u>	<u>3.033</u>	
South Herefordshire District	10.000		ADC Debenture Stock 1996/2011
	<u>0.140</u>		Parochial investment
Balance at 31 st March 2006	<u><u>14.009</u></u>		

4. Stocks and Work-in-progress

An analysis of stocks and work-in-progress is as follows;

2004/05		2005/06
£000		£000
19	Rail passes	4
1	Record office	0
77	Tourist Information offices	76
2	Museums	4
18	Highways salt and grit	45
12	IT Stock	2
<u>129</u>		<u>131</u>

5. Debtors

An analysis of debtors and payments in advance at the year-end is as follows;

2004/05		2005/06
£000		£000
6,008	Directorate Service Areas	6,574
81	School loan accounts	282
35	ICT	115
424	Herefordshire In Touch	0
835	Joint Funding	1,037
2,414	Capital	2,888
1,952	VAT	2,027
64	Treasury management	204
118	Leased cars	98
3,270	Debtors system	7,972
80	Fairer charging	111
2,987	Collection Fund	5,782
60	Other	49
<u>18,328</u>		<u>27,139</u>
(429)	Provision for bad debts	(559)
<u>17,899</u>		<u>26,580</u>

6. Short-term Investments

(a) Internally Managed

	£000	£000
Balance at 1 st April 2005		25,990
Investments made during year (266 transactions)	2,148,496	
Investments recalled during year	<u>(2,144,066)</u>	
Balance at 31 st March 2006		<u>4,430</u> <u>30,420</u>

(b) Externally Managed

The fund is managed by Investec Asset Management Ltd and the investment is supported by:

2004/05		2005/06
£000		£000
6,948	Certificates of Deposit	2,118
179	Fixed Interest Securities	5,315
16	Deposit accounts	36
<u>7,143</u>	Balance at 31st March	<u>7,469</u>

Total Short-term Investments at 31st March 2006

£37,889,030

7. Landfill Allowance Trading Scheme

The Landfill Allowances Trading Scheme (LATS) came into operation on 1st April 2005. DEFRA allocates tradable landfill allowances to waste disposal authorities (WDAs), who may use the allowances to meet their liability for landfill usage or sell them to another WDA. If authorities use more landfill than their allowance they have to purchase additional allowances

from other WDAs or pay a penalty to DEFRA. The asset showing on the balance sheet represents the market value of the 2005/06 allowances (53,716 tonnes at £20.20 per tonne).

8. Creditors

An analysis of creditors and receipts in advance at the year-end is as follows;

2004/05		2005/06
£000		£000
13,392	Directorate Service Areas	12,624
2	ICT	21
416	Herefordshire In Touch	183
998	Joint Funding	1,511
684	Capital	962
7,470	Creditors' system	9,409
514	Treasury management	686
2,143	Payroll	3
1,107	Collection Fund	1,441
366	Purchase ordering system accruals	858
808	Other	765
<u>27,900</u>		<u>28,463</u>

9. Borrowing

a) Borrowing Analysis

Total borrowing can be analysed as follows:

	Range of Interest Rates %	Debt 1.4.05 £000	Loans Raised £000	Loans Repaid £000	Debt 31.3.06 £000
Public Works Loan Board - Maturity	3.7 – 10.25	48,807	18,000	(3,000)	63,807
Public Works Loan Board - Annuity	4.25 - 5	6,913		(424)	6,489
Money Market - Maturity	1.6 – 4.5	12,000			12,000
		<u>67,720</u>	<u>18,000</u>	<u>(3,424)</u>	<u>82,296</u>

The Council has two LOBO (Lenders Option- Borrowers Option) market loans as follows:

1) £6,000,000 borrowed on 4th February 2004 from Dexia Credit Local at an initial fixed rate of interest of 2.85% for 2 years followed by 4.50% for the remaining 48 years.

2) £6,000,000 borrowed on 24th November 2004 from Danske Bank at an initial fixed rate of interest of 1.60% for 2 years followed by 4.50% for the remaining 48 years.

b) Loan Maturity

An analysis of loans as at 31st March 2006 by maturity is:

2004/05		2005/06	2005/06
£000	LONG TERM BORROWING	£000	£000
6,443	Maturing within 1 - 2 years	5,464	
6,206	Maturing within 2 - 5 years	4,009	
1,424	Maturing within 5 - 10 years	1,689	
3,979	Maturing within 10 - 15 years	3,862	
40,244	Maturing in more than 15 years	66,829	
<u>58,296</u>			81,853
9,424	Borrowing repayable within 12 months		443
<u>67,720</u>			<u>82,296</u>

c) Trust Funds

A number of Trusts funds have investments with the Council totalling £942,273

10. Debt Liability

Herefordshire's proportion (24.6%) of the Ex-Hereford and Worcester County Council's Public Works Loan Board outstanding debt on 31st March 1998 was transferred to Herefordshire on 30th September 2002. However there continue to be ongoing transactions relating to debt managed by, and for other organisations that continue to be administered by Worcestershire County Council. Herefordshire's proportion of the principal amounts of debt managed by other organisation on behalf of Ex Hereford and Worcester County Council as at 31st March 2006 is £8,428 and is recognised as a debt liability.

11. Pooled Receipts liability

A proportion of specified housing capital receipts have to be paid into a Government pool for redistribution. The liability of £151,000 shown on the balance sheet represents 75% of future receipts of mortgage income, which will have to paid over to the government when the money is received.

12. Pensions

In accordance with FRS17 – 'Retirement Benefits', the Council is required to disclose certain information concerning the assets and liabilities related to defined benefit pension schemes for its employees. The Council participates in two schemes, the Local Government Pension scheme and the Teachers' Pension scheme.

Teachers Pension Scheme

The scheme is a defined benefit scheme, administered by the Teachers pensions agency. Although the scheme is unfunded, a notional fund is used as a basis for calculating the employers' contribution rate. It is not possible for the authority to identify its share of the underlying liabilities in the scheme attributable to its own employees, and therefore for the purposes of the statement of accounts it is accounted for on the same basis as a defined contribution scheme i.e. actual costs are included in the revenue accounts, with no assets and liabilities in the balance sheet.

At the year-end there were contributions of £763,305 remaining payable, which related to the March 2006 contributions paid to the scheme in April 2006.

Local Government Pension scheme

The figures have been provided by the actuary to the pension scheme, using information provided by the scheme, and assumptions determined by the actuary in conjunction with the Council. The latest full actuarial valuation was 31st March 2004. Actuarial calculations involve estimates based on assumptions about events and circumstances in the future, which may mean that the result of actuarial calculations are affected by uncertainties within a range of possible values.

(a) Assets and Liabilities

The underlying assets and liabilities for retirement benefits attributable to the authority at 31st March are:

	31 March 2005 £m	31 March 2006 £m
Market Value of Assets	153.2	191.7
Liabilities	<u>(255.4)</u>	<u>(292.3)</u>
Surplus/(Deficit)	<u>(102.2)</u>	<u>(100.6)</u>

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The deficit on the scheme will be made good by increased contributions over future years as assessed by the scheme actuary.

(b) Actuarial assumptions

The main assumptions used in the calculations are:

	Beginning of year	End of year
Rate of inflation	2.9%	2.9%
Rate of increase in salaries	4.4%	4.4%
Rate of increase in pensions	2.9%	2.9%
Discount rate	5.4%	4.9%

(c) Pension Scheme assets

The assets held by the pension scheme are split between investment categories as follows:

	31 March 2005		31 March 2006	
	£000	%	£000	%
Equities	122,234	79.8	156,643	81.7
Government Bonds	20,219	13.2	23,775	12.4
Other Bonds	8,425	5.5	8,436	4.4
Cash/Liquidity	2,298	1.5	2,876	1.5
	<u>153,176</u>		<u>191,730</u>	

The expected rate of return on these assets was:

	Beginning of year	End of year
Equities	7.5%	7.0%
Government Bonds	4.7%	4.3%
Other Bonds	5.4%	4.9%
Property	6.5%	6.0%
Cash/Liquidity	4.75%	4.5%

(d) Movement in scheme deficit during the year.

2004/05		2005/06	
£000		£000	
(58,309)	Surplus/(Deficit) at beginning of year	(102,186)	
(6,329)	Current service cost	(6,949)	
7,350	Employer contributions	7,804	
(338)	Past service/curtailment (cost)/gain	3,127	
(2,474)	Net interest/Return on Assets	(3,623)	
(42,086)	Actuarial gain or (loss)	1,213	
<u>(102,186)</u>	Surplus/(Deficit) at end of year	<u>(100,614)</u>	

The provisions of the Local Government pension scheme changed at the end of the year to allow members to take a higher lump sum than the standard amount by commuting part of their pension. The Actuary has assumed that 50% of members will take up this option, which is less costly for the scheme and this has created a past service gain of £4.1 million.

The net liability represents the difference between the value of the Authority's pension fund assets at 31st March 2006 and the estimated present value of the future pension payments to which it was committed at that date. These pension liabilities will be paid out over a period of many years, during which time the assets will continue to generate returns towards funding

them. Any significant changes in global equity markets after 1st April 2006 would also have an impact on the capital value of the pension fund assets.

The Actuaries undertook a full review of the pension fund at 31st March 2004. Further to the revaluation, the Council's employers' contribution will increase from 16.5% of pensionable pay to 19.9%, phased over 6 years up to and including 2010/11. Annual increases will be approximately 0.6% of pay. The period over which the Council's deficit will be dealt with has been increased from 13 years to 25 years in accordance with guidance from the ODPM. The fund is reviewed by the Actuaries every 3 years.

13. Provisions

The provisions at 31.3.06 are listed below;

2004/05 £000	2005/06 £000
22 Village focus grants	22
73 Former Hereford and Worcester liabilities	73
885 Insurance	1,020
47 Legal Claim	0
108 Learning and Skills Council	0
0 Redundancies	373
0 Landfill Allowances liability	1,067
1,135	2,555

An insurance provision is held to cover the cost of policy excesses in relation to expected property and liability claims. The sum involved is calculated using a detailed assessment of likely claims, based on the claims experience of this authority and the former authorities. The balance is to meet the estimated costs, within the policy excess of public and employers liability of claims incurred.

The level of the provision is reviewed each year against the potential commitments. In 2004/05, the level of the claims received indicated that there was no requirement to increase the fund other than through the normal charges to revenue.

It is the policy of the Council to engage consultants every three years to independently review the level of the provision. The next review is due in 2006/07.

14. Capital Contributions Deferred Account

The balance on this account represents the value of capital grants and contributions, which have been applied to finance the acquisition or enhancement of fixed assets. The balance is released to revenue over the life of the asset taking into account the depreciation.

Balance as at 1 st April 2005	£000 (22,499)
Add: Grants received in the year	(13,777)
Less: Transfer to AMRA	1,932
Balance as at 31 st March 2006	(34,344)

15. Fixed Asset Restatement Account

This account is required under the system of capital accounting. The account receives the entries relating to the valuation of the Authority's fixed assets. Allowances are also made for the net book value of assets disposed of.

2004/05		2005/06
£000		£000
(96,528)	Balance as at 1 st April	(96,087)
(546)	Revaluation and Restatement of Fixed Assets	(24,516)
987	Disposal of Fixed Assets	2,345
<u>(96,087)</u>	Balance as at 31 st March	<u>(118,258)</u>

16. Capital Financing Account

The Capital Financing Account contains the amounts, which are required by statute to be set aside from capital receipts for the repayment of external loans, and the amount of capital expenditure financed from revenue and capital receipts. It also contains the difference between amounts provided for depreciation and that required to be charged to revenue to repay the principal element of external loans.

2004/05		2005/06
£000		£000
(63,783)	Balance as at 1st April	(65,496)
(4,327)	Capital Financing - Capital Receipts	(1,827)
(244)	Capital Financing - Revenue	(802)
0	Credit cover provided	(270)
3,079	Appropriation to Consolidated Revenue Account	6,652
41	Write down of Deferred Charges (long-term debtors)	18
(262)	Write down of debt transfer	(1)
<u>(65,496)</u>	Balance as at 31st March	<u>(61,726)</u>

The appropriation to the Consolidated Revenue Account reconciles debits made for impairment and depreciation (net of government grants and contributions deferred) and deferred charges write-offs to the Minimum Revenue Provision.

17. Deferred Credits

The deferred credits figure in the balance sheet is made up of £50,198 in respect of HRA mortgages (net of the amount repayable to the government), and £202,327 relating to a credit arrangement. The credit arrangement relates to leased offices and a Salt Barn at Thorn Business Park, Rotherwas. Capital Finance Regulations require the substance of these transactions to be recognised and the nature of the lease means that the asset is recognised in the balance sheet as an asset of the council. However, as the asset is not owned by the council, a deferred credit liability representing the asset's valuation is also provided.

18. Usable Capital Receipts

Capital receipts received in the year are available to finance new capital expenditure.

Usable Capital Receipts

	2005/06
	£000
Balance as at 1 st April	(18,291)
Usable receipts in the year	(3,876)
Credit cover provided	270
Applied in the year	1,827
Balance as at 31 st March	<u>(20,070)</u>

19. Movement on Specific Revenue Reserves

	Balance 31.3.05	Transfer from Revenue	Transfer to Revenue	Balance 31.3.06
	£000	£000	£000	£000
Community buildings	(64)			(64)
Commuted sums	(87)	(43)	52	(78)
Schools balances in hand	(8,919)		180	(8,739)
Industrial Estates - maintenance	(123)	(22)		(145)
Initiatives Fund	(372)	(61)		(433)
Support Services & Equipment renewals	(358)		149	(209)
IT services	(758)		758	0
Schools Balance of Risk	(335)	(38)		(373)
Winter maintenance	(108)			(108)
Planning	(24)			(24)
SRB schemes	(96)			(96)
College Hill Community Centre	0	(180)		(180)
Waste Disposal	0	(1,386)	20	(1,366)
LSC	0	(32)		(32)
School energy audits	0	(50)		(50)
Landfill Allowance scheme	0	(19)		(19)
Herefordshire Connects project	0	(1,928)		(1,928)
Wye Valley ANOB	0	(98)		(98)
	<u>(11,244)</u>	<u>(3,857)</u>	<u>1,159</u>	<u>(13,942)</u>

20. Schools Balances – Local management of schools

A sum of £8,738,677 is shown in Reserves in respect of balances held by schools under the Local Management of Schools arrangements. Under these arrangements schools are entitled to draw on, add to, or maintain the sums held as they think fit. The balances are not available for general Council use.

The total sum, which includes devolved capital allocation of £1,131,531 can be split between Primary schools (£5,288,337), Secondary schools (£3,125,323) and Special schools (£325,017).

21. Provision for Bad debts

A provision of £185,000 was made in the 1998/99 accounts in respect of debtors outstanding to the former Hereford and Worcester County Council on 31st March 1998. Of this £73,246 was unapplied at 31st March 2006. This sum is being retained to meet the potential costs associated with former Hereford and Worcester County Council insurance claims.

In general it is not intended that any new bad debts provisions will be set up in the general fund accounts. Bad debts will undoubtedly arise but they are not expected to be material and will be charged to the revenue account as they occur. However, a provision of £85,000 has been set up in respect of the recovery of overpaid housing benefits accrued for in the 2005/06 accounts.

Bad debt provisions are also maintained for Council Tax (£392,844) and Non-domestic rates (£73,257). A small provision of £8,384 has been retained for outstanding Housing Revenue Account debts.

22. Amounts due to or from related parties

As at 31st March 2006 amounts due to and from related parties were as follows:

Related Party	Due to £000	Due from £000
Office for the Deputy Prime Minister	4,096	2,214
Department for Transport	492	0
Department for Works and Pensions	14	562
Department for Education and Skills	1,767	1,688
Department of Health	0	2
Department for Food, Agriculture & Rural affairs	4	95
Countryside Council for Wales	0	13
Learning & Skills Council	533	257
Advantage West Midlands	219	503
Government Office For West Midlands	242	522
Lottery	57	298
Arts Council	66	0
Countryside Agency	51	133
Teachers Pension	763	0
Worcestershire County Council	1,425	164
Herefordshire Primary Care Trust	975	6,049
Courtyard Trust	0	6
Herefordshire Jarvis Services	1,717	313
West Mercia Police Authority	0	5
Shaw Healthcare	74	1
Mercia Waste	963	0
Halo	68	185
West Mercia Supplies	276	42
Owen Williams	244	4
Department of Constitutional Affairs	0	28
Hereford & Worcester Fire Authority	0	15

The amounts are included in the Council's debtors and creditors figures.

23. Contingent Liabilities

- (a) When the Council's houses were transferred to Herefordshire Housing Ltd a legal agreement was entered into for a stock enhancement contract, which would result in significant VAT savings of which the Council should receive a share. It has been determined by the Inland Revenue that this contract should be subject to Corporation Tax. The effect of this would be to negate the benefits of the VAT sharing agreement. Herefordshire Housing Ltd has now obtained charitable status, which has resolved this issue for the future. It is expected that a limited proportion of the VAT share received from Herefordshire Housing for 2003/04 and 2004/05 will be returned to them, estimated to be around £290,000.
- (b) There is a claim for land, which the authority must acquire under a purchase notice at Belmont. The value of the land is disputed, the maximum liability being £100,000.
- (c) As part of the arrangements for the transfer of services to Herefordshire Housing, Halo Leisure Trust, Herefordshire Jarvis Services, and Shaw Homes, the Council has given guarantees in relation to increases in pension contributions as a result of actuarial revaluations. The guarantee involves the Council in meeting the cost of any increase in pension contributions over and above the level of contribution on the date of transfer, but only in respect of staff transferring on this date. The cost of these guarantees will be reflected in higher pension contributions for the Council as a whole. The levels of the

employers contributions set by the Actuarial review as at 31st March 2004 meant that the guarantee did not result in additional costs to the Council in the period covered by the review (up until 31st March 2008).

- (d) There is an outstanding claim against the Council in respect of an alleged formaldehyde poisoning in a Council property. Although the claim, which is not covered by insurance, is substantial, the Council is rigorously defending itself against from the claim. The actual liability faced by the Council is believed to be very significantly less than the claim submitted.
- (e) A claim has been made against the Council for defamation. The anticipated liability could be up to £50,000.
- (f) There is a claim against the Council for loss of earnings of £140,000, due to the suspension of someone's trading activity during a prosecution case against him, in which he was initially convicted, but later won on appeal.
- (g) The Council is currently negotiating compensation payments to landowners as the result of cables being laid on their land by the Council. The amounts agreed so far total £40,000.
- (h) Depending on the options taken in respect of the acquisition of a Council headquarters, there may be costs of between £100,000 and £250,000 in respect of power provision to satisfy ICT disaster recovery requirements.

24. Capital Expenditure Statement

This statement shows how capital expenditure was financed during 2005/06.

2004/05 £000	Capital Expenditure	2005/06 £000
5,462	Other land and buildings	7,792
14,425	Roads and infrastructure	10,480
275	Community assets	273
4,082	Investment and non operational assets	778
1,891	Vehicles, plant and equipment	2,028
1,530	Intangible assets	3,404
<u>27,665</u>		<u>24,755</u>
5,474	Deferred charges	7,090
59	Other	-
<u>33,198</u>		<u>31,845</u>
Financing of Capital expenditure		
17,270	Borrowing – Supported Capital Expenditure (Revenue)	13,916
2,603	- Prudential Borrowing	5,131
130	- Unsupported Credit Approval	-
8,751	Grants and Contributions	10,169
4,327	Capital Receipts	1,827
244	Revenue contribution	802
(127)	Temporary accruals	-
<u>33,198</u>		<u>31,845</u>

Specific significant contractual commitments in the Capital Programme at 31 March 2006 total £6.1 million. These are as follows:

Scheme	£000
Extra Care Housing Development, Hereford	5,280
High Town and High Street enhancement, Hereford	<u>818</u>
	<u>6,098</u>

25. Leases

The authority was committed at 31st March 2006 to making payments of £12,166,000 under operating leases, comprising the following elements:

	Other Land & Buildings £000	Vehicles, Plant & Equipment £000
Leases expiring in 2006/07	870	623
Leases expiring between 2007/08 and 2010/11	2,542	518
Leases expiring after 2011/12	<u>7,613</u>	<u>0</u>
	<u>11,025</u>	<u>1,141</u>

With regards to the Authority's activity as a lessor, the gross value of assets held for use in operating leases was £119,326,570 as valued at 1st April 2005 and subject to £1,501,466 depreciation to 31st March 2006.

STATEMENT OF TOTAL MOVEMENT IN RESERVES

	Fixed Asset Restatement Account £000	Capital Financing Account £000	Usable Capital Receipts £000	Pensions Reserve £000	General Fund £000	Specific Reserves £000	TOTAL £000
Balance at 31.3.05	(96,087)	(65,496)	(18,291)	102,186	(14,491)	(11,244)	(103,423)
Net (surplus) / deficit for year		6,669		(1,572)	(34)	(2,698)	2,365
Effects of disposals and revaluations of Fixed Assets:							
Unrealised gains/ losses on revaluation of fixed assets	(24,512)						(24,512)
Impairment Review	(4)						(4)
Proceeds of Disposals	2,345		(3,876)				(1,531)
Net (surplus) / deficit	(22,171)		(3,876)				(26,047)
Financing of Fixed Assets		(2,629)	1,827				(802)
Credit cover		(270)	270				0
Balance at 31.3.06	<u>(118,258)</u>	<u>(61,726)</u>	<u>(20,070)</u>	<u>100,614</u>	<u>(14,525)</u>	<u>(13,942)</u>	<u>(127,907)</u>

The Pensions Reserve

Statement of Actuarial (gains) and losses

The actuarial loss identified within the movements on the pensions reserve can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March:

	2002/03		2003/04		2004/05		2005/06	
	£000	%	£000	%	£000	%	£000	%
Difference between expected and actual return on assets	44,551	38	(21,352)	14.9	(5,587)	3.6	(28,731)	15
Gains and losses on scheme liabilities	0	-	0	-	6,507	2.5	5,468	1.9
Change in demographic and financial assumptions	0	-	0	-	41,157	16.1	22,050	7.5

CASH FLOW STATEMENT

2004/05 £000		2005/06 £000	2005/06 £000
	Revenue Activities		
	Cash outflows		
113,746	Cash paid to and on behalf of employees	118,889	
154,362	Other operating cash payments	156,721	
25,464	Housing Benefit paid out	28,058	
33,267	National non-domestic rate payments to national pool	36,500	
11,067	Precepts paid	15,597	
337,906			355,765
	Cash inflows		
(70,652)	Council Tax income	(74,418)	
(49,297)	National non-domestic rate receipts from national pool	(58,954)	
(33,515)	Non domestic rate receipts	(33,946)	
(62,011)	Revenue Support Grant	(58,372)	
(25,169)	DWP grants for benefits	(27,536)	
(54,104)	Other government grants	(56,341)	
(57,385)	Other operating cash receipts	(48,773)	
(352,133)			(358,340)
(14,227)	Revenue Activities Cash Flow		(2,575)
	Servicing of Finance		
	Cash outflows		
2,611	Interest paid	3,130	
	Cash inflows		
(1,296)	Interest/discount received	(1,422)	
1,315			1,708
	Capital Activities		
	Cash outflows		
26,735	Purchase of fixed assets	24,413	
5,500	Other capital cash payments	7,160	
32,235			31,573
	Cash inflows		
(1,207)	Sale of fixed assets	(3,596)	
(9,144)	Capital grants received	(13,822)	
(5,475)	Other capital cash receipts	(1,122)	
(15,826)			(18,540)
3,497	Net cash inflow/outflow before financing		12,166
	Management of Liquid Resources		
12,180	Net decrease in short term investments		4,430
	Financing		
	Cash outflows		
11,135	Repayments of amounts borrowed	3,424	
	Cash inflows		
(26,000)	New loans raised	(18,000)	
(14,865)			(14,576)
812	Net decrease (increase) in cash		2,020

1. Reconciliation of Revenue Cash Flow

2004/05	2005/06	
£000	£000	£000
(4,644) (Surplus) Deficit on Consolidated Revenue Account	(34)	
<u>(673) Collection Fund surplus</u>	<u>(311)</u>	
(5,317)		(345)
(1,315) Interest/discount		(1,708)
Non-cash Transactions		
299 Contributions from (to) provisions	(1,420)	
(1,837) Contributions from (to) reserves	(2,698)	
(244) Contributions to capital	(802)	
(4,097) Provision for debt liability (MRP)	(4,853)	
<u>320 Other non-cash</u>	<u>1,411</u>	
(5,559)		(8,362)
Items on an Accruals basis		
(55) Increase/(Decrease) in stocks and WIP	2	
2,612 Increase/(Decrease) in debtors	8,212	
<u>(4,593) (Increase)/Decrease in creditors</u>	<u>(374)</u>	
<u>(2,036)</u>		<u>7,840</u>
<u>(14,227) Net cash flow from revenue activities</u>		<u>(2,575)</u>

Movement in debtors and creditors

Increase/(Decrease)	Debtors	Creditors
	£000	£000
Revenue activities	8,212	374
Capital activities	469	189
	<u>8,681</u>	<u>563</u>

2. Reconciliation of net cash flow to movement in net debt

2004/05	2005/06	
£000	£000	£000
(812) Increase (decrease) in cash in the period	(2,020)	
(14,865) (Increase) decrease in debt financing	(14,577)	
12,180 Increase (decrease) in liquid resources	4,430	
(32) Internal investment of Trust Funds	(15)	
<u>320 Revaluation of investments</u>	<u>326</u>	
(3,209)		(11,856)
<u>(34,552) Net debt at 1st April</u>		<u>(37,761)</u>
<u>(37,761) Net debt at 31st March</u>		<u>(49,617)</u>

Liquid resources have been defined as the short-term investments on the balance sheet

3. Analysis of Net debt

	1.4.05	Cash Flow	Non- cash	31.3.06
	£000	£000	£000	£000
Cash in hand and at bank	(2,247)	(2,020)		(4,267)
Debt due within 1 year	(10,351)	8,965		(1,386)
Debt due after 1 year	(58,296)	(23,557)		(81,853)
Short term investments	33,133	4,430	326	37,889
	<u>(37,761)</u>	<u>(12,182)</u>	<u>326</u>	<u>(49,617)</u>

4. Analysis of Government Grants

2004/05		2005/06	
Total		Revenue	Capital
£000		£000	£000
73,783	Office of the Deputy Prime Minister	67,737	1,564
35,187	Department for Works and Pensions	37,893	72
20,374	Department for Education and Skills	21,085	4,876
7,550	Department of Health	7,128	4,699
552	Home Office	597	0
249	Countryside Agency	162	17
182	Department for Environment, Food & Rural Affairs	410	15
449	Lottery	229	1,120
6,333	Advantage West Midlands	2,238	777
1,492	Government Office for West Midlands	251	682
1,063	Department for Transport	1,443	0
2,982	Learning and Skills Council	2,655	0
70	Cabinet Office	7	0
94	Legal Services Commission	8	0
10	Arts Council	112	0
8	Welsh Assembly	0	0
50	Countryside Council for Wales	136	0
0	Department for Constitutional Affairs	144	0
0	Welfare Food Reimbursement	14	0
<u>150,428</u>		<u>142,249</u>	<u>13,822</u>

TRUST FUNDS

The Council acts as Trustee for a number of Trust Funds, which have been established for the benefit of different sections of the Community, including several schools. The initial capital sums received are invested and the annual income is used to make approved payments under the terms of each Trust.

The Sylvia Short Educational Charity is administered by the Council on behalf of the Trustees. This charity, which was established to provide children with learning experience outside the curriculum, has assets of £1,020,588 including investments in shares.

By far the largest Fund involved is the Buchanan Trust, which is invested in agricultural land around Bosbury for the benefit of tenant farmers. The 2005/06 Buchanan Trust Accounts show the cost of running the estate, including management and administration (£103,429) offset by rent received from the tenant farmers (£68,679) and income from investments (£37,795). The Trust made a surplus on its revenue account of £3,045.

The Education Trust Funds incurred a small amount of expenditure in 2005/06 and received income from investments. The Council is in the process of applying to have some of the education funds wound up due to the very small capital sums involved.

Other funds include the Hatton Bequest, which is available for Hatton Gallery exhibits

Statement of Revenue Income and Expenditure

	Balance at 1/04/05 £	Revenue Income £	Transactions Expenditure £	New funds, Investment Sales and Revaluations £	Balance at 31/03/06 £
Education (small funds)	20,793	879	(366)	757	22,063
Sylvia Short Trust	1,008,696	44,411	(40,837)	8,318	1,020,588
Buchanan Trust	1,853,804	106,474	(103,429)	34,565	1,891,414
Other Funds	48,844	4,823	(312)		53,355
	2,932,137	156,587	(144,944)	43,640	2,987,420

Balance Sheet

The amount shown for Fixed Assets reflects the estimated value of the Buchanan Trust Land and Buildings and the Sylvia Short property portfolio at 31st March 2006. Overall the asset value of Buchanan Trust has increased by £34,565. Investments (largely Treasury stocks) are at market value at 31st March 2006.

2004/05 £000	2005/06 £000
1,030 Fixed Assets	1,064
975 Investments	981
927 Cash temporarily invested with The Herefordshire Council	942
2,932 Total Assets	2,987
2,932 Represented by Trust Funds	2,987

GLOSSARY OF TERMS

Accrual

Income and expenditure are shown in the period they are earned or incurred, not as money is received or paid.

Actuary

An expert on pension scheme assets and liabilities

Asset

Something the Council owns that has a value, such as premises, vehicles, equipment or cash.

Asset Management Revenue Account

An account local authorities need to keep under capital accounting rules. It includes interest payments on loans, depreciation and the income from capital charges to services.

Balance Sheet

A summary of Herefordshire's assets, liabilities and other balances at the end of each accounting period.

Capital Charge

A charge made to service revenue accounts to reflect the cost of utilising fixed assets in the provision of services.

Capital Expenditure

Expenditure on the acquisition of a fixed asset, which lasts longer than a year or expenditure that adds value to an existing fixed asset.

Capital Receipts

Proceeds from the sale of fixed assets, such as land or buildings.

Collection Fund

A separate fund recording the expenditure and income relating to Council Tax and Non-domestic Rates.

Community Assets

Assets that the Council intends to own forever e.g. parks and open spaces.

Consolidated Revenue Account

A statement of the Council's net revenue costs in the year and how this cost was financed from Government grant and taxpayers.

Creditor

Amounts owed by the Council for goods and services received, but not paid for at the end of the financial year.

Debtor

This the amount of money others owe to Herefordshire for goods and services that they have received but have not paid for by the end of the accounting period.

Deferred Charges

Capital expenditure, which does not create a fixed asset.

Depreciation

The reduction in value of an asset as recorded in the Council's accounts.

Infrastructure Assets

Fixed assets on which expenditure can only be recovered by continued use of the asset, such as roads, bridges and footpaths.

Intangible fixed assets

Fixed assets that do not have physical substance but are identifiable and are controlled by the entity through custody or legal rights e.g. software.

National Non Domestic Rates

This is a national scheme for collecting contributions from businesses towards the cost of local government services, based on a flat rate in the pound set by Government.

Non Operational Assets

Assets held by the Council not directly used in the provision of services, such as investment properties.

Operating lease

A lease where the ownership of the fixed asset remains with the lessor.

Operational assets

Fixed assets owned by Herefordshire Council and used to deliver services, such as buildings and equipment.

Precept

A levy made by one authority to another to finance its net expenditure.

Provision

A sum of money that has been put aside in the accounts for liabilities or losses that are due but where the amount due or the timing of the payment is not known with any certainty.

Related Parties

Two or more parties are related parties when at any time during the financial period: -

- One party has direct or indirect control of the other party
- The parties are subject to common control from the same source
- One party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing its own interests
- The parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transactions has subordinated its own interests.

Public Finance Initiative

Arrangements supported by the Government involving an external partner to fund major Capital developments.

Reserves

Amounts set aside in one year's accounts to be spent in future years. Some reserves are earmarked for specific purposes and other general revenue balances are available to meet future revenue and capital expenditure.

Revenue Expenditure

The day-to-day expenses associated with the provision of services.

Revenue Support Grant

A general grant paid by the Government to local authorities as a contribution towards the costs of their services.

REDUNDANCIES AND EARLY RETIREMENTS

2005/06

1. REDUNDANCY

The following table summaries the redundancies which have occurred during the last financial year:

2005/06	Teachers	Others	Total
Number	5	22	27
Total Cost	£15,719	£297,235	£312,954
Average	£3,144	£13,511	£11,591

Four of the non-teaching redundancies were in Education including schools posts.

In 2004/05, 26 staff were involved at a total cost of £423,209.

Where appropriate the figures include compensation payments under the Local Government Compensation for Redundancy Regulations which came into force during July 1996.

2. EFFICIENCY OF THE SERVICE

During 2005/06, no members of staff received payments under the Efficiency of the Service provisions.

3. ADDED YEARS

A summary of the costs involved in cases where staff were awarded Added Years is as follows:

	No. of Cases	Annual Pension	Retirement Grant	Capital Cost
2005/06	5	£10,119	£30,648	£266,527

4. ACTUARIAL STRAIN LOCAL GOVERNMENT SCHEME

The financial year 1999/2000 was the first full year in which actuarial strain has been charged to the Council budgets and, therefore, the figures below indicate total costs for 1999/2000 to date.

	No. of Cases	Total Actuarial Strain	Actuarial Strain payable 1st Year
1999/00	15 cases	£283,351	£101,833
2000/01	18 cases	£635,313	£228,487
2001/02	10 cases	£196,794	£70,789
2002/03	13 cases	£273,628	£98,427
2003/04	6 cases	£100,347	£36,096
2004/05	15 cases	£330,549	£118,903
2005/06	14 cases	£500,306	£179,966

NOTES:

1. Some of the previous years information has been updated to include additional information.
2. Actuarial Strain payments reimburse the Superannuation Fund for the fact that the employee concerned is retiring earlier than normal. The Fund would otherwise have to meet the cost of, perhaps, several years' additional pensions payments. In previous years the costs involved were eventually reflected in higher employer contributions. The new arrangements involving actuarial strain make the cost of early retirements more transparent.

5. CONCLUSION

For all four categories the number of individuals involved and the cost in 2005/06 is very comparable to 2004/05 with the exception of actuarial strain costs.

COUNCIL BANK ACCOUNTS 2005/06**INTRODUCTION**

There is a requirement under the Council's Financial Standing Orders and the Financial Regulations, for the Director of Resources to report, annually, on the Council's bank accounts. This report covers the period 1st April 2005 to 31st March 2006.

CONSIDERATIONS

1. Annex 3(i) shows a summary of the Council's bank accounts as at 31st March 2006.
2. The Council had at 31st March 2006, 181 bank accounts which is one more than the total at 31st March 2005. A large number of the accounts (151) are imprest accounts, which allow establishments to efficiently make small purchases of goods and materials.
3. In order to properly keep its accounts and collect its revenue efficiently, the Council operates twelve main bank accounts.
4. Eight schools (six High, two Primary) had at 31st March 2006 their own independent bank accounts under the arrangements for Local Management of Schools. These arrangements gives schools the right to operate their own independent bank accounts although they do have to submit details of the bank account transactions regularly to the Council.
5. A further fifteen schools have Enhanced Imprest Accounts, often set at £1,000 plus, which allows them the freedom to make large purchases by cheque. Once again, the details of these transactions have to be notified monthly to the local education authority.
6. During the twelve months ended 31st March, 2006 three new accounts have been opened and two closed. A full list of these accounts is available.

BANK ACCOUNTS AS AT 31ST MARCH 2006**MAIN BANK ACCOUNTS**

Main bank accounts	12
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IMPREST ACCOUNTS

Returning Officer	2
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Schools: Primary Schools	56
Secondary Schools	8
Special Schools / Pupil Referral Units	7
Total Schools Imprest Accounts	71

Adult Services:

Adult Services Establishments	10
Adult Services Area Offices	3
Total Social Services Imprest Account	13

Libraries	10
Leisure Services	1
Youth Services	7
Registration of Birth Deaths & Marriages	6
Strategic Housing	1
Environmental Services	4
Other (Various)	19

TOTAL IMPREST ACCOUNTS	151
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ADULT SERVICES OTHER (NON-IMPREST) ACCOUNTS

Area Office DEPOSIT Account	3
Welfare Accounts (12 of which are DEPOSIT accounts)	16
Residents Property Accounts (8 of which are DEPOSIT accounts)	5
Other (Various)	6
Total Social Services Non-Imprest Accounts	30

TOTAL NUMBER OF ALL BANK ACCOUNTS	181
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