

# A G E N D A

## Audit and Corporate Governance Committee

Date: **Friday, 29th June, 2007**

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Time: **10.00 a.m.**

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Place: **Brockington, 35 Hafod Road,  
Hereford. The Council Chamber,  
Brockington, 35 Hafod Road,  
Hereford, HR1 1SH**

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Notes: Please note there will be **Member Training**  
between 10.00 am and 11.00 am.

The Meeting of the Audit and Corporate  
Governance Committee will commence at  
11.00 am.

*For any further information please contact:*

*Paul Rogers Democratic Services Officer*

*Email: [progers@herefordshire.gov.uk](mailto:progers@herefordshire.gov.uk)*

Mr Paul Rogers, Democratic Services Officer

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# AGENDA

## for the Meeting of the Audit and Corporate Governance Committee

To: Councillor ACR Chappell (Chairman)  
Councillor GFM Dawe (Vice-Chairman)

Councillors MJ Fishley, JHR Goodwin, R Mills, RH Smith and AM Toon

In Attendance: Councillor H Bramer, Cabinet Member (Resources)

	Pages
<b>1. APOLOGIES FOR ABSENCE</b>	
To receive apologies for absence.	
<b>2. NAMED SUBSTITUTES(IF ANY)</b>	
To receive any details of Members nominated to attend the meeting in place of a Member of the Committee.	
<b>3. DECLARATIONS OF INTEREST</b>	
To receive any declaration of interest by Members in respect of items on the agenda.	
<b>4. MINUTES</b>	1 - 2
To approve and sign the Minutes of the meeting held on 13th April 2007.	
<b>5. STATEMENT OF ACCOUNTS 2006/07</b>	3 - 66
To report to the Audit and Corporate Governance Committee on the 2006/07 Statement of Accounts.	
<b>6. MONITORING OFFICERS REPORT</b>	67 - 70
To inform the Committee of the Authority's performance for 2006/07 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.	
<b>7. AUDIT SERVICES ANNUAL ASSURANCE REPORT</b>	71 - 92
The purpose of the Assurance Report is to update Members on the 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 2005/06 that require attention.	
<b>8. STATEMENT OF INTERNAL CONTROL 2006/07</b>	93 - 102
To inform the Audit and Corporate Governance Committee of the work and process followed in relation to the completion of the Council's Statement on	

Internal Control (Appendix 1 refers).	
<b>9. ANNUAL AUDIT AND INSPECTION LETTER</b>	103 - 132
To present to the Audit and Corporate Governance Committee the Audit Commission's Annual Audit and Inspection Letter 2005/06.	
<b>10. TELEPHONE USAGE ACTION PLAN</b>	133 - 136
To inform the Audit and Corporate Governance Committee on the current status of the actions being taken on recommendation made by Audit Services.	
<b>11. AUDIT COMMISSION AUDIT AND INSPECTION PLAN 2007/08</b>	137 - 164
To inform the Audit and Corporate Governance Committee of the Audit Commission's Audit and Inspection Plan for 2007-2008.	

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- Inspect background papers used in the preparation of public reports for a period of up to four years from the date of the meeting. (A list of the background papers to a report is given at the end of each report). A background paper is a document on which the officer has relied in writing the report and which otherwise is not available to the public.
- Access to a public Register stating the names, addresses and wards of all Councillors with details of the membership of the Cabinet, of all Committees and Sub-Committees.
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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 and Corporate Governance Committee held at Council Chamber, Brockington, 35 Hafod Road, Hereford. on Friday, 13th April, 2007 at 10.00 a.m.**

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

**Councillors:** PA Andrews and SJ Robertson

**In attendance:** Councillor R. M. Wilson Cabinet Member (Resources).

**31. MINUTES**

**RESOLVED:** That the Minutes of the meeting held on the 19th January, 2007 be approved as a correct record and signed by the Chairman.

**32. APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors H.Bramer, J.G.Jarvis and R.I.Matthews.

**33. NAMED SUBSTITUTES(IF ANY)**

There were no named substitutes made.

**34. DECLARATIONS OF INTEREST**

There were no declarations of interest made.

**35. COMPLETION OF ACCOUNTS FOR 2006/07**

The Head of Financial Services presented a report which informed the Committee about the 2006/07 closedown arrangements and how the presentation of this years accounts would vary from the way in which they had been presented in 2005/06.

The Committee was further informed that it is the Government's intention to bring consistency to the way in which all public sector accounts are presented with a view to standardising their content and format.

**RESOLVED:** That the report be endorsed and noted.

**36. AUDIT STRATEGY 2007/08**

The Audit Services Manager presented the 2007/08 Audit Strategy for approval.

The Audit Services Manager drew attention to the internal Control Audit Opinion Matrix referred to in paragraph 15 to Appendix 1 of the report, and the way in which Overall Control Opinion would in future, form part of the Audit Assurance report.

**Resolved:** That the Audit Strategy for 2007/08 be approved.

**37. AUDIT PLAN 2007/08**

The Audit Services Manager presented a report which advised on the process adopted to develop the Annual Plan for 2007/08. The Committee noted that the report highlighted how the Council will comply with Standing Orders and Financial Regulations.

It was also noted that 'Members Expenses etc' referred to under the heading 'Anti Fraud ' should be placed under the heading 'Non-Fundamental Systems'.

**Resolved: That the Audit plan for 2007/08 be adopted.**

**38. AUDIT SERVICES UPDATED INTERIM ASSURANCE REPORT NO 2**

The Audit Services Manager presented a report which updated and advised the Committee on work status and key control issues which are in compliance with good practice as set out in the Chartered Institute of Public Finance and Accountancy Code of Practice for Internal Audit in the United Kingdom.

**Resolved: That the report be noted.**

**39. PROGRESS ON THE COUNCIL'S 2006/07 STATEMENT OF INTERNAL CONTROL**

The Audit Services Manager presented a report which updated the Committee on the progress being made in relation to the completion of the Council's Statement of Internal Control. The Committee noted that a further report would be submitted to the 29<sup>th</sup> June, 2007 meeting of this Committee to recommend that the Statement of Internal Control be signed off.

**Resolved: That the report be noted.**

**40. USE OF RESOURCES ACTION PLAN**

The Audit Services Manager presented a report which set out in detail the Use of resources Action Plan for 2006/07 and which highlighted specific actions to be taken by appropriate officers with timescales.

**Resolved: That the report be noted.**

The meeting ended at 10.30 a.m.

**CHAIRMAN**

Chairman.....

**STATEMENT OF ACCOUNTS 2006/07****Report By: Head of Financial Services****Wards Affected**

None affected.

**Purpose**

To report to the Audit and Corporate Governance Committee on the 2006/07 Statement of Accounts.

**Financial Implications**

These are outlined in the report.

**RECOMMENDATION**

**THAT the Audit and Corporate Governance Committee approve the 2006/07 Statement of Accounts.**

**Reasons**

Legally the requirement under the Accounts and Audit Regulations 2003 is to have the 2006/07 Statement of Accounts approved by no later than 30 June.

**Considerations**

1. It is worth noting that the format and content of the formal Statement of Accounts is determined each year by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting and the following outlines the changes to the 2006/07 Statement of Accounts:
  - (a) The removal of notional interest from the capital charges to services in the published accounts. This does not have an effect on the 'bottom line' charge to council tax but reduces the level of spend shown in services.
  - (b) There is a new set of core statements presented in a specified order and followed by a consolidated set of notes. The statements and their order of presentation are:
    - Income and Expenditure Account
    - Statement of Movement on the General Fund Balance
    - Statement of Recognised Gains and Losses
    - Balance Sheet

- Cash flow statement

(c) These statements present the figures in a completely new way. In addition the new approach required the 2005/06 figures to be restated in the new format to enable a consistent comparison.

### **Income and Expenditure Account**

2. This is the first of the new set of core statements for the 2006/07 accounts. With the other statements it represents a significant shift in the presentation of local government accounts placing an emphasis on bringing the way figures are presented more in line with non-government accounts.
3. The account brings together all income receivable and expenditure incurred in delivering the Herefordshire Council's services during 2006/07. The transactions are accounted for on an accruals basis meaning that they are represented in the period to which they relate. For example, this means that if income for a service supplied by the Council in 2006/07 was received after the end of the financial year it was still included in the 2006/07 financial year. In some cases precise amounts are not known at the year-end and figures are included on an estimated basis using the best information available at the time.
4. The income and expenditure account includes all day-to-day expenses, related income and transactions covering the value of the Council's fixed assets consumed. It also includes the value of retirement benefits earned by employees in 2006/07.
5. The Statement of Accounts contains a significant change to presentation affecting the Education Service area. In 2005/06 School's funding was provided as part of the Revenue Support Grant like any other service. However following the introduction of the Dedicated Schools Grant (DSG) means schools' funding is now via this ring-fenced grant. The result sees the net expenditure on Education services fall significantly because funding is now covered by the £78m DSG and included in the income analysis of Education Services rather than Revenue Support Grant.
6. The income and expenditure account shows a net deficit of £6.821m in 2006/07. However at the same time the accounts show an underspend against budget for the year of £3.2m on net revenue expenditure. As a result the anticipated £9 million transfer from revenue balances was reduced to £5.8million. The sound financial performance against budget whilst closing the accounts with a deficit position can briefly be explained as follows:
  - Planned transfers to earmarked reserves of £4.8 million in line with the Medium Term Financial Management Strategy; and
  - Allocation of £3.7 million of under spends carried forward from 2005/06, funded from the accumulated revenue balance.

### **Statement of Movement on General Fund Balance**

7. The statement confirms the General Fund balance carried forward is £8.738m after transferring £5.787m to revenue (brought forward balance of £14.525 million). The reduction in brought forward balance is largely explained by the revised policy put in place in 2006 placing an emphasis on specific reserves.

8. The transfer from the General Fund balance differs from the deficit on the Income and Expenditure account of £6.821m as the council is required to raise council tax on a different accounting basis to that used for the Income and Expenditure Account. Additional amounts of income and expenditure are credited or charged to the General Fund and the main differences are outlined in the Statement of Accounts. This includes areas such as capital investment, which is accounted for as it is financed rather than when the fixed assets are consumed.
9. In 2006/07 the net position on amounts required to be included in the General Fund in addition to the Income and Expenditure account was a surplus of £1.034m. The overall position includes areas such as depreciation; net charges made for retirement benefits; employer's contributions payable to the pension fund as well as statutory provision for repayment of debt.

### **Statement of Total Recognised Gains and Losses**

10. The third new statement brings together in one place all the gains and losses of the Council for 2006/07 so that the aggregate position is shown. In 2006/07 there was an overall increase (gain) of £15.656m made up of four key areas;
  - the £6.821m deficit on the income and expenditure account;
  - the £8.656m surplus arising from the revaluation of fixed assets;
  - the £822,000 decrease on the collection fund balance; and
  - a £14.643m gain on pension fund assets and liabilities
11. The 2006/07 position compares with a £24.394m increase in net worth for 2005/06 when the total was largely made up of a surplus arising from the revaluation of fixed assets.

### **Balance Sheet**

12. The balance sheet summarizes the Council's assets, liabilities and other balances at the end of the financial year.
13. The overall position sees the Council's total assets exceed liabilities by £144.936m with this being financed by various sources the largest of which is the Fixed Asset restatement account at £120.632m (this reflects movements in fixed assets for revaluations and disposals).
14. The Council's long-term assets increased from £317.08m to £338.41m between 31/03/06 and 31/03/07. This was mainly due to increases in fixed assets such as land and buildings as well as infrastructure. Current assets saw a decrease in the amount owed to the Council but an increase in our short-term investments.
15. The current liability position increased by £5.38m largely as a result of an increase in the Council's creditors. The balance sheet also confirms the long-term borrowing of the Council has increased to fund its capital programme. The Public Works Loan Board has supplied loans of £81.853m as of 31 March 2007 compared with £70.296m as at 31<sup>st</sup> March 2006.
16. Two additional longer-term loans totalling £12m are supplied by money market providers and date back to 2004. Related to these loans is a review of accounting

treatment of interest over the lifetime of the agreement. The current 'stepped' arrangement is likely to be required to change to one of a consistent basis over the lifetime of the agreement. As a result the Council has prudently decided to create a new £505,000 reserve in its accounts to meet this likely requirement. In the unlikely event that the accounting treatment does not change the reserve can be written back to the revenue account in a future year.

17. The other significant longer-term liability totals £88.8m being a reflection of the underlying commitments the authority has over the longer term to pay employee retirement benefits. This arises because employees are eligible to join the Local Government Pension Scheme administered by Worcestershire County Council. The deficit on the scheme will be made good by increased contributions over future years as assessed by the pension scheme's actuary.

### **Cash Flow Statement**

18. The final core statement is the cash flow statement and it summarises all cash flowing in and out of the Authority arising from transactions with third parties. It excludes all internal transactions between the various parts of the Council.
19. In 2006/07 cash outflows totalled £369.5m compared with cash inflows of £386.9m on revenue activities. The cash outflow includes the payments required to pay for operational activities whilst the cash inflow includes £139.1m of central government grants to fund council services (in addition to Revenue Support Grant and grant for housing benefits). Our revenue (day-to-day activity) cash flow saw £17.4m more cash received than we spent. However our servicing of finance covering interest payments, interest received, and purchase of assets as well as sales of assets saw an £8.5m net cash outflow.
20. In summary the overall net position saw a £286,000 increase in the cash position.

### **Collection Fund**

21. One area of presentation unaffected by the new set of accounts is the Collection Fund. Herefordshire is a 'billing authority' and as such has a statutory requirement to establish and maintain a separate fund covering the collection of distribution of amounts due in respect of council tax and national non-domestic rates (NNDR).
22. In 2006/07 the total income on the Collection Fund was £124.69m representing an increase of £6.84m on the previous year. The income was also collected on behalf of West Mercia Police Authority; Hereford and Worcester Fire Authority; Parish Councils and the national pool for non-domestic rates.
23. The net position on the collection fund was a deficit of £223,000 compared to the previous year's surplus of £311,000.

### **Risk Management**

The requirement to approve the Statement of Accounts by end of June is not only a legal requirement but also a Use of Resources assessment issue directly feeding into the Comprehensive Performance Assessment process. Further risk management activity is addressed by providing high quality working papers and officer time to help external auditors from an appropriate judgment on the Statement of Accounts by 30 September 2007.

## **BACKGROUND PAPERS**

- Completion of the Accounts for 2006/07, report to Audit and Corporate Governance Committee, 13 April 2007







# **HEREFORDSHIRE COUNCIL**

## **STATEMENT OF ACCOUNTS**

**2006-2007**



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# INTRODUCTION

The 2006/07 financial year saw the council continue to make good progress at a time of ever increasing demands for our services as well as greater statutory responsibilities that placed further pressure on our resources.

The Director of Resources and her team focused on ensuring we maintain good control of our finances as well as supporting the service improvements necessary to ensure we deliver our aim of being amongst the best performing councils in the country. In 2006/07 we again received confirmation that the council's finances are well managed when the Audit Commission, the government public spending watchdog, once again gave the council a good mark for our Use of Resources assessments.

The way we present our information continues to develop and improve. Financial information can be complex and often the jargon can make explaining performance difficult. It is important that our customers have access to understandable and informative information. It is for this reason we will build on the successful leaflet sized summary version of the Accounts published last year as well as taking every opportunity to make our financial information accessible and understandable.

We believe the people of Herefordshire want us to provide value without compromising quality. Our financial performance is a key factor in delivering this objective.

Harry Bramer

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 31<sup>st</sup> March 2007 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 2006/07 accounts show an under spend against budget for the year of £3.2 million on net revenue expenditure. This resulted in a transfer from revenue balances of £5.8 million compared with a net anticipated transfer from balances of £9 million (of which £3.7 million related to 2005/06 under spends brought forward and £4.8 million of transfers to specific reserves). The additional £3.2 million is attributable to the following:

	£000
Service area under spends	(157)
Treasury management including interest received	(1,459)
Additional transfers (to)/from earmarked reserves	779
Additional central government funding	(1,252)
Application of contingency	(1,023)
Other changes	(81)
Total under spend	<u>(3,193)</u>

#### Service Area Underspends

The net under spend for the council's directorates of £157,000 was made up as follows:

	Under/(Over) Spends £000
<b>Directorate</b>	
Adult & Community Services	1,023
Children and Young People's Services	(139)
Corporate and Customer Services	191
Environment	(274)
Human Resources	5
Resources	(589)
Central Services	(374)
Total under spend	<u>(157)</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

- Over spending in the areas of Learning Disability (£1.071m), Mental Health (£481,000) and Physical Disability (£341,000).
- An under spend of £811,000 on Older People's services, mainly due to services being funded by the Access and Systems capacity grant.

#### Children and Young People's Services

- An over spend of £554,000 on safeguarding and assessments.
- School transport under spent by £373,000 due to route reviews and falling rolls and the school improvement service also under spent (£186,000) mainly due to delayed staff appointments.

### Corporate and Customer Services

- The main variance was a deficit on the ICT trading account of £255,000.
- An under spend in Policy and Performance of £138,000 occurred due to staff vacancies.

### Environment

- Environmental health and trading standards under spent by £952,000 due to delays in implementing variations to the waste management contract. Planning also under spent by £77,000 due to additional building control income and grant funding for conservation.
- Highways and transportation overspent by £751,000 with the main areas being winter maintenance, car parks and concessionary fares.

### Resources

- The main variation was an increase in the level of housing benefit subsidy as the result of improved performance in processing benefits (a net saving of £390,000). Increased income from summons and court costs for the council tax service also added to the overall under spend.
- There were variations within the Property Services budget. An over spend on Administrative Buildings was more than offset by under spends on Industrial Estates and Retail Properties

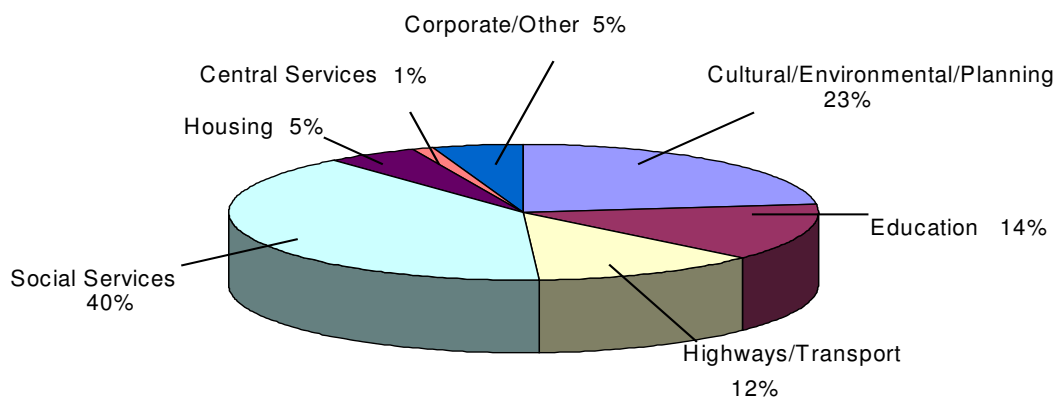
### Central Services

- There were a number of under spends on central costs including corporate subscriptions, audit fees and unfunded pensions.

## Analysis of Revenue Expenditure and Income

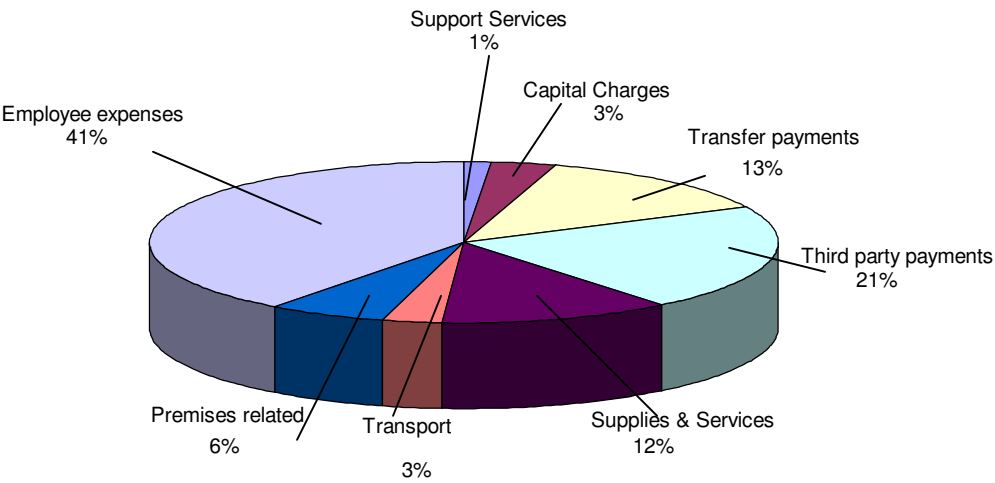
The net cost of services within the Income and Expenditure Account is £122.3 million, made up of the following services:

### Analysis of Net Expenditure by Services



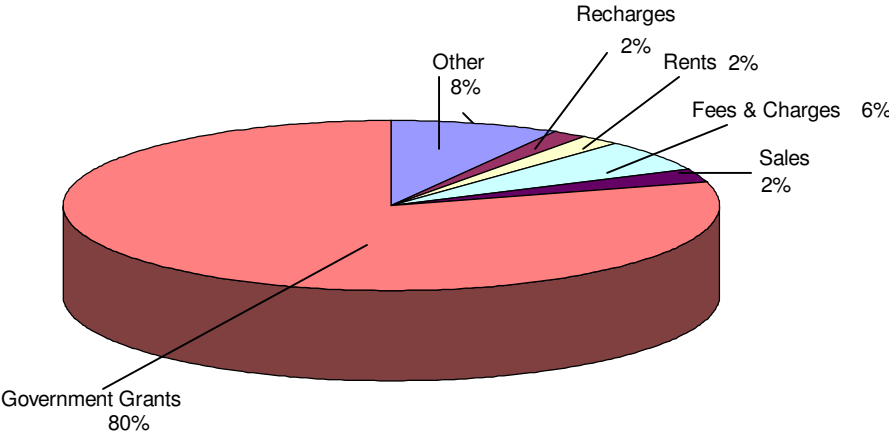
The gross cost of services was £335 million, spent on the following types of expenditure

**Analysis of Gross Service Expenditure**



The gross income for the year for services was £212.7 million and came from the following sources:

**Analysis of Income within Services**



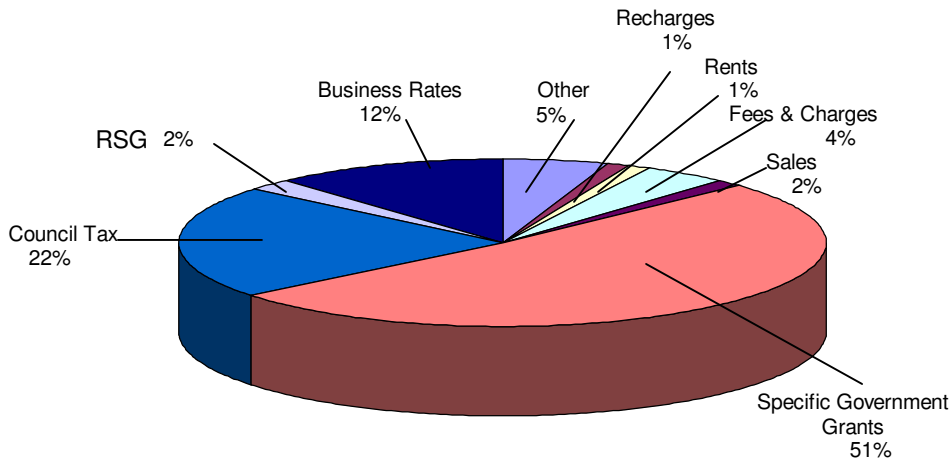
The figure for government grants includes £78.2 million Dedicated Schools Grant, which is a new ring-fenced grant from 2006/07 for schools' funding. Previously schools' funding was provided as part of the Revenue Support Grant outside of the Education service accounts. The



grants figure also includes £39.9 million in respect of the payment and administration of housing and council tax benefits.

In addition to income generated by services and service specific grants, the council received £7.6 million Revenue Support Grant, £38.8 million in redistributed non-domestic rates and £1.4 million of Local Authority Business Growth Incentive grant towards financing the council's net expenditure. Funding from council tax totalled £73.2 million in 2006/07 plus £0.5 million from Collection Fund surpluses.

### Total Revenue Income



### Capital Programme

With regard to capital spending some £41 million was incurred compared to the original forecast investment in the council's assets of £37 million, revised to £61 million following the approval of capital bids. There was slippage on revised capital programme of £16 million mainly in relation to the Herefordshire Connects project, Hereford crematorium and the accommodation strategy. No conditional funding resources have been lost and the council has maximised the use of resources available.

Herefordshire Council utilised supported borrowing of £13.2 million, capital receipts reserve funding of £4.8 million, grants of £14.4 million, revenue contributions of £0.5 million and prudential borrowing powers of £8.1 million to fund capital expenditure in 2006/07.

### Summary of Capital Expenditure

	£000
Highways, Footways and Bridges	11,750
Education new build, refurbishment and improvements to existing schools	8,159
Extra Care Housing Development, Hereford	5,280
ICT Services	3,807
Affordable Housing Grants	2,118
High Town and High Street, Hereford	1,346
Purchase of office accommodation, Hereford	1,261
Other schemes	7,228
	40,949

As a minimum the council maintains 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.

	2007/08	2008/09	2009/10
	£000	£000	£000
<b>Sources of funding</b>			
Grants and Contributions	24,772	28,079	18,683
Prudential Code Borrowing	19,782	13,444	40
Capital Receipts Reserves	11,426	8,463	2,700
Supported Capital Expenditure (Revenue)	9,963	1,500	1,500
Revenue Funded	215	-	-
	<u>66,158</u>	<u>51,486</u>	<u>22,923</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 £16,995,000 (plus slippage from previous years) for 2007/08, £7,865,000 for 2008/09 and £7,797,000 for 2009/10, excluding possible corporate accommodation funding requirements.

### **The Council's Borrowing**

The council had a total of £93.9 million outstanding loan debt at 31<sup>st</sup> March 2007 of which £12.5 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. In 2006 there was a change of approach that saw amounts of general reserve transferred to specific reserve in order to give greater transparency and ensure reserves are properly reflected as part of the medium term financial plan. The council is clear that the greater the range of financial risks covered by specific reserves the lower the minimum balance required on the General Fund. The change of approach is reflected in the 2006/07 accounts, which closed with general reserves of £8.7 million compared with a position of £14.5 million in 2005/06. Specific reserves total £19.8 million reflecting their increased use where specific risks are identified.

### **Pensions**

In accordance with Financial Reporting Standard 17 'Retirement Benefits' (FRS 17), Note 29 to the Statements sets out the council's assets and liabilities in respect of the Local Government Superannuation scheme. The net deficit shown as at 31<sup>st</sup> March 2007 is £88.8 million, which is approximately 43% 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 31<sup>st</sup> 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.

# The 2006/2007 Statement of Accounts

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

## **1 The Income and Expenditure Account**

This account brings together all income receivable and expenditure incurred in delivering the Authority's services during 2006/07

## **2 The Statement of Movement on the General Fund Balance**

This reconciliation statement shows the differences between the outturn on the Income and Expenditure Account and the amount required to be transferred to or from General Fund balances.

## **3 The Statement of Total Recognised Gains and Losses**

This statement brings together all the gains and losses of the council for the year.

## **4 The Balance Sheet**

This shows the Authority's financial position as at 31<sup>st</sup> March 2007 i.e. the end of the financial year 2006/07, and represents the value of all assets and liabilities.

## **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 Notes to the Statements**

The notes to the core financial statements provide further information on the financial activities of the council.

## **7 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.

The Statement of Accounts was authorised for issue on 29<sup>th</sup> June 2007 by the Director of Resources, Mrs Sonia Rees.

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

**Mrs Sonia Rees  
Director of Resources  
June 2007**

# STATEMENT OF ACCOUNTING POLICIES

## 1. General Principles

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2006: A Statement of Recommended Practice, which is recognised by statute as representing proper accounting practice.

## 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 in the Statement of Movement on the General Fund. 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 in the Income and Expenditure Account. The reserve is then appropriated back into the General Fund Balance statement so that there is no charge against council tax for the expenditure.

## 4. Grants

Revenue and capital grants are accounted for on an accruals basis. Revenue grants are matched in service revenue accounts with the expenditure to which they relate, except for grants covering general expenditure (e.g. Revenue Support Grant), which are credited to the Income and Expenditure Account after Net Operating Expenditure. Capital grants are credited to the Capital Contributions Deferred account and released to service revenue accounts in line with depreciation on assets to which the grant relates.

## 5. Pensions

Employees of the council are members of two separate pension schemes;

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education and Skills (DfES)
- The Local Government Pension Scheme administered by Worcestershire County Council

Both schemes provide defined benefits to members, earned as employees work for the council.

However, the arrangements for the Teachers' scheme mean that the liabilities for these benefits cannot be identified to the council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the balance sheet and the Education service revenue account is charged with the employer's contributions payable to Teachers' Pensions in the year.

### **Local Government Pension Scheme**

The Local Government Scheme is accounted for as a defined benefits scheme;

- The liabilities are included in the balance sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees.
- Liabilities are discounted to their value at current prices
- Assets are included in the balance sheet at their fair value
- The change in the net pensions liability is analysed into seven components;
  - Current service cost – the increase in liabilities as a result of service earned in the year – allocated in the Income and Expenditure Account to the revenue accounts of services for which the employees worked.
  - Past service cost – the increase in liabilities arising from current year decisions whose effect relates to service earned in earlier years – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs.
  - Interest cost – the expected increase in liabilities in the present value of liabilities during the year as they move one year closer to being paid – debited to Net Operating Expenditure in the Income and Expenditure Account.
  - Expected return on assets – the annual investment return on the fund assets attributable to the council, based on an average of the expected long-term return – credited to Net Operating Expenditure in the Income and Expenditure Account.
  - Gains/losses on curtailments – the results of actions to relieve the council of liabilities or events that reduce the expected future benefits of employees – included in the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs.
  - Actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions previously made by the actuaries – included in the Statement of Total Recognised Gains and Losses.
  - Contributions paid to the pension fund – cash paid as employer's contributions to the pension fund.

Statutory provisions limit the council to raising council tax to cover amounts payable by the council to the pension fund in the year. In the Statement of Movement on the General Fund Balance there is an appropriation to or from the Pensions Reserve to replace the notional costs of retirement benefits with the amounts payable to the pension fund in the year.

### **6. VAT**

Income and expenditure excludes any amounts relating to VAT, as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from them.

### **7. Overheads and Support Services**

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2006. The total absorption costing principle is used – the full cost of overheads and

support services are shared between users in proportion to the benefits received, with the exception of;

- Corporate and Democratic Core – costs relating to the council’s status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early.

The two categories are accounted for as separate headings in the Income and Expenditure Account, as part of Net Cost of Services.

### 8. Intangible Fixed Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the council (e.g. software licences) is capitalised when it will bring benefits to the council for more than one year. The balance is amortised to revenue over the economic life of the investment to reflect the pattern of consumption.

### 9. Tangible Fixed Assets

Tangible fixed assets are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

#### Recognition

Expenditure on the acquisition, creation and enhancement of a fixed asset is capitalised on an accruals basis, provided that it yields benefits to the council for more than one year.

#### 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
Infrastructure and community assets	Depreciated historical cost
Non-operational land, properties and other non-operational assets	lower of net current replacement cost or net realisable value

Contrary to the CIPFA capital accounting guidance, tenanted farms will continue to be disclosed as non-operational assets (Investment Properties) in the 2006/07 accounts, as these properties do not contribute to service objectives of the council.

#### 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.

#### Disposals

When an asset is disposed of, the value of the asset in the balance sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts are appropriated to the Usable Capital Receipts Reserve from the Statement of Movement on the General Fund Balance.

The written-off value of disposals is not a charge against council tax. Amounts are therefore appropriated to the Fixed Asset Restatement Account from the Statement of Movement on the General Fund Balance.

### **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.

### **Impairment**

Where impairment is identified this is accounted for :

- Where attributable to the clear consumption of economic benefits the loss is charged to the relevant service revenue account
- Otherwise – written off against the Fixed Asset Restatement Account.

### **10. Charges to Revenue for Fixed Assets**

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding fixed assets during the year;

- Depreciation attributable to the assets used by the relevant service
- Impairment losses attributable to the clear consumption of economic benefits on fixed assets used by the service
- Amortisation of intangible fixed assets attributable to the service

The council is not required to raise council tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue towards debt repayment of at least 4% of its overall borrowing requirement (for prudential borrowing repayments are being set aside from revenue over the expected useful life of the assets). Depreciation, impairment losses and amortisations are therefore replaced by revenue provision in the Statement of Movement on the General Fund Balance, by an adjustment with the Capital Financing Account.

### **11. Deferred charges**

Deferred charges represent expenditure that may be capitalised under statutory provisions but does not result in the creation of a tangible asset. Deferred charges incurred during the year have been written off as expenditure to the relevant service revenue account in the year. A transfer to the Capital Financing Account reverses out the amounts charged in the Statement of Movement on the General Fund Balance so that there is no impact on the council tax.

### **12. Leases**

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

### **13. Investments**

Internal investments are shown in the Consolidated Balance Sheet at original cost. External investments are shown at the lower of cost or net realisable value.

### **14. Stocks and Work-in-Progress**

Stock has been included in the accounts at current cost.

### **15. 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.

## **16. Private Finance Initiative**

Private Finance Initiative (PFI) contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor.

Under FRS 5, assets employed in the provision of services under 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.

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.

## **17. Exceptional/Extraordinary Items**

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

## **18. 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 2006/07 accounts which would materially affect the fair presentation of the accounts had a different estimation technique been applied.



# 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 31<sup>st</sup> March 2007 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 31<sup>st</sup> March 2007 and its income and expenditure for that period.

Mrs Sonia Rees  
Director of Resources  
29<sup>th</sup> June 2007

## INCOME AND EXPENDITURE ACCOUNT

This account reports the costs of all the functions for which the council is responsible and shows how this has been financed from central government grants and income from local taxpayers. It includes all day-to-day expenses and related income as well as transactions measuring the value of fixed assets consumed and the real projected value of retirement benefits earned by employees in the year.

2005/06 Net £000		2006/07 Expenditure £000	2006/07 Income £000	2006/07 Net £000
1,652	Central services	13,638	12,049	1,589
235	Court services	209	0	209
25,115	Cultural, environmental and planning services	44,206	16,120	28,086
89,930	Education services	134,255	117,380	16,875
13,093	Highways, roads and transport services	22,026	6,894	15,132
7,342	Housing services	42,104	36,055	6,049
42,883	Social services	71,702	23,046	48,656
4,219	Corporate and democratic core	3,931	13	3,918
(3,072)	Non-distributed costs	906	0	906
681	Other services	2,045	1,124	921
182,078	<b>Net Cost of Services</b>	335,022	212,681	122,341
	(1,419) Profit or loss on disposal of fixed assets			(146)
	2,040 Precepts and levies			2,141
	816 (Surplus)/Deficit on trading accounts			0
	3,301 Interest payable and similar charges			4,058
	437 Housing capital receipts pool			233
	(10,135) Return on pensions assets			(11,871)
	13,758 Pensions interest cost			14,339
	(1,945) Interest and Investment income			(2,736)
188,931	<b>Net Operating Expenditure</b>			128,359
	<b>Sources of Finance</b>			
	(602) Business Growth Incentive Scheme			(1,417)
	(68,926) Council tax			(73,244)
	(300) Transfer from Collection fund			(500)
	(58,372) Revenue Support Grant			(7,610)
	(58,954) Contribution from Non-Domestic Rates			(38,767)
(187,154)				(121,538)
1,777	<b>(Surplus) or Deficit for the year</b>			6,821

## STATEMENT OF MOVEMENT ON GENERAL FUND BALANCE

The Income and Expenditure Account shows the council's performance in terms of the resources consumed and generated during the year. However, the authority is required to raise council tax on a different accounting basis with additional amounts of income and expenditure credited or charged to the General Fund.

The main differences are;

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- The payment of a share of housing capital receipts to the Government is a loss in the Income and Expenditure Account, but is met from capital receipts rather than council tax.
- Retirement benefits are charged as amounts become payable to pension funds rather than as future benefits are earned.
- The movement on the General Fund balance also takes into account movements to and from earmarked reserves.

This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund balance.

<b>2005/06</b> <b>£000</b>	<b>2006/07</b> <b>£000</b>
1,777(Surplus)/Deficit on the Income and Expenditure Account	6,821
(1,811)Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(1,034)
<hr style="width: 100%; border: 0.5px solid black; margin-bottom: 5px;"/> (34)Decrease /(Increase) in General Fund Balance for the Year	<hr style="width: 100%; border: 0.5px solid black; margin-bottom: 5px;"/> 5,787
(14,491)General Fund Balance brought forward	(14,525)
<hr style="width: 100%; border: 0.5px solid black; margin-bottom: 5px;"/> (14,525)General Fund Balance carried forward	<hr style="width: 100%; border: 0.5px solid black; margin-bottom: 5px;"/> (8,738)

Note 2 to the accounts provides a detailed analysis of the differences between the Income and Expenditure Account and the movement on the General Fund balance.

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

This statement brings together all the gains and losses of the council for the year and shows the aggregate increase in its net worth. In addition to the surplus or loss generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

<b>2005/06</b> <b>£000</b>	<b>2006/07</b> <b>£000</b>
1,777(Surplus)/Deficit for the year on the Income and Expenditure Account	6,821
(24,986)Surplus arising on revaluation of fixed assets	(8,656)
28Movement on Collection Fund balance	822
(1,213)Actuarial (gains)/losses on pension fund assets and liabilities	(14,643)
<u>(24,394)</u>	<u>(15,656)</u>

## BALANCE SHEET AS AT 31<sup>ST</sup> MARCH 2007

31.3.06 £000		31.3.07 £000	31.3.07 £000
<b>Fixed Assets</b>			
3,897	Intangible Fixed Assets	4,308	
	Tangible Fixed Assets		
	Operational Assets		
201,852	- Land and buildings	207,656	
4,300	- Vehicles, plant, furniture and equipment	5,292	
67,477	- Infrastructure assets	76,920	
1,790	- Community Assets	1,790	
37,343	Non-operational Assets	<u>41,908</u>	
<u>316,659</u>			337,874
409	Long-term debtors		519
14	Long-term investments		<u>14</u>
<u>317,082</u>	<b>Total Long-term Assets</b>		<u>338,407</u>
<b>Current Assets</b>			
131	Stocks and work-in-progress	173	
26,580	Debtors	21,384	
37,889	Short-term Investments	40,985	
1,085	Landfill Allowance	921	
2,041	Cash and bank	<u>2,677</u>	
<u>67,726</u>			66,140
<b>Current Liabilities</b>			
28,463	Creditors	33,466	
13,386	Short term borrowing	13,412	
6,308	Cash overdrawn	<u>6,658</u>	
<u>48,157</u>			<u>53,536</u>
<u>336,651</u>	<b>Total Assets less Current Liabilities</b>		<u>351,011</u>
69,853	Long-term borrowing	81,389	
34,344	Capital contributions deferred	33,066	
8	Debt Liability	7	
100,614	Pensions liability	88,851	
2,555	Provisions	<u>2,762</u>	
<u>207,374</u>			<u>206,075</u>
<u>129,277</u>	<b>Total Assets less Liabilities</b>		<u>144,936</u>
<b>Financed by;</b>			
118,258	Fixed asset restatement reserve		120,632
61,726	Capital financing account		62,455
(100,614)	Pensions reserve		(88,851)
20,070	Usable capital receipts		21,711
403	Deferred credits		332
967	Collection Fund		145
13,942	Earmarked reserves		19,774
14,525	Revenue balances		<u>8,738</u>
<u>129,277</u>	<b>Total net worth</b>		<u>144,936</u>

## CASH FLOW STATEMENT

2005/06 £000		2006/07 £000	2006/07 £000
	<b>Revenue Activities</b>		
	<b>Cash outflows</b>		
118,889	Cash paid to and on behalf of employees	125,409	
156,721	Other operating cash payments	162,240	
28,058	Housing Benefit paid out	28,562	
36,500	National non-domestic rate payments to national pool	36,508	
279	Payments to the Capital Receipts Pool	252	
15,597	Precepts paid	16,554	
356,044			369,525
	<b>Cash inflows</b>		
(74,418)	Council Tax income	(79,134)	
(58,954)	National non-domestic rate receipts from national pool	(38,767)	
(33,946)	Non domestic rate receipts	(36,725)	
(58,372)	Revenue Support Grant	(7,609)	
(27,536)	DWP grants for benefits	(27,968)	
(56,341)	Other government grants	(139,086)	
(48,773)	Other operating cash receipts	(57,641)	
(358,340)			(386,930)
(2,296)	<b>Revenue Activities Cash Flow</b>		(17,405)
	<b>Servicing of Finance</b>		
	<b>Cash outflows</b>		
3,130	Interest paid	3,896	
	<b>Cash inflows</b>		
(1,422)	Interest/discount received	(2,258)	
1,708			1,638
	<b>Capital Activities</b>		
	<b>Cash outflows</b>		
24,413	Purchase of fixed assets	28,775	
7,160	Other capital cash payments	11,777	
31,573			40,552
	<b>Cash inflows</b>		
(3,596)	Sale of fixed assets	(6,583)	
(13,822)	Capital grants received	(7,848)	
(1,401)	Other capital cash receipts	(1,853)	
(18,819)			(16,284)
12,166	<b>Net cash inflow/outflow before financing</b>		8,501
	<b>Management of Liquid Resources</b>		
4,430	Net decrease in short term investments		2,770
	<b>Financing</b>		
	<b>Cash outflows</b>		
3,424	Repayments of amounts borrowed	8,443	
	<b>Cash inflows</b>		
(18,000)	New loans raised	(20,000)	
(14,576)			(11,557)
2,020	<b>Net decrease (increase) in cash</b>		(286)

## NOTES TO THE STATEMENTS

### 1. Prior Period Adjustments

In the 2006/07 accounts, the council has adopted three significant new accounting policies that impact on the comparative figures for 2005/06 in the Income and Expenditure Account;

- Capital financing charges for the use of fixed assets are no longer made to service revenue accounts, support services and trading accounts
- Credits for government grants deferred are now posted to service revenue accounts, support services and trading accounts rather than credited as a corporate income item
- Gains and losses on the disposal of fixed assets are recognised in the Income and Expenditure Account

These changes have had the following impact on the comparative figures for 2005/06 compared with those published in the 2005/06 Statement of Accounts (only figures that have changed are itemised in the table);

	2005/06 Net £000	LABGI £000	Removal of capital charges £000	Relocation of grants deferred £000	Gains on asset disposal £000	2005/06 Restated £000
Central services	1,665		(7)	(6)		1,652
Court services	235					235
Cultural, environmental and planning services	27,227		(1,497)	(615)		25,115
Education services	96,186		(5,363)	(893)		89,930
Highways, roads and transport services	16,065		(2,830)	(142)		13,093
Housing services	7,452		(21)	(89)		7,342
Social services	43,411		(344)	(184)		42,883
Corporate and democratic core	3,630	602	(10)	(3)		4,219
Non-distributed costs	(3,072)					(3,072)
Other services	696		(15)			681
<b>Impact on Net Cost of Services</b>	<b>193,495</b>	<b>602</b>	<b>(10,087)</b>	<b>(1,932)</b>	<b>0</b>	<b>182,078</b>
Surplus on disposal of fixed assets	0				(1,419)	(1,419)
Asset Management Revenue Account (Interest payable in 2006/07)	(8,718)		10,087	1,932		3,301
Other	4,971					4,971
<b>Impact on Net Operating Expenditure</b>	<b>189,748</b>	<b>602</b>	<b>0</b>	<b>0</b>	<b>(1,419)</b>	<b>188,931</b>

In addition, CIPFA has now produced guidance on the treatment of the Local Authority Business Growth Incentive (LABGI) grant. It is recommended that this is shown as a general grant and therefore the grant has been moved from the Corporate and Democratic Core Service to the financing section of the Income and Expenditure Account.

**2. Breakdown of the amounts in addition to the Income and Expenditure Accounts required to be debited or credited to the General Fund for the year**

The Income and Expenditure Account shows the financial performance for the year measured by resources consumed and generated over the year. However, the amount required to be raised from council tax is on a different basis with additional items charged or credited to the General Fund as follows;

<b>2005/06</b>	<b>2006/07</b>
<b>£000</b>	<b>£000</b>
<b>Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year</b>	
(841) Amortisation of intangible fixed assets	(1,807)
(7,231) Depreciation and impairment of fixed assets	(8,310)
1,932 Government Grants deferred amortisation	3,755
(5,395) Write down of deferred charges to be financed from capital resources	(4,284)
1,419 Surplus or loss on the sale of fixed assets (non-revenue)	272
<u>(7,445)</u> Net charges made for retirement benefits in accordance with FRS17	<u>(11,727)</u>
(17,561)	(22,101)
<b>Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year</b>	
4,782 Statutory provision for repayment of debt	5,378
832 Capital expenditure charged to the General Fund Balance	509
(437) Transfer of usable capital receipts to meet payments to the Housing Capital Receipts Pool	(233)
7,804 Employer's contributions payable to the pension fund and retirement benefits payable direct to pensioners	8,847
<u>12,981</u>	<u>14,501</u>
<b>Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year</b>	
2,698 Net Transfer to or from earmarked reserves	5,832
71 Voluntary provision for repayment of debt	734
<u>(1,811)</u>	<u>(1,034)</u>



### 3. 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:

	2006/07 £000	2006/07 £000
<b>Markets</b>		
The council owns and manages open and closed markets, generating income from permanent and temporary letting of premises and market stalls.	Turnover	(749)
In 2006/07 there was a deficit due to work undertaken on the Market Hall	Expenditure	1,055
	Deficit	<u>306</u>
	[Surplus 2005/06	261]
<b>Industrial &amp; Commercial Estates</b>		
The council owns and manages a number of industrial and commercial estates in the County	Turnover	(1,608)
	Expenditure	<u>588</u>
	Surplus	(1,020)
	[Surplus 2005/06	1,410]
<b>Retail Properties</b>		
The council owns retail premises in Hereford City centre from which it receives commercial rents	Turnover	(590)
	Expenditure	<u>328</u>
	Surplus	(262)
	[Surplus 2005/06	573]
<b>ICT Services</b>		
Information and Communications Technology Services are provided to all council directorates	Turnover	(5,853)
	Expenditure	<u>6,108</u>
	Deficit	255
The deficit of £255,000 on the trading account was reallocated to Directorates in accordance with the Best Value Accounting Code of Practice	[Deficit 2005/06	58]

### 4. 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 council spent £495,603 in 2006/07 under these powers.

### 5. Publicity

Section 5 of the Local Government Act 1986 requires local authorities to record expenditure on publicity. In 2006/07 the total was £991,000 split as set out below;

2005/06		2006/07
£000		£000
658	Recruitment advertising	511
10	Other advertising	22
464	Other publicity	458
<u>1,132</u>		<u>991</u>

## 6. Building Regulations Charging Account 2006/07

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 2005/06 £000		Chargeable 2006/07 £000	Non-Chargeable 2006/07 £000	Total Building Control 2006/07 £000
<b>Expenditure</b>				
549	Employee Expenses	423	141	564
48	Transport	28	9	37
33	Supplies & Services	11	4	15
254	Central Support Service Charges	311	35	346
<u>884</u>	<b>Total Expenditure</b>	<u>773</u>	<u>189</u>	<u>962</u>
<b>Income</b>				
(788)	Building Regulation Charging	(710)	0	(710)
<u>96</u>	<b>(Surplus)/Deficit for the Year</b>	<u>63</u>	<u>189</u>	<u>252</u>

## 7. The Local Authority (Goods and Services Act) 1970

The Act empowers Local Authorities to provide goods and services to other public bodies. In 2006/07 services were provided to the following organisations:

2005/06 £000	Organisation	2006/07 £000
18	Hereford College of Art & Design	14
9	Hereford College of Technology	6
93	Hereford and Worcester Fire Brigade	71
16	Herefordshire Housing Ltd	0
<u>136</u>		<u>91</u>

## 8. Partnership schemes under the section 31 Health Act 1999

There are seven 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 four agreements hosted by the council are:

- Learning Disabilities;
- Integrated Community Equipment Store (ICES);
- Free Nursing Care (FNC);
- Joint Agency Management for Out of County Placements (from 1<sup>st</sup> April 2006).

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

#### Mental Health

This section 31 agreement is the integrated mental health and social care service. This service is available to all residents within the county of Herefordshire.

The main partners in this pooled budget and their contributions are:-

- Herefordshire Primary Care Trust - £14.6 million;
- Herefordshire Council - £4.4 million.

2005/06 £000		2006/07 £000
18,692	Gross Income	19,120
19,281	Gross Expenditure	20,920
589	Net over / (under) spend	1,800

The council's gross overspend for mental health is £535,698.

#### Hillside Intermediate Care

Hillside is a residential intermediate care service provided as a partnership between Herefordshire Council and Herefordshire Primary Care Trust. Its aim is to promote independence and enable individuals to maximise their potential allowing them to return home quickly as possible following an episode of ill-health.

The main partners in this pooled budget and their contributions are:-

- Herefordshire Primary Care Trust - £939,000;
- Herefordshire Council - £286,000.

2005/06 £000		2006/07 £000
1,159	Gross Income	1,225
1,352	Gross Expenditure	1,383
193	Net over / (under) spend	158

The council's gross overspend for Hillside intermediate care is £36,815.

## Blanchworth Contract, Kington

The main partners in this pooled budget and their contributions are:-

- Herefordshire Primary Care Trust - £498,000;
- Herefordshire Council - £340,000.

2005/06 £000		2006/07 £000
818	Gross Income	838
818	Gross Expenditure	838
0	Net over / (under) spend	0

**The agreements hosted by Herefordshire Council were as follows:-**

### Learning Disabilities

This section 31 agreement is the integrated learning disabilities health and social care service. This service is available to all residents with a learning disability within the county of Herefordshire.

The main partners in this pooled budget and their contributions are:-

- Herefordshire Primary Care Trust - £2.95 million;
- Herefordshire Council - £8.5 million.

2005/06 £000		2006/07 £000
10,789	Gross Income	11,491
11,704	Gross Expenditure	12,609
915	Net over / (under) spend	1,118

The council's gross overspend for integrated Learning Disabilities service is £1,070,523.

### Integrated Community Equipment Service

A joint equipment store service is provided as a partnership between Herefordshire Council and Herefordshire Primary Care Trust. Its aim is to promote independence and enable individuals to remain in their home.

The main partners in this pooled budget and their contributions are:-

- Herefordshire Primary Care Trust - £532,000;
- Herefordshire Council - £71,000.

2005/06 £000		2006/07 £000
488	Gross Income	604
492	Gross Expenditure	548
4	Net over / (under) spend	(56)

The council's gross under spend for the Integrated Community Equipment Service is £47,544.

### Free Nursing Care

The agreement is a payment and recharge mechanism. Herefordshire Council pay free nursing care payments to service providers on behalf of Herefordshire Primary Care Trust. These payments are recharged to Herefordshire Primary Care Trust.

The main partner in this pooled budget is Herefordshire Primary Care Trust and their contribution £958k.

2005/06 £000		2006/07 £000
1,027	Gross Income	958
1,060	Gross Expenditure	1,003
33	Net over / (under) spend	45

The council's gross overspend for Free Nursing Care is £45,052.

### JAM Out of County Placements

Herefordshire Council and the PCT have signed a new Section 31 agreement for Joint Agency Management (JAM) of Out of County Placements for Children with complex educational, social and medical needs. The agreement pools spending in agreed proportions and spending is not separately allocated, but each child with these complex needs is funded directly from the pool irrespective of specific needs.

	£000
Gross Funding	
Herefordshire PCT	157
Herefordshire Council (Dedicated Schools Grant)	732
Herefordshire Council	646
Total Funding	1,535
Total Expenditure	1,575
Net overspend	40

The outturn position for the pool resulted in an overspend of £40,481 which has been absorbed as part of the overall financial position achieved by Children and Young People's Directorate in 2006-07.

### 9. Members Allowances

Allowances are paid to members under the Local Authority [Members Allowances] [England] Regulations 2003. In 2006/07 members were paid a total of £609,158 under these regulations (£597,544 in 2005/06). This was made up of £359,621 Basic allowances, £208,094 Special responsibility allowances and £41,443 for travelling and subsistence.

### 10. 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, expense allowances chargeable to tax and the money value of benefits. Employer pension contributions are exempt.

Remuneration band	No. of Employees
£50,000 - £59,999	24
£60,000 - £69,999	14
£70,000 - £79,999	4
£80,000 - £89,999	1
£90,000 - £99,999	7
£100,000 - £109,999	0
£110,000 - £119,999	0
£120,000 - £129,999	0
£130,000 - £139,999	1

The following table summarises the redundancies which occurred in 2006/07:

2006/07	Teachers	Others	Total
Number	13	19	32
Total Cost	£84,154	£204,589	£288,743
Average	£6,473	£10,768	£9,023

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

## 11. Summary of Capital Expenditure and Fixed Asset disposals

### Movement on 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
<b>Net book value at 31<sup>st</sup> March 2006</b>	<b>201,852</b>	<b>4,300</b>	<b>67,477</b>	<b>1,790</b>	<b>35,492</b>	<b>675</b>	<b>1,176</b>	<b>3,897</b>	<b>316,659</b>
Additions	5,210	2,261	12,971	250	1,730	2,518	1,812	2,219	28,971
Disposals/deletions	(1,822)				(2,002)		(2,470)		(6,294)
Revaluations	7,400			(250)	502	(724)	1,728		8,656
Reclassifications	(1,471)				211		1,260		0
Depreciation for year	(3,513)	(1,269)	(3,528)						(8,310)
Amortisation for year								(1,808)	(1,808)
<b>Net book value at 31<sup>st</sup> March 2007</b>	<b>207,656</b>	<b>5,292</b>	<b>76,920</b>	<b>1,790</b>	<b>35,933</b>	<b>2,469</b>	<b>3,506</b>	<b>4,308</b>	<b>337,874</b>

## Capital Expenditure and Financing

2005/06 £000	Capital Expenditure	2006/07 £000
7,792	Other land and buildings	5,210
10,480	Roads and infrastructure	12,971
273	Community assets	250
778	Investment and non operational assets	6,060
3,014	Vehicles, plant and equipment	2,261
2,418	Intangible assets	2,219
<u>24,755</u>		<u>28,971</u>
-	PFI asset prepayment	183
<u>7,090</u>	Deferred charges	<u>11,795</u>
<u>31,845</u>		<u>40,949</u>
<b>Financing of Capital Expenditure</b>		
13,916	Borrowing – Supported Capital Expenditure (Revenue)	13,152
5,131	- Prudential Borrowing	8,128
10,169	Grants and Contributions	14,405
1,827	Capital Receipts	4,755
802	Revenue contribution	509
<u>31,845</u>		<u>40,949</u>

## 12. Significant Commitments under capital contracts

Scheme	2006/07 £000
Riverside Junior and Infant School Amalgamation (May 2007 to November 2009)	6,740
Sutton Primary School Replacement (April 2007 to October 2008)	2,195
Extra Care Housing Development, Hereford (September 2008)	1,320

## 13. Fixed Assets

The major fixed assets held by the council as at 31<sup>st</sup> March 2007 includes:

	31.03.07
<b>Children and Young People's Services</b>	
Primary Schools	76
Secondary Schools	14
Special Schools	5
Pupil Referral Units	2
Other Educational Establishments	5
Children and Family Centres	2
Youth Centres	7

### **Adult and Community Services**

Homes for older people	6
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	41
Open Markets	2
Household Waste Sites	3

### **Other**

Smallholdings (non-operational assets)	70
General Buildings and Offices	27
Operational Depots	9
Registrars	2
Other Non operational Assets	219
Other Community Assets	177

### **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. The basis for valuation is set out in the Statement of Accounting Policies.

Hillside Intermediate Care Centre is run in partnership with the Primary Care Trust as a combined Health and Social Care service as an operational asset. For valuation purposes the council has a reversionary interest in the freehold value of the building at the end of the 25 year contractual period. The rent for 25 years is £5 per annum and the liabilities on the council for the structure and other outgoings mean the freehold has no current value to the council, and is in the council's balance sheet at a notional value of £1. As the contract nears termination the property will be revalued on the basis of any increasing net potential value to the council.



The following statement shows the progress of the council's rolling programme for the revaluation of fixed assets;

	<b>Land &amp; Buildings £000</b>	<b>Other Operational £000</b>	<b>Non-operational £000</b>	<b>Intangible assets £000</b>	<b>Total £000</b>
Valued at historical cost		84,002	1,943	4,308	90,253
Valued at current value in:					
2002/03	10,661		6,023		16,684
2003/04	27,829		9,118		36,947
2004/05	37,994		1,679		39,673
2005/06	61,256		5,851		67,107
2006/07	69,916		17,294		87,210
<b>Net book value at 31st March 2007</b>	<b>207,656</b>	<b>84,002</b>	<b>41,908</b>	<b>4,308</b>	<b>337,874</b>

### Depreciation

The depreciation methods used are set out in the Accounting Policies. In 2006/07 the total depreciation on fixed assets was £8.3 million.

### 14. Intangible Assets

Movement in Intangible Fixed Assets in the year were;

	Software	Other	Total
	£000	£000	£000
Original cost of assets held at 31 <sup>st</sup> March 2006	4,583	50	4,633
Amortisations to 31 <sup>st</sup> March 2006	(722)	(14)	(736)
<b>Net book value at 31st March 2006</b>	<b>3,861</b>	<b>36</b>	<b>3,897</b>
Additions	2,219	0	2,219
Amortisation for year	(1,801)	(7)	(1,808)
<b>Net book value at 31st March 2007</b>	<b>4,279</b>	<b>29</b>	<b>4,308</b>

Software is being written off over a useful life of 3 years. Other Intangible Fixed Assets relates to capital expenditure for Leominster Railway Station leased from Rail Track on a 20-year lease with 4 years useful life remaining.

## 15. Undischarged obligations arising from long-term contracts

The council has a number of significant long-term contractual commitments;

### **Mercia Waste Management Ltd – Waste management PFI contract**

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 31<sup>st</sup> March 2007, the waste disposal contract was subject to a standstill agreement, which temporarily suspends aspects of the contract pending negotiations to secure variations to the current contract. Because of the failure of the contractor to secure planning permission for an Energy from Waste Plant at Kidderminster and the change in government targets for recycling and the diversion of bio-degradable waste from landfill, new and significantly different arrangements for dealing with waste disposal are now not expected until 2007/08 at the earliest, assuming the negotiations on a contract variation are completed.

### **Stepnell Ltd – School PFI Contract**

The Whitecross High School PFI 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.

### **Herefordshire Jarvis Services**

In 2003 the council entered into a contract with Jarvis PLC for the provision of contract services of around £13 million per annum over 10 years. The contract involved establishing a joint venture company named Herefordshire Jarvis Services with the transfer of Herefordshire Commercial services staff to the new company.

### **Owen Williams**

On 1<sup>st</sup> September 2003 the council also entered into a contract with Owen Williams for the delivery of technical consultancy services, with an estimated value of at least £1 million per annum over 10 years.

### **Shaw Homes**

The council has a contract with Shaw Healthcare for the provision of care in the authority's residential homes and day care centres. The contract expires in 2033/34 for all homes except Elmhurst, which expires in 2008/09. The level of payments will depend on the authority's take up of beds and Shaw Healthcare's performance in providing services. The payments for 2006/07 totalled £4.3 million (£3.7 million residential and £550,000 day care).

## 16. 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:

2005/06 £000		2006/07 £000
	<b>The amount of lease rentals paid to lessors</b>	
938	Other Land & Buildings	946
739	Vehicle, Plant & Equipment	670
	<b>Rental received in the year for operating leases</b>	
2,669	Other Land & Buildings	3,017

The authority was committed at 31<sup>st</sup> March 2007 to making payments of £872,000 under operating leases in 2007/08, comprising the following elements:

	<b>Other Land &amp; Buildings £000</b>	<b>Vehicles, Plant &amp; Equipment £000</b>
Leases expiring in 2007/08	122	221
Leases expiring between 2008/09 and 2012/13	434	183
Leases expiring after 2012/13	316	0

With regards to the Authority's activity as a lessor, the gross value of assets held for use in operating leases was £127,410,461 as valued at 1<sup>st</sup> April 2006 and subject to £1,555,162 depreciation to 31<sup>st</sup> March 2007.

## 17. Analysis of Borrowing

As at 31 <sup>st</sup> March 2006 £000		As at 31 <sup>st</sup> March 2007 £000
<i>Analysis of loans by type</i>		
70,296	Public Works Loan Board	81,853
<u>12,000</u>	Money Market	<u>12,000</u>
<u>82,296</u>	Total outstanding	<u>93,853</u>
<i>Analysis of loans by maturity</i>		
12,443	Repayable within 12 months	12,464
5,464	Between 1 and 2 years	486
4,009	Between 2 and 5 years	804
1,689	Between 5 and 10 years	1,744
3,862	Between 10 and 15 years	3,828
<u>54,829</u>	More than 15 years	<u>74,527</u>
<u>82,296</u>		<u>93,853</u>

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

- 1) £6,000,000 borrowed on 4<sup>th</sup> 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 24<sup>th</sup> 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.

In addition a number of Trust Funds have investments with the council totalling £948,319.

## 18. Investments

### (a) Long-term investments

Long-term investments of £14,000 were inherited from outgoing authorities on Local Government reorganisation in 1998

## (b) Short-term Investments

### Internally Managed

	£'000	£'000
Balance at 31 <sup>st</sup> March 2006		30,420
Investments made during year (266 transactions)	931,877	
Investments recalled during year	<u>(929,091)</u>	
<b>Balance at 31<sup>st</sup> March 2007</b>		<u>2,786</u> <b>33,206</b>

### Externally Managed

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

	2005/06 £'000	2006/07 £'000
Fixed Interest Securities	2,118	0
Certificates of Deposit	5,315	7,685
Deposit Accounts	36	94
<b>Balance at 31<sup>st</sup> March</b>	<u>7,469</u>	<u>7,779</u>

**Total Short-term Investments at 31<sup>st</sup> March 2007**                      **£ 40,984,642**

## 19. Provisions

The provisions at 31.3.07 are listed below;

2005/06 £000	2006/07 £000
22 Village focus grants	22
73 Former Hereford and Worcester liabilities	51
1,020 Insurance	1,230
373 Redundancies	556
<u>1,067 Landfill Allowances liability</u>	<u>903</u>
<u>2,555</u>	<u>2,762</u>

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 level of the provision is reviewed each year against the potential commitments. During 2006/07 the council engaged consultants, Marsh UK Ltd, to assess whether the level of the insurance provision was adequate. The findings were that it was adequate but recommended that additional funds should be set aside if available. Consequently the provision has been increased from just over £1 million to £1.2 million.

## 20. Details of Movement on Reserves

The council keeps a number of reserves in the Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice, and some have been set up voluntarily to earmark resources for future spending plans.

<b>Reserve</b>	<b>1 April 2006 £000</b>	<b>Net Movement In Year £000</b>	<b>1 April 2007 £000</b>	<b>Purpose of Reserve</b>
Fixed Asset Restatement Account	118,258	2,374	120,632	Store of gains and losses on revaluation of fixed assets
Capital Financing Account	61,726	729	62,455	Store of capital resources set aside to meet past expenditure
Usable Capital Receipts	20,070	1,641	21,711	Proceeds of fixed asset sales available to meet future capital investment
Pensions Reserve	(100,614)	11,763	(88,851)	Balancing account to Pensions Liability in the Balance Sheet
General Fund	14,525	(5,787)	8,738	Resources available to meet future costs
Earmarked reserves	13,942	5,832	19,774	Set aside for specific purposes

The council held the following earmarked reserves of £19.8 million at 31<sup>st</sup> March 2007;

<b>Reserve</b>	<b>31.03.06 £000</b>	<b>Transfer (to)/from revenue £000</b>	<b>31.3.07 £000</b>
Community buildings	64		64
Commuted sums	78		78
Schools balances in hand	8,739	(602)	8,137
Industrial Estates - maintenance	145	17	162
Support Services & Equipment renewals	209		209
Schools Balance of Risk	373	(68)	305
Winter maintenance	108	392	500
Planning	24		24
SRB schemes	96		96
College Hill Community Centre	180		180
Waste Disposal	1,366	908	2,274
LSC	32		32
School energy audits	50	(50)	0
Landfill Allowance scheme	19	(1)	18
Herefordshire Connects project	1,928	146	2,074
Wye Valley ANOB	98		98
Elections	0	119	119
Members ICT	0	30	30
Invest to Save/Initiatives fund	433	682	1,115
Budget management	0	1,100	1,100
Contingent liabilities	0	300	300
Social care contingency	0	1,977	1,977
Standards fund	0	377	377
Treasury management (LOBO) reserve	0	505	505
	<b>13,942</b>	<b>5,832</b>	<b>19,774</b>

## 21. Schools Balances – Local management of schools

A sum of £8,136,542 is shown in reserves in respect of school 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.

Following the introduction of a balance claw-back mechanism, where the amount of revenue balance a school is permitted to hold is capped, school balances have reduced in total by £638,269.

The total balances, which includes devolved capital of £2,718,615 and extended schools of £373,655, can be split between Primary schools (£4,616,706), Secondary schools (£3,136,069), Special schools (£262,264) and Pupil Referral Units (£121,503).

## 22. Disclosure of deployment of Dedicated Schools Grant

The council's expenditure on schools is funded by grant monies provided by the Department for Education and Skills, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each school. Over- and underspends on the two elements are required to be accounted for separately.

Details of the deployment of DSG receivable for 2006/07 are as follows:

	Central Expenditure £000	Individual Schools Budget £000	Total £000
Original grant allocation to Schools Budget for the current year in the authority's budget.	8,324	70,012	78,336
Adjustment to finalised grant allocation	(185)	0	(185)
DSG receivable for the year	<u>8,139</u>	<u>70,012</u>	<u>78,151</u>
Transfer from DSG to Capital	(220)	0	(220)
Transfer from DSG to Sickness Reserve	(44)	0	(44)
Actual expenditure for the year	<u>(7,769)</u>	<u>(70,503)</u>	<u>(78,272)</u>
(Over)/under spend for the year	106	(491)	(385)
Planned top-up funding of ISB from council resources	6	0	6
Use of schools balances brought forward	0	602	602
(Over)/under spend carried forward to 2007/08	<u>112</u>	<u>111</u>	<u>223</u>

## 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 £300,000.

- (b) 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 31<sup>st</sup> March 2004 meant that the guarantee did not result in additional costs to the Council in the period covered by the review (up until 31<sup>st</sup> March 2008).
- (c) 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.
- (d) 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.
- (e) Costs of £100,000 to £250,000 in respect of power provision may be incurred at Plough Lane to satisfy ICT disaster recovery requirements.
- (f) There is a claim for compensation against the Authority in respect of the Compulsory Purchase Order the council has made over land at Ross-on-Wye, for the purpose of flood alleviation measures. A provisional estimate of the value of the claim is approximately £36,000.

#### **24. 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.

**Central government** has effective control over the general operations of the council. It is responsible for providing the statutory framework within which the council operates and provides the majority of its funding in the form of grants. Details of income received from government departments are set out in Note 31 relating to the Cash Flow Statement.

**Members of the council** have direct control over the council's financial and operating policies. 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. An examination of the Register indicates that the council's financial transactions with these bodies in 2006/07 are not material.

**Officers** – A number of senior officers are members of professional bodies and are involved in local organisations and partnerships, such as the Learning and Skills Council and Herefordshire Partnership. During 2006/07 there were no significant declarations of pecuniary interest in accordance with section 117 of the Local Government Act 1972.

**Pension Funds** – During the year the council paid £11.1 million to the Local Government Pension scheme administered by Worcestershire County Council and £9.3 million to the Teachers Pension Scheme.

### **Other Public Bodies**

- During the year the council made payments of over £19 million to Worcestershire County Council, including payments to the pension scheme and for the joint waste disposal contract.
- The council works in partnership with the Primary Care Trust under Section 31 pooling arrangements. Payments to the PCT in 2006/07 totalled £7.5 million and invoices raised to the PCT were also £7.5 million.

### **Significant Partners**

- The council paid £16.5 million to Herefordshire Jarvis Services under the long-term contract for the provision of services, the largest of which related to highways.
- Under the contract with Owen Williams for the provision of technical services the council paid £2.2 million in 2006/07.
- Payments of £4.3 million were made to Shaw Healthcare for the provision of care in residential homes and for day centres in 2006/07, plus £300,000 towards capital costs on the homes.

### **Other organisations**

- The council pays a management fee to Halo Leisure Trust for the provision of leisure facilities, including swimming pools and leisure centres. In 2006/07 the council paid £1.7 million to Halo Leisure Trust.
- In 2006/07 the council paid £573,000 to the Courtyard Trust. The council has a commissioning agreement with the trust based on agreed outcomes.
- The council is represented by its elected members on the West Mercia Supplies Joint Committee. The financial advantage of bulk purchasing arrangements is reflected in the Income and Expenditure Account. Payments of £2.6 million were made in 2006/07.

## **25. Creditors**

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

	2005/06 £000	2006/07 £000
Directorate Service Areas	12,624	16,131
ICT	21	320
Herefordshire In Touch	183	10
Joint Funding	1,511	1,254
Capital	962	1,916
Creditors System	9,409	9,348
Treasury Management	686	870
Collection Fund	1,441	2,101
Purchase Ordering System Accruals	858	824
Other	768	692
	<u>28,463</u>	<u>33,466</u>



## 26. Debtors

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

	2005/06 £000	2006/07 £000
Directorate Service Areas	6,574	6,856
School Loan Accounts	282	765
ICT	115	106
Joint Funding	1,037	806
Capital	2,888	3,509
VAT	2,027	1,833
Treasury management	204	221
Leased Cars	98	67
Debtors System	7,972	4,662
Fairer Charging	111	116
Collection Fund	5,782	3,189
Other	49	68
	<u>27,139</u>	<u>22,198</u>
Provision for Bad Debts	<u>(559)</u>	<u>(814)</u>
	<u>26,580</u>	<u>21,384</u>

## 27. Amounts due to or from related parties

As at 31<sup>st</sup> March 2007 amounts due to and from related parties were as follows:

<b>Related Party</b>	<b>Due to £000</b>	<b>Due from £000</b>
Department for Communities and Local Government	5,050	133
Department for Transport	199	0
Department for Works and Pensions	618	0
Department for Education and Skills	2,325	1,227
Department of Health	22	0
Department for Food, Agriculture & Rural affairs	20	76
Department of Constitutional Affairs	0	27
Countryside Council for Wales	5	13
Learning & Skills Council	636	362
Advantage West Midlands	196	2,407
Government Office For West Midlands	235	361
Home Office	95	0
Lottery	9	3
Arts Council	65	0
Countryside Agency	8	0
Teachers development agency	45	0
Teachers Pension	815	0
Worcestershire County Council	2,476	93
Herefordshire Primary Care Trust	2,019	2,973
Courtyard Trust	0	6
Herefordshire Jarvis Services	1,642	221
Shaw Healthcare	335	0
Halo	649	54
West Mercia Supplies	150	398
Owen Williams	232	0

These amounts are included in the council's debtors and creditors figures.

In addition, there were capital grants of £2.67 million from related parties held in the Capital Grants Deferred Account not yet applied to capital spend. Of this amount £2.62 million related to government departments and £51,000 to the Primary Care Trust.

## 28. External Audit Fees

The council incurred the following fees relating to external audit and inspection;

	2005/06 £000	2006/07 £000
• Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	175	212
• Fees payable to the Audit Commission in respect of statutory inspection	81	50
• Fees payable to the Audit Commission for the certification of grants claims and returns	90	85

## 29. 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.

### Teachers' Pensions 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.

In 2006/07 the council paid £6.06 million in respect of teachers' pension costs, which represented 12.9% 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 2006/07 these amounted to £111,290, representing 0.24% of pensionable pay.

At the year-end there were contributions of £815,162 remaining payable, which related to the March 2007 contributions paid to the scheme in April 2007.

### Local Government Pension Scheme

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 in the Statement of Movement in the General Fund Balance.

The following transactions have been made in the Income and Expenditure Account and Statement of Movement in the General Fund Balance during the year:

	2006/07 £000	2005/06 £000
<b>Income and Expenditure Account</b>		
<b><i>Net Cost of services</i></b>		
Current Service cost	8,406	6,949
Past service cost (gain)	0	(4,057)
Curtailment cost	853	930
<b><i>Net Operating Expenditure</i></b>		
Interest cost	14,339	13,758
Expected return on assets in the scheme	(11,871)	(10,135)
<b><i>Net charge to Income and Expenditure Account</i></b>	<u>11,727</u>	<u>7,445</u>
<b>Statement of Movement in General Fund Balance</b>		
Reversal of net charges under FRS 17	(11,727)	(7,445)
Employer's contribution payable to the scheme	8,847	7,804
<b><i>Net charge to Statement of Movement in General Fund Balance</i></b>	<u>(2,880)</u>	<u>359</u>

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 31<sup>st</sup> 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 government. The fund is reviewed by the Actuaries every 3 years.

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.

### **Assets and Liabilities**

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

	31 March 2006 £m	31 March 2007 £m
Market Value of Assets	191.7	205.1
Liabilities	<u>(292.3)</u>	<u>(293.9)</u>
Surplus/(Deficit)	<u>(100.6)</u>	<u>(88.8)</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.

### Actuarial assumptions

The main assumptions used in the calculations are:

	Beginning of year	End of year
Rate of inflation	2.9%	3.1%
Rate of increase in salaries	4.4%	4.6%
Rate of increase in pensions	2.9%	3.1%
Discount rate	4.9%	5.4%

### Pension Scheme assets

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

	31 March 2006		31 March 2007	
	£000	%	£000	%
Equities	156,643	81.7	185,165	90.3
Government Bonds	23,775	12.4	10,253	5.0
Other Bonds	8,436	4.4	7,382	3.6
Cash/Liquidity	2,876	1.5	2,256	1.1
	<u>191,730</u>		<u>205,056</u>	

The expected rate of return on these assets was:

	Beginning of year	End of year
Equities	7.0%	7.5%
Government Bonds	4.3%	4.7%
Other Bonds	4.9%	5.4%
Property	6.0%	6.5%
Cash/Liquidity	4.5%	5.25%

### Movement in scheme deficit during the year.

2005/06		2006/07
£000		£000
(102,186)	Surplus/(Deficit) at beginning of year	(100,614)
(6,949)	Current service cost	(8,406)
7,804	Employer contributions	8,847
3,127	Past service/curtailment (cost)/gain	(853)
(3,623)	Net interest/Return on Assets	(2,468)
1,213	Actuarial gain or (loss)	14,643
<u>(100,614)</u>	Surplus/(Deficit) at end of year	<u>(88,851)</u>

The net liability represents the difference between the value of the Authority's pension fund assets at 31<sup>st</sup> March 2007 and the estimated present value of the future pension payments to which it was committed at that date (to be paid out over a period of many years).

### Statement of Actuarial (gains) and losses

The actuarial gain or 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		2006/07	
	£000	%	£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	(452)	0.2
Gains and losses on scheme liabilities	0	-	0	-	6,507	2.5	5,468	1.9	0	0
Change in demographic and financial assumptions	0	-	0	-	41,157	16.1	22,050	7.5	(14,191)	4.8

### 30. 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.

	<b>New funds, Investment</b>				
	<b>Balance at 1/04/06</b>	<b>Revenue Income</b>	<b>Transactions Expenditure</b>	<b>Sales and Revaluations</b>	<b>Balance at 31/03/07</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Education (small funds)	22,063	986	(226)	107	22,930
Sylvia Short Trust	1,020,588	47,620	(45,923)	1,596	1,023,881
Buchanan Trust	1,891,414	106,017	(106,366)	586,068	2,477,133
Other Funds	53,355	2,566			55,921
	<u>2,987,420</u>	<u>157,189</u>	<u>(152,515)</u>	<u>587,771</u>	<u>3,579,865</u>

The Sylvia Short Educational Charity, administered by the council on behalf of the Trustees was established to provide children with learning experience outside the curriculum. The Buchanan Trust is invested in agricultural land around Bosbury for the benefit of tenant farmers. Other funds include the Hatton Bequest, which is available for Hatton Gallery exhibits

Assets and liabilities on the funds at 31<sup>st</sup> March were;

	<b>2005/06 £000</b>	<b>2006/07 £000</b>
Fixed Assets	1,064	1,650
Investments	981	981
Cash temporarily invested with Herefordshire Council	942	948
	<u>2,987</u>	<u>3,579</u>
Represented by Trust Funds	<u>2,987</u>	<u>3,579</u>

### 31. Notes to the Cash Flow Statement

#### Reconciliation of net deficit on the Income and Expenditure Account to the revenue activities in the Cash Flow Statement

2005/06	2006/07	
£000	£000	£000
1,777 (Surplus)deficit on I& E Account	6,821	
<u>(311) Collection Fund (surplus)/deficit</u>	<u>223</u>	
1,466		7,044
(1,708) Interest/discount		(1,638)
<b>Non-cash Transactions</b>		
(1,420) Contributions from (to) provisions	(207)	
(11,535) Capital charges	(10,647)	
359 FRS 17 pension adjustments	(2,880)	
1,419 Surplus on sale of assets (non-revenue)	272	
<u>1,441 Other non-cash</u>	<u>743</u>	
(9,736)		(12,719)
<b>Items on an Accruals basis</b>		
2 Increase/(Decrease) in stocks and WIP	42	
8,212 Increase/(Decrease) in debtors	(5,646)	
<u>(532) (Increase)/Decrease in creditors</u>	<u>(4,488)</u>	
<u>7,682</u>		<u>(10,092)</u>
<u>(2,296) Net cash flow from revenue activities</u>		<u>(17,405)</u>

#### Movement in debtors and creditors

Increase/(Decrease)	Debtors	Creditors
	£000	£000
Revenue activities	(5,646)	4,488
Capital activities	<u>450</u>	<u>515</u>
	<u>5,196</u>	<u>5,003</u>

#### Reconciliation of net cash flow to movement in net debt

2005/06	2006/07	
£000	£000	£000
(2,020) Increase (decrease) in cash in the period	286	
(14,577) (Increase) decrease in debt financing	(11,556)	
4,430 Increase (decrease) in liquid resources	2,786	
(15) Internal investment of Trust Funds	(6)	
<u>326 Revaluation of investments</u>	<u>310</u>	
(11,856)		(8,180)
<u>(37,761) Net debt at 1st April</u>		<u>(49,617)</u>
<u>(49,617) Net debt at 31st March</u>		<u>(57,797)</u>

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

## Analysis of Net debt

	1.4.06 £000	Cash Flow £000	Non- cash £000	31.3.07 £000
Cash in hand and at bank	(4,267)	286		(3,981)
Debt due within 1 year	(13,386)	(26)		(13,412)
Debt due after 1 year	(69,853)	(11,536)		(81,389)
Short term investments	37,889	2,786	310	40,985
	<u>(49,617)</u>	<u>(8,490)</u>	<u>310</u>	<u>(57,797)</u>

## Analysis of Government Grants in the Cash Flow Statement

2005/06		2006/07	
Total £000		Revenue £000	Capital £000
69,301	ODPM/DCLG	17,718	2,824
37,965	Department for Works and Pensions	41,036	56
26,185	Department for Education and Skills	102,119	2,205
11,603	Department of Health	5,968	98
597	Home Office	282	0
179	Countryside Agency	82	66
425	Department for Environment, Food & Rural Affairs	239	174
1,349	Lottery	114	574
3,015	Advantage West Midlands	1,278	1,436
933	Government Office for West Midlands	1,290	412
1,443	Department for Transport	599	3
2,655	Learning and Skills Council	3,528	0
7	Cabinet Office	0	0
8	Legal Services Commission	0	0
112	Arts Council	27	0
136	Countryside Council for Wales	94	0
144	Department for Constitutional Affairs	16	0
14	Welfare Food Reimbursement	0	0
0	Teachers development agency	273	0
<u>156,071</u>		<u>174,663</u>	<u>7,848</u>

## 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 Balance Sheet.

2005/06 £000	Note	2006/07 £000    £000	
<b>Income</b>			
Council Tax:			
73,410	1	77,482	
<u>9,627</u>		<u>10,132</u>	
83,037			87,614
<u>34,814</u>	2		<u>37,076</u>
<u>117,851</u>			<u>124,690</u>
<b>Total Income</b>			
 <b>Expenditure</b>			
9,614			10,255
3,966			4,228
68,926			73,244
132			95
88			15
 <b>Non Domestic Rates</b>			
34,525	2		36,785
<u>289</u>			<u>291</u>
<u>117,540</u>			<u>124,913</u>
<b>Total Expenditure</b>			
 311	 3		 (223)
656	3		368
967	3		145



## 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 1<sup>st</sup> 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 2006/07 was £1,285.31 with a range between £1,255.99 to £2,323.70. The council tax base used for setting the council tax in 2006/07 was 68,254.

Band	Valuation Range	Charge Factor	Band D Equivalent
A	Up to £40,000	6/9	6,270.60
B	£40,001 to £52,000	7/9	12,300.20
C	£52,001 to £68,000	8/9	12,264.90
D	£68,001 to £88,000	9/9	11,204.30
E	£88,001 to £120,000	11/9	11,881.50
F	£120,001 to £160,000	13/9	8,066.50
G	£160,001 to £320,000	15/9	5,062.50
H	Over £320,000	18/9	299.00
Crown			197.50
			<hr/>
			67,547.00
	Other adjustments		706.97
			<hr/>
			68,253.97

<b>Council Taxpayer Income</b>	£000	£000
Council Tax debit @ 1 <sup>st</sup> April		97,403
<b>Add:</b>		
Redebits	67,468	
Banding Change	639	
Additional – 2 <sup>nd</sup> Homes	477	
Additional – Empty Properties	325	68,909
	<hr/>	
<b>Less:</b>		
Discounts	8,336	
Exemptions	3,001	
Benefits – Statutory	10,102	
Benefits – Non Statutory	30	
Disablement Relief	128	
Transitional Relief	(3)	
Void Assessments	69	
Empty Assessments	67,167	88,830
	<hr/>	<hr/>
		77,482

## 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.

	<b>£000</b>
NNDR Contribution to the Pool	36,785
Cost of Collection Allowance	<u>291</u>
Income from Business Ratepayers	<u>37,076</u>
NNDR Entitlement	39,011

£36,784,830 is the contribution due to the NNDR pool for 2006/07 paid by Herefordshire Council to central government. 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 £39,011,193, which is its redistributed share. This figure is calculated on a per head of population basis.

Business rateable value as at 31 <sup>st</sup> March 2007	£ 104,902,919
Business rate multiplier	43.3p

<b>Non-domestic Ratepayers Income</b>	£000	£000
Non-domestic debit @ 1 <sup>st</sup> April		43,352
<b>Add:</b>		
Transitional Premium		(186)
<b>Less:</b>		
Empty Allowances	2,187	
Transitional Relief	636	
Discretionary Relief	206	
Mandatory Relief	2,776	
Write-offs	239	
Interest on Refunds	46	6,090
<b>Income due from non-domestic ratepayers</b>	<u>          </u>	<u>37,076</u>

## Note 3

### Contributions to Collection Fund Surpluses

<b>Council Tax</b>	£000	£000
Surplus at 31.3.06		967
Less: Payments		
Hereford & Worcester Fire Brigade	29	
West Mercia Police Authority	70	
Herefordshire Council	<u>500</u>	<u>599</u>
		368
Surplus balance brought forward		368
Surplus financial year 2005/06		(223)
Surplus balance carried forward		145

# 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;
- the council's Medium Term Financial Management Strategy;
- an integrated corporate, service and financial planning process;
- the Performance Management Framework 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 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 and one for members all of which have been regularly brought to the attention of all staff;
- an Audit and Corporate Governance Committee is now operating as part of the council's internal control process;
- an independent audit function, which submits regular assurance reports to the council's Audit and Corporate Governance Committee;
- adoption of a Statement of Internal Control assurance process; and
- devolved financial management arrangements where key 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 and Corporate Governance Committee undertaking the review at member level.

The Audit Services Manager informs both the Corporate Management Board and the Audit and Corporate Governance 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 Audit Services Manager.

The Audit and Corporate Governance Committee receives interim and annual reports on internal audit activity and approves the annual plan and Audit Strategy 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 2005-2006 Annual Audit and Inspection letter (dated March 2007) 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:

- demonstrate that it actively manages risk and there are outputs from management. Officers need to be trained in risk awareness and the council needs to demonstrate that they have adequately considered partnerships in their risk Assessments;  
*Risk Management is an integral part of the council's Performance Management Framework with the Corporate Risk Log being regularly reviewed by Corporate Management Board. These Corporate Risk Logs are also an integral part of the council's Integrated Performance Reports submitted to Cabinet.*
- embed the assurance framework and the links between the council's objectives and risks could be clearer. Reconciliations of key feeder systems need to occur monthly. Partnership arrangements need to be developed with standing orders showing how good governance and partnerships relate;  
*The council's assurance framework continues to be embedded, the links between the council's objectives and risks are being identified, and the development of partnership arrangement will form part of the pending review of the council's Standing Orders.*
- raise awareness concerning ethical behaviour but also needs to raise awareness of whistleblowing procedures and the antifraud and corruption policy;  
*The council has placed posters on notice boards at its administrative buildings and continues to remind staff by regular notices on payslips.*

- act on feedback from the ethical survey of Members and Senior Officers. There were some areas identified as areas for action such as the work of the Standards Committee and improved communication to the public on the whereabouts of public documents;  
*The council's Legal and Democratic Services Division has carried out training for Members in relation to the role of the council's Standard as part of a wider programme of Member training. The council's Head of Communication is reviewing the council's arrangements with regards to communication with the public.*

### **Benefits Fraud Inspectorate**

The Benefit Fraud Inspectorate gave the service a 2 star rating, which equated to a fair performance overall. Although user focus continued to be good the service failed to achieve its annual target for intervention and visit and this as well as its claims processing performance adversely affected the score. The service has, however, been improving steadily and this is expected to result in an improved inspection score for 2007.

### **Annual Performance Assessment**

The 2006 Annual Performance Assessment of Services for Children and Young People in Herefordshire showed that there were no inadequate assessments, with the council getting a score of 2. The latest action plan shows that progress is being made. However Government Office for the West Midlands (GOWM) have a concern with regards to the ability of the Council to self analyse, drive change and improvement. GOWM have confirmed that the Minister has decided that the GOWM led Improvement Board for Children and Young People will continue to oversee progress in Herefordshire for at least another six months.

### **Fostering Service**

The Commission for Social Care Inspection (CSCI) found the service to be good with some outstanding features. There is an action plan being developed that will ensure that the service continues to improve.

### **Cultural Services**

The Audit Commission inspection of the council's Cultural Services showed the service to be fair with promising prospects for improvement. Recommendations have been made by the Audit Commission and the Head of Service is developing an action plan to address issues raised.

### **Adult Learning**

The Commission for Social Care Inspection (CSCI) has completed its inspection of the council's service for People with Learning Disabilities. The outcome was that people were not being served well and the capacity for improvement was uncertain. The Council now has an action plan which has been developed and is being implemented as an integral part of the Council's comprehensive programme of improvement for Adult Social Care and related services.

## **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 Audit Services Manager; and/or
- attracted significant public interest.

There were three issues identified for improvement:

- As previously reported services for people with Learning Disabilities was judged to be not serving people well.  
*The council has made a positive response to the recommendations made by CSCI. Immediate priority in being given to the recommendations in respect of weaknesses in assessment and care management including safeguarding. Action has already being taken to tackle the backlog of reviews. Action is also being taken to address concerns highlighted in relation to person-centred planning, transition from children's to adult services and the updating of policies and procedures.*
- Three fundamental systems Education Transport, Housing Benefit Payments and Salaries - Children Services were given marginal opinions. Audit recommendations have been made in relation to each system. Recommendation follow up by Audit Services will form part of the review for 2007/ 2008.
- One fundamental system ICT FMS was given an unsatisfactory opinion. Audit recommendations have been made in relation to this system and follow work by Audit Services is in progress.

Cllr R. Phillips  
Leader of the Council

N. Pringle  
Chief Executive

Mrs. S. Rees  
Director of Resources

June 2007

# 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.

**Balance Sheet**

A summary of Herefordshire Council'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.

**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.

**Private 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.



**MONITORING OFFICER REPORT 2006/2007****Report By: Head of Legal and Democratic Services****Wards Affected**

County-wide

**Purpose**

1. To inform the Committee of the Authority's performance for 2006/07 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**

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 8 occasions and considered a total of 9 individual complaints. Of those complaints considered, only one was upheld, which resulted in a compensatory payment of £350.00 being made to the complainant. An analysis of the subject matter of complaints dealt with by the Panel during this period reveals that 55% related to planning issues; 11% related to highway matters, 11% related to Rights of Way, 11% related to Schools and Services and 11% related to noise nuisance.

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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.
6. The table below shows the total number of complaints received by the Ombudsman for Herefordshire in 2006/07 and the two previous years. It should be noted that the Ombudsman has made no findings of maladministration against Herefordshire during this period.

	2004/05	2005/06	2006/07
Total number of complaints determined by the Ombudsman	36	72	52
Total number of complaints to the Ombudsman settled locally.	1	3	3

7. The table below sets out the number of complaints received by the Ombudsman by subject area, as classified by the Ombudsman, for 2005/06.

Complaints received Subject area	Adult care services	Benefits	Children and family services	Education	Housing	Other	Planning and building control	Public Finance	Social Services – other	Transport and highways	Total
2006/07	2	6	1	1	2	6	21	2	0	8	49
2005/06	2	3	0	12	2	9	35	0	1	8	72
2004/05	1	2	0	3	0	3	15	3	1	7	35

## 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 2006 – 31st March 2007) there has been no matters reported.

## Standards Committee

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

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 5 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 £10.00 even if it is only offered and not accepted.
11. Over the period 1st April 2006 to 31st March 2007, 70 declarations were made.

### **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.
14. All members of the Authority have now registered their financial interests following the election of the new administration

### **Risk Management**

15. 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 ten such

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

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.

16. The Council has also been in the process of carrying out an intensive induction programme for members of the Council and a refresher for returning members. This has investigated areas of scrutiny, ethical standards, policy and performance and how the Council works together with ICT training. On the whole members have found the induction process helpful and the next stage is to evaluate that induction programme and identify further areas of development.
17. 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.
18. 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.

**CONSULTEES**

- None identified

**BACKGROUND PAPERS**

- None identified

**AUDIT SERVICES ASSURANCE REPORT 2006/07****Report By: Audit Services Manager****Wards Affected**

County Wide

**Purpose**

The purpose of the Assurance Report is to update Members on the 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 2005/06 that require attention.

**Financial Implications**

None

**Reasons**

Compliance with good practice as set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government in the United Kingdom.

The Audit Commission Annual Audit and Inspection letter has highlighted the progress being made in the development of the Audit and Corporate Governance Committee, consideration of the Assurance Report continues the Committees development.

**Considerations****Key issues identified in 2005/06**

1. The Audit Committee considered the Annual Assurance Report for the year ending 31<sup>st</sup> March 2006 on 30<sup>th</sup> June 2006. Five key issues were identified as being relevant to the Councils Statement on Internal Control.
2. As detailed in the main report good progress is being made on the key issues identified in relation to 2005/06.

**Progress On The Plan**

3. Three key elements have effected the overall completion of the Audit Plan for 2006/07. Firstly the level of time spent verifying performance indicators, secondly the time taken to review the Council's fundamental systems and thirdly the work required on the new DfES

Toolkit. To help align the Audit Plan to available resources in consultation with the Directors, priorities were identified and the work as detailed in paragraph 7.5 of the main report was deferred.

4. 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.
5. Although progress is being made 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.
6. The Audit Services review in relation to the Statement on Internal Control showed that the Council's procedures and protocols compared favourably with the CIPFA checklist and overall was found to be satisfactory.
7. Eighteen fundamental systems were reviewed with four being given good audit opinions, ten being given satisfactory opinions, three were given marginal opinions and one an unsatisfactory opinion.
8. There were six systems that warranted a mention due to their Audit Opinion, management action is being taken, there will be some Audit follow up work in these areas and the Audit and Corporate Governance Committee will be updated accordingly.
9. Nine Critical 1 recommendations were made during the year, management have agreed to take action, Audit follow up work will be done and the Audit and Corporate Governance Committee updated accordingly.
10. Management responses to audit recommendations continue to be positive during the year, they agreed to take action on 97%. Audit follow up work of previous recommendations on a sample basis showed that action was being taken on only 75%, which is not an acceptable level. This is 6% lower than last year. Additional follow up work is being done by Audit Services and the Audit and Corporate Governance Committee will be advised of the outcome.
11. The Audit Commission continues to be able to rely on the work of the section.

#### **Areas for Improvement**

12. Other than the areas identified in the Council's Statement on Internal Control there were no other areas identified for improvement.

#### **Risk Management**

13. If Audit Services does not complete all fundamental system reviews and a cross section of other reviews there is the likelihood that the Audit Services 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

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Further information on the subject of this report is available from Tony Ford (Audit Services Manager) on 01432 260425



work required to give an end of year opinion on the Council's System of Internal Control

## **RECOMMENDATION**

**THAT The Audit and Corporate Governance Committee considers the Assurance Report for 2006/07.**

## **BACKGROUND PAPERS**

- None identified



# Herefordshire Council

## Audit Assurance Report 2006/07

### 1. Introduction

1.1 The CIPFA Code of Practice for Internal Audit In Local Government (2006) 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 Audit Services Manager judges particularly relevant to the preparation of the Statement on Internal Control.
- summarises the performance of the Internal Audit function.
- comments on the compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice.

1.2 In compliance with the Code of Practice, the Council now has an Audit and Corporate Governance 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 financial reporting process".*

The Audit and Corporate Governance Committee also has a duty to review and approve the Statement on Internal Control.

1.3 Under the Accounts and Audit Regulations the Council has a duty to ensure that the its financial management is adequate and effective, there is a sound system of internal control and robust risk management arrangements are in place.

1.4 Herefordshire Council also has an obligation to include in its Statement of Accounts a statement on the system of internal control. The statement sets out the framework within which internal control is managed and reviewed and the main components of the system, including arrangements for internal audit. This assurance report is part of the framework. The Statement on Internal Control highlights significant areas for improvement and the actions undertaken to rectify them. A separate report on the Council's Statement on

## **Herefordshire Council Audit Assurance Report 2006/07**

Internal Control will be made to the Audit and Corporate Governance Committee on 29th June 2007.

### **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 has functional links with Members, Corporate Management Board, Schools, Heads of Service and colleagues across the Council. Audit Services would like to take this opportunity to thank all our clients for their help and co-operation during audit visits.

### **3. Background**

- 3.1 The Annual Audit Plan is based upon risk assessments, utilising the Council's Risk Management Framework.
- 3.2 To ensure that the Council's priorities are considered, the Annual Audit is developed in consultation with Corporate Management Board. The Audit and Corporate Governance Committee approved the 2006-07 Audit Plan on 7th April 2006.
- 3.3 Audit Services' terms of reference has been formally agreed by the Audit and Corporate Governance Committee 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 Services, which involved comparing audit activity with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit. The review has reaffirmed its ability to place reliance on the work of Audit Services.
- 3.5 The actual cost for Internal Audit Services amounted to £430,358 compared to a budget of £455,418.

### **4. Action Taken On 2005/06 Key Issues**

- 4.1 The Audit and Corporate Governance Committee considered the Annual Assurance Report for the year ending 31st March 2006 on 30<sup>th</sup> June 2006. There were five issues identified, the status of these issues are:

## Herefordshire Council Audit Assurance Report 2006/07

- The Council did not have a Code of Corporate Governance in line with good practice.

*A Code has been developed and as part of the consultation process was considered by the Audit and Corporate Governance Committee, it is currently with the Standards Committee. In view of the pending publication of new guidance, the Council's Monitoring Officer has taken the view that it would be prudent to await its publication and use it to fine-tune the Council's Code.*

- Although 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 was a need to embed Risk Management at Key Manager level to ensure a consistent approach across the Council.

*Significant improvements have been made and this has been confirmed in the Audit Commission's Annual Audit and Inspection Letter. The Director of Resources is the lead officer for risk management. Cabinet approved the revised and simplified Risk Management Framework on 12<sup>th</sup> October 2006. The first phase of training for key managers has been completed. An appointment has been made to the key risk management post of Corporate Risk Manager who will help to build on improvement already made.*

- 'Staying Safe' improvements within the Children and Young People Directorate raised as part of the Joint Area Review.

*The 2006 annual inspection showed that there were no inadequate assessments with regards to 'Staying Safe'. Although some areas for improvement were identified it is pleasing to note that the Inspectors felt the contribution the Council's services make to improving outcomes in this area were good overall.*

- There is the need to ensure that the Council's Performance Management Framework is robustly and consistently followed across the Council.

*The Audit Commission is of the view that the Council is making steady progress in strengthening its performance management arrangements and in embedding a performance culture. They also felt that the new network of Improvement Managers were beginning to result in a more consistent corporate approach to managing performance.*

- Two fundamental systems were given marginal opinions. This related to the newly implemented software for Council Tax and Housing Benefit, as controls were not fully embedded at the time of the Audit.

*Although improvements have been made at the 2006-07 review the Housing Benefit system was again given a marginal audit opinion, this was mainly due to issues arising from restructuring and the loss of key staff.*

### **5. Use Of Resources**

- 5.1 It is pleasing to report that the Council's Use of Resources score for 2006 has remained at 3, however it should be borne in mind that to support scores of 3 and above the Audit Commission has to consider whether relevant

**Herefordshire Council  
Audit Assurance Report 2006/07**

arrangements are embedded, that is, they have been operating consistently with clear outputs and are having an impact.

- 5.2 Comparison of the theme score for 2006 and 2005 has been summarised in the table below.

<b>Theme</b>	<b>Score 2006</b>	<b>Score 2005</b>
Financial Reporting	3	3
Financial Management	3	3
Financial Standing	2	2
Internal Control	2	2
Value for Money	3	3
<b>Overall score</b>	<b>3</b>	<b>3</b>

- 5.3 The standard scales used in the assessment are:

- 1 Below minimum requirements- inadequate performance
- 2 Only at minimum requirements – adequate performance
- 3 Consistently above minimum requirements- performing well
- 4 Well above minimum requirements – performing strongly.

**6. Statement on Internal Control**

- 6.1 A separate report will be presented to the Audit and Corporate Governance Committee. However Audit Services' review showed that the Council's procedures and protocols compared favourably with the Chartered Institute of Public Finance and Accountancy (CIPFA) checklist and overall was found to be satisfactory. However three areas were identified for improvement.

**7. Summary Audit Work**

- 7.1 The work of the Audit and Corporate Governance Committee continues to be developed and provides effective leadership on audit and governance issues. During 2006-07 it met five times (includes twice as the Audit Committee).
- 7.2 The Audit Plan was approved by the Audit Committee on 7th April, 2006 and was based upon the known risks at the time.
- 7.3 Delivery of the approved Audit Plan has been affected by three elements:
- additional time verifying performance indicators;
  - introduction of the DfES Toolkit for Secondary schools; and
  - time spent on fundamental systems

**Herefordshire Council**  
**Audit Assurance Report 2006/07**

7.4 To meet new obligations in respect of the latter, the following audit reviews have been added to the 2006-07 plan:

- Wigmore High School;
- Bishop of Hereford Bluecoat;
- Minster College;
- St Mary's R.C. School;
- Whitecross High School;
- Fairfield High School; and
- Lady Hawkins High School.

7.5 Lower risk work has been removed from 2006-07 Audit Plan and slipped into following years:

- Library Administration – Establishment;
- Barrs Court – School;
- Brookfield – School;
- Aconbury Centre – School;
- Bodenham St. Michael's C.E – School;
- Bridstow C. E. Primary – School;
- Brilley Parochial Primary – School;
- Brockhampton Primary – School;
- Bromyard St. Peter's Primary – School;
- Capital Grants – System;
- Leominster and Wigmore Youth Service – Establishment;
- Environmental Management Auditing – GEM;
- Charging and Trading Arrangements – Ad hoc Report;
- Grants and Donations – System;
- Hereford Registers – Establishment;
- Modern Records – Establishment;
- Recycling Income – System;
- Cemeteries & Crematorium – Establishment;

**Herefordshire Council  
Audit Assurance Report 2006/07**

- 7.6 Work removed from the 2006-07 Audit Plan will 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**

- 7.7 Fundamental systems are systems whose failure could cause major disruption or loss of financial control to the Council. The outcome is summarised in table 1 below.

<b>Table 1 Summary Fundamental Audit Opinions</b>	<b>2006/7</b>	<b>2005/6</b>	<b>2004/5</b>
<b>Audit Opinion</b>	<b>Number</b>	<b>Number</b>	<b>Number</b>
Good	4	3	1
Satisfactory	10	10	10
Marginal	3	2	1
Unsatisfactory	1	0	0
Unsound	0	0	0
<b>TOTAL</b>	<b>18</b>	<b>15</b>	<b>12</b>

- 7.8 Although the number of marginal or worse opinions have increased, it is however pleasing to note that the number receiving good opinions has increased to four.

- 7.9 The marginal opinions related to:

- **Education Transport** – there were a number of key strengths within the service area, however there was a need for reconciliation of income to the Cedar System. Improvements were required in relation to its CRB procedures.
- **Housing Benefit** – although some good practices was evidenced, such as the reduction in the previous backlog of benefit claims and the minimal errors reported in claim processing tests, the reconciliation of Council Tax and Cedar systems were not up to date at the commencement of the audit, this improved by the completion of the audit. It should be noted that this system was given a marginal opinion in 2005-06, so it is disappointing to see that although some improvements have been made the overall opinion has not improved.
- **Salaries (Children & Young People)** – controls over the payment of salaries required improvement in particular the improvement in the input audit trail, with adequate authorisation and supporting documentation obtained for all payroll transactions. The findings from this audit do not differ greatly from those detailed at previous audit reviews and similar recommendations have been raised again.

- 7.10 The unsatisfactory opinion related to:



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- **ICT Financial Management System** – the ICT Finance Team was continually improving the process. Procedure documents were in place. However the audit review identified three key areas for improvement in relation to setting up budgets on to the Cedar System, improved controls over the payment of invoices, and the introduction of proper reconciliation protocols to the Cedar system. Following the review of the audit file by the Audit Commission, they are of the view that issues identified by Audit services could have an impact when carrying out their audit of the Council's final accounts. Under the circumstances they have requested that Audit Services carry out additional work on their behalf as part of the Audit Services follow-up work.

**Non-Fundamental Systems**

- 7.11 In this area there has been an improvement when compared to last year as there was one unsatisfactory system compared to three last year. As previously reported the Markets Fees and Charges system was given an unsatisfactory audit opinion due to fundamental system weakness, particularly over receipt books and supervisory checks to ensure that all income receivable is received.

**Corporate Governance arrangements (including Anti Fraud arrangements)**

- 7.12 The Council has key corporate governance documents and table 2 highlights their availability

<b>Table 2 Schedule of Key Corporate Governance Arrangements Documents</b>				
<b>Policy/Document</b>	<b>Availability</b>			
	<b>Public</b>	<b>Partners</b>	<b>Staff</b>	<b>Members</b>
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	✓	✓	✓	✓

- 7.13 The Council now has in place a partnership checklist, which includes risk identification. Heads of Service are obliged to complete this for major partnerships.
- 7.14 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. The Head of Legal and Democratic Services has completed training for members.

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- 7.15 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.
- 7.16 During the year, the Audit and Corporate Governance Committee (previously the Audit Committee) met five times. Good progress continues to be made with regards to the Committee's overall governance role, This is evidenced by the favourable words from the Audit Commission in their last Annual Audit and Inspection Letter.
- 7.17 A number of special investigations have been undertaken 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 in due course. With regards to last years lessons learnt report feedback is still outstanding from a number of Heads of Service, this will be highlighted in this years report to Corporate Management Board. Where action has not been taken by Heads of Service this will be reported to the next Audit and Corporate Governance Committee.
- 7.18 The Council is taking part in the latest National Fraud Initiative (NFI) data matching exercise. At the present time, work is at the identification of cases for further investigation stage.

**Performance Management**

- 7.19 Audit Services completed its review of the Council's Performance Management Framework. It was found that the framework was better integrated within the Council, Individual Service Plans had improved in quality and action plans were more consistent since the last Audit. Nevertheless it was felt that that Service Plans were too long and required improved referencing. The Plans for 2007-08 have been made shorter and improved referencing was a key requirement.
- 7.20 Monitoring and reporting was much better than last year, with the regular Integrated Performance Reports to Cabinet being comprehensive.
- 7.21 Regarding Staff Reviews and Development (SRD) generally officers took their responsibility seriously and made an effort, however there seemed to be a misunderstanding as to its role. Although objectives were set the quality was the main issue. New guidance has been issued and it is hoped that this will help over come the issues identified.

**Risk Management**

- 7.22 Under the Accounts and Audit Regulations, the Council has an obligation to have sound risk management arrangements. This requirement is also a feature of the Use of Resources. Cabinet approved a revised Risk Management Framework in October 2006.
- 7.23 The Council's Performance Management is linked to risk management, as there is a requirement for all service plans to identify risk and the planned action to mitigate the risks identified.

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- 7.24 Cabinet and the Corporate Management Board review corporate risks as part of the regular Integrated Performance reports. The final report to Cabinet on 7th June, 2007 for 2006/07 highlighted the following high corporate risks after risk control measures have been taken into account.
- Corporate spending pressures outweigh the level of resources available to meet them. Particular pressures prevalent in Adult Social care;
  - Herefordshire Connects Programme does not go through robust investment appraisal and subsequent savings not being realised leading to service cuts;
  - Successful implementation of the Accommodation Strategy; and
  - Herefordshire Connects: Management capacity and capabilities not sufficiently developed to plan in advance, and deliver, the service changes required for realisation of efficiency savings.
- 7.25 Directorate Management Teams (DMTs) are required to review Risk Registers on a monthly basis. Not all DMT reviews were consistently documented.
- 7.26 The Council now has a Corporate Risk Manager who has the role of helping to embed risk management across the Council in a consistent way.
- 7.27 Risk management training has been completed for key managers with further training being planned as part of the embedding process.
- 7.28 The Audit Commission's latest Annual Audit and Inspection letter also confirms the progress being made with regards to risk management.

### **ICT Protocols and Controls**

- 7.29 Although there were a number of marginal opinions in addition to an unsatisfactory opinion, the key reviews of Firewall Security, Back-Ups and Recovery were found to be satisfactory. The unsatisfactory opinion related to the CLIX system as it did not meet functional or security needs, nor did it fulfil central government requirements. This system will however, be replaced in the summer of 2008 as part of the Herefordshire Connects Programme.

### **Establishment Audits**

- 7.30 Improvements continue to be made in this area, however, the main theme for improvements was around overall financial management. Work in relation to the new DfES toolkit will help improve this area.

### **Verification and Probity**

- 7.31 Work within this area covered the verification and the successful signing off of two claim forms in relation to the Schools Sport Co-ordinator Programme. A review of the Waste Management Contract payment arrangements was completed and a recommendation made regarding variations. Reviews of contract monitoring within three directorates was undertaken and a cross

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Council review of delegation arrangements under Financial Regulations was completed.

- 7.32 Following verification work in relation to the Equality Standard for Local Government, it is pleasing to note that the Council has achieved Level 2 and is making progress towards Level 3 of the standard.

**Audit Opinions**

- 7.33 It is normal practice for all audits, except for recommendations follow-ups, to be given an audit opinion (Appendix 1 refers). 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 and Corporate Governance Committee. Other than those previously mentioned there were no other audit reviews that met the above criteria.

**Critical '1' Recommendations**

- 7.34 Under current reporting protocols the Audit Services Manager has to bring to the attention of the Audit and Corporate Governance Committee 'Critical 1' recommendations. These are recommendations where non-compliance will be a high risk to the Council and where action is required urgently or within an agreed timescale.
- 7.35 Nine critical 1 recommendations were made during the year Three relate to CRB procedures and one to inventory records. The Audit Services Manager, the Legal Practice Manager and the Human Resources Manager will be developing guidance with regards to CRB procedures. In relation to inventory records, the Head of Financial Services has developed Accounting Guidelines, which are in the process of being finalised and sent out to Key Managers and Headteachers. Three related to the fundamental system ICT FMS and Procurement and cover the need for improved controls over payments, better reconciliation to Cedar, and budgets to be set.
- 7.36 The Audit Services Manager has met the Director of Corporate and Customer Services and the Head of ICT and Customer Services and agreed a way forward to meet the recommendations. The Head of ICT has developed an action plan in response to the audit recommendations. It should be noted that a much higher level of controls would have been required if this system was a corporate system. Audit follow up work is in progress.
- 7.37 Two related to improved cash control arrangements at a Council establishment where there was a need to ensure that a receipt was received when cash was banked and checks made to ensure that receipts for income banked were matched to the Cedar system.

**Results of Recommendation Follow-Up**

- 7.38 Recommendation follow up is featured in the Audit Plan for the year 2006/07. The outcome of follow-up work is summarised in Table 3 and detailed in Appendix 2.

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<b>Table 3 Summary of Follow up Outcomes</b>				
<b>Status</b>	<b>2006/07</b>		<b>2005/06</b>	
	<b>Number</b>	<b>Percentage</b>	<b>Number</b>	<b>Percentage</b>
Fully/Substantially Implemented	127	66	165	67
Partly Implemented	17	9	34	14
Not Implemented	49	25	47	19
<b>Total</b>	<b>193</b>	<b>100</b>	<b>246</b>	<b>100</b>

**Other Corporate Issues**

- 7.39 During the year the Council has under gone a number of external inspections, the findings have been summarised within the Statement on Internal Control. The outcomes have been favourable and not so favourable. Action is being taken by the Council to address areas identified for improvement.
- 7.40 The Herefordshire Connects Programme is progressing well and there is a Risk Register in place. The Project is being managed using Prince 2 Project Management Methodology, with the core members of the Project Board being the Chief Executive, the Director of Corporate and Customer Services, the Director of Resources and the Deloitte lead partner. Cabinet is kept informed of progress.
- 7.41 Arrangements in relation to the Public Service Trust are moving forward at a pace. There are good governance arrangements in place with the Council's Monitoring Officer and Audit Services Manager being members of the Integrated Governance Group, which meets regularly. Risk Registers are in place and the project is entered on the Council's Corporate Risk Register.

**Compliance with the CIPFA Code/Audit Performance**

- 7.42 The Audit Commission has completed its review of Audit Services against the new CIPFA Internal Audit Code of Practice. Some issues around quality control in relation to fundamental systems and statements of auditor independence have been identified. It has also been suggested that Audit Services informs the Audit and Corporate Governance Committee of the names of reports and the actions taken on the recommendations as part of follow up reporting.
- 7.41 Table 4 shows audit performance on local performance indicators

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<b>Table 4 Local Performance Indicators</b>	<b>2005/06</b>		<b>2006/07</b>	
	<b>Target</b>	<b>Actual</b>	<b>Target</b>	<b>Actual</b>
The half year assurance report is delivered to members*	October 05	February 06	November 06	December 06
The end of year assurance report is delivered to members	June 05	Sept 05	June 06	June 06
90% of service managers are satisfied with the Audit Service	90%	95%	90%	93.4%
100% of SRDs are completed by 31st May	100%	100%	100%	100%
Management accepts 95% of level 1 & 2 recommendations	95%	96%	96%	97%
The Audit Plan is agreed by the start of the new financial year	April 05	April 05	April 06	April 06
Ensure that the Council's Statement of Internal Control for previous financial year is published	July 05	July 05	June 06	June 06

**8. Audit Benchmarking**

8.1 Audit Services has taken part in the 2007 CIPFA Benchmarking Club exercise, the findings will not be known until later in the year.

**9. Audit Opinion**

9.1 I am of the opinion that the Council's overall level of internal control is satisfactory, however, action needs to be taken on the three areas identified in the Councils Statement on Internal Control.

**R. A. FORD  
AUDIT SERVICES MANAGER  
JUNE 2007**

## STATUS OF AUDITS STARTED DURING THE YEAR 2006/07

<b>Audit</b>	<b>Status</b>	<b>Audit Opinion</b>
<b>Fundamental Systems</b>		
Statement on Internal Control-2005/6	Final	Satisfactory
Creditors	Final	Satisfactory
Education Transport	Final	Marginal
Bank Reconciliation	Final	Satisfactory
Salaries - Non Education	Final	Satisfactory
Housing Benefit Payments	Final	Marginal
Early Years Development	Final	Satisfactory
Salaries - Children Services	Final	Marginal
ICT FMS and Procurement	Final	Unsatisfactory
FMS- Main Accounting Systems	Final	Satisfactory
NDR	Final	Satisfactory
Cash and Deposits	Final	Good
Debtors	Final	Satisfactory
Supporting People	Final	Satisfactory
LMS- Financial Management System	Final	Good
Council Tax	Final	Satisfactory
Asset Register	Final	Good
Treasury Management	Final	Good
<b>Non Fundamental Systems</b>		
Members Expenses/Register of Interest	Final	Satisfactory
Creditor Emergency Payments	Final	Satisfactory
Section 106 Agreements	Final	Marginal
Aftercare/Care Leavers Payments	Final	Marginal
Car Loans	Final	Marginal
Agency Payments – Adult Services	Final	Satisfactory
Market Fees and Charges	Final	Unsatisfactory
Management of Property Portfolio	WIP	
ICT- Use of Contractors	WIP	
<b>Governance</b>		
Contract Tendering /Monitoring – Environment Directorate	Final	Marginal
Contract Tendering /Monitoring –Adult and Community Directorate	Final	Marginal
Contract Tendering /Monitoring – Resources Directorate	Final	Marginal
Delegation - Financial Arrangements	Final	Marginal
<b>Performance Management</b>		
Children Services Performance Management and Delivery of the JAR Action Plan	Final	Marginal
Performance Management Framework	Final	Satisfactory
IPF-Stock Turnover –Issues per 1000 population/books per 1000 population	Final	Marginal
BVPI 109 Planning Speed	Final	Marginal
BVPI 183a Average time in Temporary Accommodation	Final	Satisfactory

## STATUS OF AUDITS STARTED DURING THE YEAR 2006/07

<b>Audit</b>	<b>Status</b>	<b>Audit Opinion</b>
HIP HSSA- Private Sector Unfit Properties Made Fit.	Final	Satisfactory
IPF-Stock Level per 1,000 Population	Final	Marginal
BVPI 183b – Average time in Temporary Accommodation Hostels	Final	Satisfactory
IPF- Cost per Library Visit	Final	Satisfactory
BVPI 102 – Passenger Journeys on Busses	Final	Satisfactory
BVPI 82a – Recycling Performance	Final	Satisfactory
BVPI 165 – Percentage of Pedestrian Crossings with facilities for Disabled People.	Final	Marginal
BVPI 215 – Speed in Fixing Street Lights	Final	Marginal
BVPI 53 Home Care	Final	Satisfactory
<b>ICT</b>		
E-Gateway Programme	Final	Satisfactory
Adult Services- CLIX System Controls	Final	Unsatisfactory
Acquisition of Equipment	Final	Satisfactory
Homepoint System	Final	Marginal
Management of Software Licences	Final	Marginal
Community Access Points (CAPS)	Final	Marginal
Fire-Wall Security	Final	Satisfactory
Back up and Recovery	Final	Satisfactory
<b>Establishment Audits</b>		
Kingstone High School	Final	Satisfactory
John Kyrle High School	Final	Satisfactory
Ashperton Primary School	Final	Marginal
Almeley Primary School	Final	Marginal
Much Marcle Primary School	Final	Marginal
Lady Hawkins High	Final	Marginal
Garway School	WIP	
Fairfield High – Tool Kit	WIP out in Draft	
John Kyrle High Tool Kit	Final	Satisfactory
Bishop of Hereford Bluecoat Tool Kit	WIP- out in Draft	
John Masefield High Tool Kit	WIP out in Draft	
Whitecross High Tool Kit	WIP out in Draft	
Aylestone High Tool Kit	In Draft	
Wyebriidge Sports College- Tool Kit	WIP out in Draft	
Verification and Probity		
Waste Management Contract	Final	N/a
Whitecross SSCO	Final	N/a
Minster SSCO	Final	N/a
Diversity- The Equality Standard	Final	N/a
<b>Recommendation Follow up</b>		
Hereford Museum	Final	N/a
E-Gateway- Audit Commission Recommendations	Final	N/a
Anti Money Laundering	Final	N/a



## STATUS OF AUDITS STARTED DURING THE YEAR 2006/07

<b>Audit</b>	<b>Status</b>	<b>Audit Opinion</b>
<b>Value for Money</b>		
Postage	Final	N/a
Telephones	Final	N/a
<b>Risk Management</b>		
Risk Management Framework	WIP	

## Quantification and Classification of Internal Control Levels

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



## RECOMMENDATIONS FOLLOW UP 2006-07

	Name	Raised	Fully Completed	Partly Completed	Not Completed
1	Treasury Management	1	1	0	0
2	Supporting People	3	3	0	0
3	Payroll – Non-Education	16	9	1	6
4	Payroll – Children	18	7	2	9
5	NDR	10	7	1	2
6	Housing Benefit	11	8	0	3
7	FMS- Main Accounting System	12	9	1	2
8	Early Years	1	0	1	0
9	Asset Register	1	0	1	0
10	Bank Reconciliation	15	12	2	1
11	Cash & Deposit	2	2	0	0
12	Creditors	15	6	3	6
13	Hereford Museum	11	8	0	3
14	E-Gateway	8	8	0	0
15	Anti Money Laundering	7	6	0	1
16	Kingstone High School	10	5	2	3
17	John Kyrle High School	20	19	1	0
18	Lady Hawkins High School	18	8	0	10
19	Performance Management	9	4	2	3
20	Market Fees and Charges	5	5	0	0
		<b>193</b>	<b>127</b>	<b>17</b>	<b>49</b>



**APPROVAL OF THE COUNCIL'S STATEMENT ON  
INTERNAL CONTROL 2006-2007****Report By: Audit Services Manager****Wards Affected**

County-wide

**Purpose**

To inform the Audit and Corporate Governance Committee of the work and process followed in relation to the completion of the Council's Statement on Internal Control (Appendix 1 refers).

**Financial Implications**

None.

**RECOMMENDATION**

**THAT (a) the Audit and Corporate Governance Committee review and comment on the evidence used to support the Council's Statement on Internal Control; and**

**(b) subject to any comments by the Audit and Corporate Governance Committee, the Council's Statement on Internal Control be approved.**

**Reasons**

The CPA Use 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 on 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 on Internal Control (Level 2);
- the sources of assurance to support the Statement on 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 on 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 on 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 on Internal Control (Level 4).

The Council currently scores 2 out of 4 for the Internal Control element of the Use of Resources Assessment in 2006 and is aiming to score at least 3 at the next assessment.

## Considerations

1. The Audit and Corporate Governance Committee on 20th February, 2006 adopted a Statement on Internal Control Assurance Framework, which set out the key documents used to evidence the Council's Statement on Internal Control.
2. The assurance framework is due for review and an updated framework will be presented to the next Audit and Corporate Governance Committee in September 2007.
3. Audit has reviewed the Risk Registers as part of the process used to prepare the risk based Audit Plan for 2007-2008.
4. The Corporate Plan for 2006-2009 identified the main risks and outlined how these risks would be managed. This is supplemented by Corporate Management Board review of corporate risks on a regular basis. At Directorate level risk register were reviewed, however in some directorates this was not evidenced adequately.
5. The Council's draft revenue budget for 2006/07 was presented to Cabinet on 23rd February 2006 and subsequently approved by Council on 10th March 2006. The final revenue and capital outturn for 2006/07 was presented to Cabinet on 7th June 2007 and showed overall revenue under spend of £3,193,000 on a total revenue budget of £118m. With regards to the Capital Programme the outturn was £40.949m compared to the total agreed bids for 2006/07 of £60.6m.
6. The Council's Operating Plan 2006-2007 sets out what the Council intends to do during the year. As part of the Council's Performance Management Framework Integrated performance reports are presented to Cabinet in line with the framework, with the final report being presented to Cabinet on 7th June, 2007. The highlights of the report were:
  - 33 (27%) indicators fell within the criteria not achieved or where no end of year outturn has been reported or the latest data indicated that the target would not be achieved;
  - of the 122 best value performance Indicators that have thus far reported an outturn and can be compared to previous years, 62% (40%) have improved and 27% (35%) have deteriorated;

- Government Office West Midlands (GOWM) have confirmed that the Minister has decided that the GOWM-led improvement board for Children and Young People will continue to oversee progress in Herefordshire for at least another six months; and
  - progress has now been made with the appointments needed to drive Adult Social Care improvements.
7. Directorate service plans for 2006/07 were completed, quality checked and signed off as part of the Council's performance management framework.
  8. The Audit and Corporate Governance Committee received an Interim Assurance Report on 8th December, 2006, an updated Interim Assurance Report on 19th January, 2007 and an updated Interim Assurance Report No.2 on 13th April, 2007. This report represents the final Assurance Report for 2006-2007.
  9. The Audit and Corporate Governance Committee received the Audit Commission's Annual Governance Report on 22nd September, 2006. Three recommendations were made, these have been actioned by the Council.
  10. The Audit Commission's Annual Inspection Letter informed the Council that they were able to issue an unqualified audit opinion in relation to the Council's Statement of Accounts.
  11. Written assurances have been received from Directors and Heads of Service with regard to internal control and related matters.
  12. The Audit Commission's Use of Resources Report, which confirmed the Council had maintained its score at 3 (consistently above minimum requirements – performing well) was presented to the Audit and Corporate Governance Committee on 19th January, 2007. The Action Plan was presented to and approved by the Audit and Corporate Governance Committee on 13th April, 2007. Members will be updated on progress at the next Audit and Corporate Governance Committee meeting.
  13. Details of external inspections have been summarised within the body of the Statement on Internal Control.
  14. The Monitoring Officer's report has been submitted to the Audit and Corporate Governance Committee as a separate agenda item.
  15. The Audit Services Manager has completed his work on the Chartered Institute of Public Finance and Accountancy (CIPFA) Statement on Internal Control checklist and a satisfactory opinion given.
  16. Corporate Management Board members have reviewed and commented on the evidence used to support the Council's Statement on Internal Control.

## **Risk Management**

17. The Council has an obligation under the Use of Resources regime to conduct an annual review of the effectiveness of its systems of internal control, ensure that members approve the Statement on Internal Control (SIC), and that the sources of assurance to support the SIC have been identified and are

reviewed by senior officers and members. This report forms part of the process to ensure that the Council meets its obligations.

**BACKGROUND PAPERS**

Key lines of enquiry for Use of Resources 2007 assessments.



## Herefordshire Council

### Statement of Internal Control 2006- 2007

#### 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;
- the Council's Medium Term Financial Management Strategy;
- an integrated corporate, service and financial planning process;
- the Performance Management Framework 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 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 and one for members all of which have been regularly brought to the attention of all staff;
- an Audit and Corporate Governance Committee is now operating as part of the Council's internal control process;
- an independent audit function, which submits regular assurance reports to the Council's Audit and Corporate Governance Committee;
- adoption of a Statement of Internal Control assurance process; and
- devolved financial management arrangements where key 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 and Corporate Governance Committee undertaking the review at member level.

The Audit Services Manager informs both the Corporate Management Board and the Audit and Corporate Governance 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 Audit Services Manager.

The Audit and Corporate Governance Committee receives interim and annual reports on internal audit activity and approves the annual plan and Audit Strategy 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 2005-2006 Annual Audit and Inspection letter (dated March 2007) 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:

- demonstrate that it actively manages risk and there are outputs from management. Officers need to be trained in risk awareness and the Council needs to demonstrate that they have adequately considered partnerships in their risk Assessments;  
*Risk Management is an integral part of the Council's Performance Management Framework with the Corporate Risk Log being regularly*

*reviewed by Corporate Management Board. These Corporate Risk Logs are also an integral part of the Council's Integrated Performance Reports submitted to Cabinet.*

- embed the assurance framework and the links between the Council's objectives and risks could be clearer. Reconciliations of key feeder systems need to occur monthly. Partnership arrangements need to be developed with standing orders showing how good governance and partnerships relate;  
*The Council's assurance framework continues to be embedded, the links between the Council's objectives and risks are being identified, and the development of partnership arrangement will form part of the pending review of the Council's Standing Orders.*
- raise awareness concerning ethical behaviour but also needs to raise awareness of whistleblowing procedures and the antifraud and corruption policy;  
*The Council has placed posters on notice boards at its administrative buildings and continues to remind staff by regular notices on payslips.*
- act on feedback from the ethical survey of Members and Senior Officers. There were some areas identified as areas for action such as the work of the Standards Committee and improved communication to the public on the whereabouts of public documents;  
*The Council's Legal and Democratic Services Division has carried out training for Members in relation to the role of the Council's Standard as part of a wider programme of Member training. The Council's Head of Communication is reviewing the Council's arrangements with regards to communication with the public.*

### **Benefits Fraud Inspectorate**

The Benefit Fraud Inspectorate gave the service a 2 star rating, which equated to a fair performance overall. Although user focus continued to be good the service failed to achieve its annual target for intervention and visit and this as well as its claims processing performance adversely affected the score. The service has, however, been improving steadily and this is expected to result in an improved inspection score for 2007.

### **Annual Performance Assessment**

The 2006 Annual Performance Assessment of Services for Children and Young People in Herefordshire showed that there were no inadequate assessments, with the Council getting a score of 2. The latest action plan shows that progress is being made. However Government Office for the West Midlands (GOWM) have a concern with regards to the ability of the Council to self analyse, drive change and improvement. GOWM have confirmed that the Minister has decided that the GOWM led Improvement Board for Children and Young People will continue to oversee progress in Herefordshire for at least another six months.

## **Fostering Service**

The Commission for Social Care Inspection (CSCI) found the service to be good with some outstanding features. There is an action plan being developed that will ensure that the service continues to improve.

## **Cultural Services**

The Audit Commission inspection of the Council's Cultural Services showed the service to be fair with promising prospects for improvement. Recommendations have been made by the Audit Commission and the Head of Service is developing an action plan to address issues raised.

## **Adult Learning**

The Commission for Social Care Inspection (CSCI) has completed its inspection of the Council's Service for People with Learning Disabilities. The outcome was that people were not being served well and the capacity for improvement was uncertain. The Council now has an action plan which has been developed and is being implemented as an integral part of the Council's comprehensive programme of improvement for Adult Social Care and related services.

## **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 Audit Services Manager; and/or
- attracted significant public interest.

There were three issues identified for improvement:

- As previously reported services for people with Learning Disabilities was judged to be not serving people well.  
*The Council has made a positive response to the recommendations made by CSCI. Immediate priority in being given to the recommendations in respect of weaknesses in assessment and care management including safeguarding. Action has already being taken to tackle the backlog of reviews. Action is also being taken to address concerns highlighted in relation to person-centred planning, transition from children's to adult services and the updating of policies and procedures.*
- Three fundamental systems Education Transport, Housing Benefit Payments and Salaries - Children Services were given marginal opinions. Audit recommendations have been made in relation to each system. Recommendation follow up by Audit Services will form part of the review for 2007/ 2008.

- One fundamental system ICT FMS was given an unsatisfactory opinion. Audit recommendations have been made in relation to this system and follow work by Audit Services is in progress.

Cllr R. Phillips  
Leader of the Council

N. Pringle  
Chief Executive

Mrs. S. Rees  
Director of Resources

June 2007

**AUDIT COMMISSION ANNUAL AUDIT AND INSPECTION  
LETTER 2005/06****Report By: Audit Services Manager****Wards Affected**

County-wide

**Purpose**

To present to the Audit and Corporate Governance Committee the Audit Commission's Annual Audit and Inspection Letter 2005/06.

**Financial Implications**

Non- identified

**RECOMMENDATION**

**THAT (a) The report is noted.**

**Reasons**

Audit Commission reports form part of the Council's Statement on Internal Control Assurance process. Consideration by the Audit and Corporate Governance contributes to the development of the Committees role.

**Considerations**

1. The report summarises the Audit Commission's assessment of the Council. It draws on the findings and conclusions from their audit work and from analysis of the Council's performance and its improvement over the last year as measured by the Comprehensive Performance Assessment (CPA).
2. With regards to direction of travel the Council was found to be improving adequately.
3. Overall the Council is maintaining its performance and has made improvements in priority areas including safeguarding vulnerable children and helping more elderly adults to live at home.
4. Accounts production was good and timely. The Audit Commission was able to issue an unqualified audit opinion by the earlier deadline of 30<sup>th</sup> September 2006.
5. Systems of internal control and financial management had improved significantly in the year. The Council's arrangements for the acceptance of gifts and hospitality had been strengthened.

6. With regards to changes to the waste management PFI agreement, which is being negotiated in partnership with Worcestershire County Council, the Audit Commission highlighted that progress was slow and that there continued to be a risk of contract termination.

7. **Overall assessment CPA scorecard**

The detailed assessment for the Council is as follows:

<b>Element</b>	<b>Assessment</b>
Direction of Travel judgement	Improving adequately
<b>Overall</b>	<b>3 star</b>
<b>Current performance</b>	
Children and Young People	2
Social Care (Adults)	2
Use of Resources	3
Housing	2
Environment	2
Culture	3
Benefits	2
Corporate assessment/capacity to improve	2
Previous corporate assessment/capacity to improve, as included in overall CPA judgement in 2006	3
<i>(Note: 1=lowest, 4=highest)</i>	

**Actions needed by the Council.**

8. The following actions were highlighted
- The need to focus on improving service outcomes and ensure that actions recommended by the Commissions recent Performance Management Report are delivered;
  - Before awarding a contract for Herefordshire Connects, formally consider what other options are still open to the Council and the costs, benefits and risks of each option. The Council should then agree a process to monitor whether the expected financial and other benefits are delivered;
  - Monitor the improvement of joint working arrangements with the PCT in preparation for a forthcoming decision on whether to set up a Public Service Trust in Herefordshire;

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Further information on the subject of this report is available from Tony Ford (Audit Services Manager) on 01432 260425



- Ensure that the necessary changes to the waste management contract are resolved promptly;
- Further develop the ethical governance and anti-fraud culture within the Council;
- Ensure that improvements in value for money are accounted for in a straightforward and transparent way, by improving service planning and reporting arrangements;
- Monitor the development of corporate approaches to procurement; and
- Ensure robust approaches to benchmarking in all service areas, and ensure that challenge (e.g. Scrutiny) is robust.

## **Risk Management**

9. If action is not taken on the areas identified for improvement, this will have an adverse impact on the Council's Use of Resources score. Members will be updated on progress.

## **BACKGROUND PAPERS**

Annual Audit and Inspection Letter 2005/06



# **Annual Audit and Inspection Letter**

**Herefordshire Council**

The Audit Commission is an independent body responsible for ensuring that public money is spent economically, efficiently and effectively, to achieve high-quality local services for the public. Our remit covers around 11,000 bodies in England, which between them spend more than £180 billion of public money each year. Our work covers local government, health, housing, community safety and fire and rescue services.

As an independent watchdog, we provide important information on the quality of public services. As a driving force for improvement in those services, we provide practical recommendations and spread best practice. As an independent auditor, we ensure that public services are good value for money and that public money is properly spent.

### **Status of our reports**

This report provides an overall summary of the Audit Commission's assessment of the Council, drawing on audit, inspection and performance assessment work and is prepared by your Relationship Manager.

In this report, the Commission summarises findings and conclusions from the statutory audit, which have previously been reported to you by your appointed auditor. Appointed auditors act separately from the Commission and, in meeting their statutory responsibilities, are required to exercise their professional judgement independently of the Commission (and the audited body). The findings and conclusions therefore remain those of the appointed auditor and should be considered within the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission.

Reports prepared by appointed auditors are:

- prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission; and
- addressed to members or officers and prepared for the sole use of the audited body; no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

### **Copies of this report**

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

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## Our overall summary

- 1 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the findings and conclusions from the audit of the Council and from a wider analysis of the Council's performance and its improvement over the last year, as measured through the Comprehensive Performance Assessment (CPA) framework.
- 2 The report is addressed to the Council, in particular it has been written for councillors, but is available as a public document for stakeholders, including members of the community served by the Council. The main messages included in this report for the Council are set out below.

## Performance issues

- 3 Our Direction of Travel assessment is that the Council is improving adequately.
- 4 Overall the Council is maintaining its performance and has made improvements in priority areas including safeguarding vulnerable children and helping more elderly adults to live at home. Further progress in children's and adult services has been limited by skills shortages which are now being resolved.
- 5 Performance in both benefits and homelessness dipped in 2005/06 but is recovering well. There have been improvements in planning, recycling and the amount of household waste collected, but environmental health and trading standards have deteriorated. The Council has worked effectively with its partners to reduce crime and improve the health of children and young people.
- 6 The improvement plan drawn up following the Audit Commission's corporate assessment has been strengthened. The business transformation programme, Herefordshire Connects, continues to be developed, but still presents some risks for the Council. Corporate resource management has improved significantly and services continue to provide good value for money. Although there has been an improvement in public satisfaction with most Council services and in public access to services, overall satisfaction with the Council has fallen and is low compared with similar councils.
- 7 The Council is making steady progress in strengthening its performance management arrangements and in embedding a performance culture.

## Other accounts and governance issues

- 8 Accounts production was good and timely. We were able to issue an unqualified audit opinion by the earlier deadline of 30 September 2006.
- 9 Systems of internal control and financial management have improved significantly in the year. Your arrangements for the acceptance of gifts and hospitality have been strengthened now.
- 10 Changes to the waste management PFI agreement, which is being negotiated in partnership with Worcestershire County Council, are slow and still not agreed. There continues to be a risk of contract termination.
- 11 The overall financial position of the Council was sound at the 31 March 2006, with the accounts showing a £4.1m under spend and £28.4m of balances. The Council has a good historical track record of keeping expenditure within budget but agrees that unexpected under-spending is not acceptable and the range of reserves it holds needs reviewing. The Council's pension fund deficit reduced slightly to £101m, but is still a cause for concern.
- 12 The Council's arrangements for pooling budgets with the local Primary Care Trust (PCT) were found in need of development. In particular agreements were out of date and risk sharing is very limited. We noted in our September Governance Report that the Council was owed over £1 million by the PCT in relation to pooled budget contributions. This has still not been resolved. This area significant given the current moves towards the development of a Public Service Trust together with the PCT.
- 13 The business transformation programme Herefordshire Connects continues to be developed. This ambitious programme is a key element of the Council's medium term financial strategy and is planned to deliver significant financial savings. However there are also significant risks attached to this both now in getting the specification right for the Council's future needs and subsequently in terms of delivering the benefits expected.

## Action needed by the Council

- 14 Members need to take the following actions.
  - Focus on improving service outcomes and ensure that actions recommended by our recent performance management report are delivered.
  - Before awarding a contract for Herefordshire Connects, formally consider what other options are still open to the Council and the costs, benefits and risks of each option. The Council should then agree a process to monitor whether the expected financial and other benefits are delivered.
  - Monitor the improvement of joint working arrangements with the PCT in preparation for a forthcoming decision on whether to set up a Public Service Trust in Herefordshire.

## 6 Annual Audit and Inspection Letter | Our overall summary

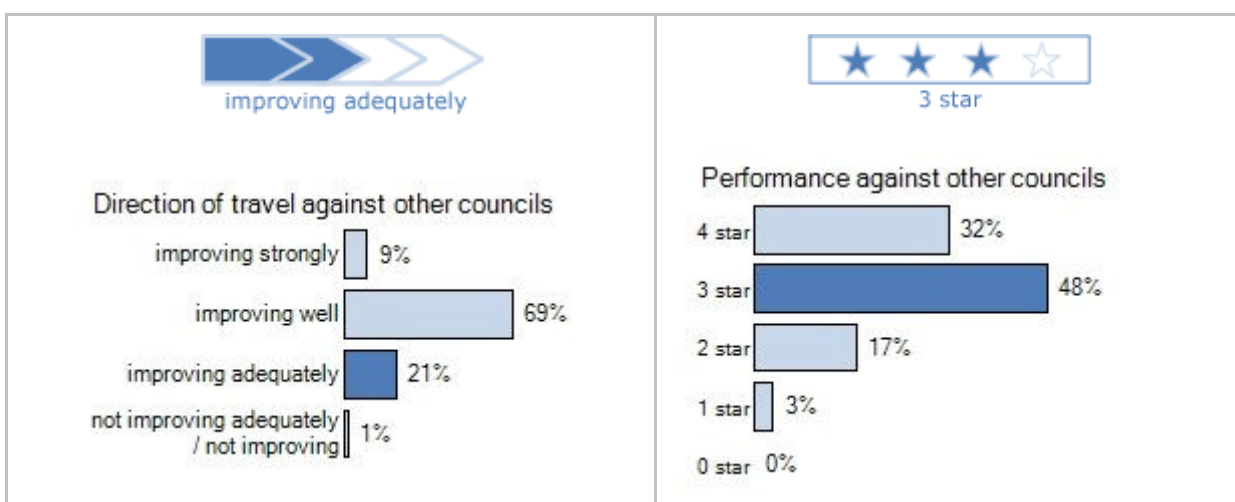
- Ensure that the necessary changes to the waste management contract are resolved promptly.
- Further develop the ethical governance and anti-fraud culture within the Council.
- Ensure that improvements in value for money are accounted for in a straightforward and transparent way, by improving service planning and reporting arrangements.
- Monitor the development of corporate approaches to procurement.
- Ensure robust approaches to benchmarking in all service areas, and ensure that challenge (eg Scrutiny) is robust.



## How is Herefordshire Council performing?

- 15 The Audit Commission’s overall judgement is that Herefordshire Council is improving adequately and the Council is classified as a three star in its current level of performance under the Comprehensive Performance Assessment. These assessments have been completed in all single tier and county councils with the following results.

**Table 1**



Source: Audit Commission

- 16 The detailed assessment for Herefordshire Council is as follows.

## Our overall assessment - the CPA scorecard

**Table 2 CPA scorecard**

Element	Assessment
Direction of Travel judgement	Improving adequately
<b>Overall</b>	<b>3 star</b>
<b>Current performance</b>	
Children and young people	2
Social care (adults)	2
Use of resources	3
Housing	2
Environment	2
Culture	3
Benefits	2
Corporate assessment/capacity to improve	2
Previous corporate assessment/capacity to improve, as included in overall CPA judgement in 2006	3

*(Note: 1=lowest, 4= highest)*

## The improvement since last year - our Direction of Travel report

### Herefordshire Council is improving adequately.

- 17 Overall, the Council is maintaining its performance and has made improvements in priority areas including safeguarding vulnerable children and helping more elderly adults to live at home. Further progress in children's and adult services has been limited by skills shortages which are now being resolved.
- 18 Performance in both benefits and homelessness dipped in 2005/06 but is recovering well. There have been improvements in planning, recycling and the amount of household waste collected, but environmental health and trading standards have deteriorated. The Council has worked effectively with its partners to reduce crime and improve the health of children and young people.

- 19 The improvement plan drawn up following the Audit Commission's corporate assessment has been strengthened. The business transformation programme, Herefordshire Connects, continues to be developed, but still presents some risks for the Council. Corporate resource management has improved significantly and services continue to provide good value for money. Although there has been an improvement in public satisfaction with most Council services and in public access to services, overall satisfaction with the Council has fallen and is low compared with similar councils.

### Evidence of improving outcomes

- 20 The Council is maintaining overall performance levels with 58 per cent of comparable service performance indicators improving (compared with the average for similar Councils of 67 per cent) but 38 per cent deteriorating.<sup>1</sup>
- 21 The Council has had some success in improving outcomes in its priority areas of adult social care and children's services. The external inspectorate, CSCI, assessed both of these areas as providing adequate services for local people, the same score as in 2005. However, the Council has made significant progress in improving its arrangements for safeguarding vulnerable children, moving from an assessment of inadequate to good. In addition, there have been some improvements in educational achievement, particularly at GCSE level.
- 22 In Adult Social Care the Council has made some improvements in helping more vulnerable people to live at home and in increasing the number of direct payments made. There is a mixed picture of progress in other key service areas. In the Council benefits service, the external inspection score dropped from 3 to 2, with an increase in the time taken to assess benefits claims due to changes in the Council's benefits IT systems. However Council figures for the first three quarters of 2006/07 indicate that performance has improved strongly since then. Performance in the environment service area is generally strong, with improvements in the priority areas of, recycling and the amount of waste collected from households as well as in the speed of determining planning applications but a downward trend in environmental health and trading standards. Finally, the Council's homelessness service is improving in recent months after a worsening performance in 2005/06 when indicators showed an increase in both the number of households in temporary accommodation and the length of time spent in bed and breakfast.
- 23 The Council makes an effective contribution to wider community outcomes and has strengthened its overall approach to partnership working as a key member of the Herefordshire Partnership. This has been most evident in the work the Council has done in developing the Local Area Agreement and in working with partners to improve outcomes in such areas as crime, children's health and economic development. In the area of crime, there have been decreases in the number of domestic burglaries, theft of motor vehicles and violence against the person. CSCI assessed the Council's contribution to children's health as good, despite a small increase in the rate of teenage pregnancies, with the specific health needs of looked after children being met effectively. There have been reductions in the numbers of people killed and injured on the roads. Finally, in the area of economic regeneration, the Council, with its partners, is progressing ambitious schemes such as the Edgar Street Grid, the Leominster Enterprise Park, the Rotherwas Futures and the Herefordshire Learning Village.

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<sup>1</sup> These statistics exclude indicators for children's, young people's and older people's services.

### **Access and the quality of service**

- 24 The Council is making steady improvements in improving access to its services for local people. It has information points in four key market towns where customers can access all Council services, and a further centre is opening in Hereford in 2007. Front line staff are being integrated and provided with customer service training with a view to breaking down barriers between traditional service areas and providing customers with a one-stop solution to their enquiries. There are some key areas of increased satisfaction, both around Council services and quality of life. There is good satisfaction with recycling and civic amenity sites, sports and leisure facilities and libraries. In terms of quality of life, residents are more positive about anti-social behaviour and environmental vandalism, but are increasingly critical of public transport provision. However, overall satisfaction with the Council, has fallen slightly and is among the lowest in comparable Councils.
- 25 In the area of equalities, although the Council has only reached level 1 of the national equality standard, it has improved the steps it is taking to progress to the next level. An example of this improved approach can be seen in the way the Council is addressing the issue of the large number of migrant workers in the county. It is developing, with the Police and PCT, a website for such workers to provide them with information and advice. More is needed to be done, however, in specific service areas with CSCI commenting that the adult social care service has not done enough to focus on the specific needs of minority ethnic groups. The Council is addressing this with its partners and hopes to use its improved demographic data to ensure that services are appropriate and relevant for all sections of the community.

### **Value for money**

- 26 The Council maintained its value for money rating of 3 in the annual use of resources assessment. The overall low spend, linked to a reasonable level of performance across all services is providing good value for local people. The Council is improving its management of value for money with a better integration of data on resources and performance, service and financial planning are now much better linked. The Council has also put in place robust processes to assess the capacity of specific service areas to resource its planned improvement activity. The Council has introduced annual efficiency statements and has set itself challenging targets for efficiency gains, particularly in respect of releasing cash. It reports achievement of 87 per cent of its efficiency targets in 2005/06.
- 27 The constant pressure on budgets and the need to improve performance mean that the Council needs to demonstrate value for money particularly in children's services and adult social care in future.

- 28 The Council is making good progress in strengthening its arrangements for securing continuous improvement. Good performance management processes have been put in place at a corporate level and this is leading to improvements in both processes and culture in key service areas. Significant improvement has taken place in the integration of the Council's service and financial planning processes. The Council has an improved medium-term financial strategy and has established a performance improvement cycle that is robust and has the potential to drive improvement. The Council is aware of the need to improve the role of overview and scrutiny in performance management and the scrutiny improvement plan is being implemented.

### **Improvement plans**

- 29 The Council has strengthened its improvement planning over the past year after responding satisfactorily to the findings of the corporate assessment and the joint area review (JAR) in late 2005. The initial response by the Council was to put in place an overall improvement plan which, among things, contained a discrete JAR action plan. The overall improvement plan was a good attempt to identify the full range of challenges facing the Council and the actions coming out of these, but it needed to be sharper in terms of outcomes, indicators and targets to ensure that it could be robustly monitored. The Council recognised this and has strengthened its approach, having developed a set of six discrete improvement plans (both service specific and corporate) as part of its business transformation programme. This programme has clear terms of reference and is due to be managed under well-established project management guidelines.
- 30 One of the six areas is Herefordshire Connects, the Council's overall plan to modernise its ICT infrastructure. This programme, which is moving towards the implementation stage with a provider being chosen by February 2007, contains both risks and potential benefits for the Council. The most important risk is that the project may not deliver the expected efficiencies and service improvements within the planned cost envelope. Further risks are referred to later in this letter. In both children's services and adult social care the Council has been developing good building blocks for future improvement by commissioning work from external consultants which has identified key issues and areas of work.
- 31 Herefordshire has had some capacity problems in the past that have hampered its attempts to improve. Since the 2005 corporate assessment, the Council has been assessing its own ability to make the improvements needed. It has used help available from government departments effectively and has engaged consultants where necessary to speed progress in key areas eg the plan for adults' services. It is ensuring that there is adequate capacity to implement its improvement plans, both for corporate issues and in specific services, by measuring the specific requirements being made on key corporate services – ICT, project management and HR. This process has led to the Council being better placed to deliver its improvement plans than it has been for some time.

- 32 In children's services the Council was judged as having adequate capacity by CSCI and is building on this by more partnership working, and by investing in additional performance management posts and systems. In adult social care CSCI's assessment was that there were 'uncertain prospects' for improvement, but there are a number of more recent developments that indicate a more positive outlook. These include the completion of a comprehensive needs assessment, externally commissioned work around such issues as performance management and commissioning, and the setting up of a change team to drive forward improvement.
- 33 Negotiations, in partnership with Worcestershire County Council, for a new long term waste disposal contract have been slow. The waste PFI continues to be a risk for the Council and it is not yet clear whether the contract will deliver value for money. To ensure the continued economic and efficient disposal of waste in future it is important that a contract with a new provider is established soon.

## Performance information

- 34 The Audit Commission approach to the audit of statutory performance information changed this year, with a 'lighter touch' being applied. This meant that we reviewed your overall management arrangements to develop the quality of data and only tested a limited number of performance indicators. There were five themes for us to consider as part of our work on Data Quality; Governance and Leadership, Policies, Systems and Processes, People and Skills and Data Use.
- 35 The Council continues to develop and improve its management arrangements for ensuring the quality of data. The Integrated Performance Reporting methodology has improved the focus of performance indicators within the Council, the collection and reporting of performance information across the Council has led to more attention being paid to all indicators.
- 36 There are, however, areas for further improvement. In particular there should be a formal strategy for data quality put in place which should be agreed to by Members. Specific data quality policies should be put in place to support the current guidance and regular formalised training for relevant staff would support the Data Quality process.

## Working with other inspectorates and regulators

- 37 An important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators who also review and report on the Council's performance. Relationship Managers share information and seek to provide 'joined up' regulation to the Council. During the last year the Council has received the following assessments from other inspectorates.
- 38 CSCI's Annual Assessment has concluded that social care for adults is 'serving some adults well' with 'uncertain prospects for improvement', whereas social care for children is 'delivering an adequate service for children' and has 'adequate capacity for improvement'.

- 39 The Benefits Fraud Inspectorate's annual assessment the Council's Benefits service concluded that it is 'fair'.

## Performance management

- 40 The last Corporate Assessment of the Council in late 2005, assessed the Council's performance management arrangements as being adequate, but this remained the weakest area of the Council's overall arrangements. The assessment stated that the corporate performance management approach was not yet fully embedded and that there were some serious weaknesses in some important areas including children's social care. As a result we followed up the Council's progress in this area in the Autumn of 2006.
- 41 We concluded that the Council is making steady progress in strengthening its performance management arrangements and in embedding a performance culture. A new network of improvement managers is beginning to result in a more consistent, corporate approach to managing performance, individual performance management (the SRD process) is having a greater impact and there are some robust plans to improve the links between resources and performance. In addition, there is a greater focus on the collection and reporting of performance information across the Council which is leading to more attention being paid to poor or under-performance. However, because the Council's baseline position was relatively low, these improvements are not yet sufficient to meet the standard that the Council aspires to and are not yet embedded across the organisation.
- 42 In line with the trends at a corporate level, arrangements for managing performance in the two social care service areas, which have been criticised by a number of inspectorates, are steadily improving. A key factor in this improvement has been the involvement of the corporate performance management officers. There is a growing culture among staff at all levels in these service areas of the importance of performance management, improving data collection processes and a determination by managers to analyse performance information in a timely fashion. The result of this is that it is less likely than it was a year ago, in both service areas, that serious under-performance will go unreported. However, as with the arrangements at a corporate level, more is needed to be done, particularly in children's social care to ensure that the improvements are sustained, in line with overall corporate policy, and embedded across the service.
- 43 Arrangements for managing performance in the Benefits service have improved significantly over the past year with particular strengths around workload monitoring and the setting of individual targets.
- 44 Although the Council is continuing to develop a range of specific processes and initiatives designed to improve the way in which performance is managed, these components have not been brought together in a single, high-level model that clearly identifies how the Council plans to measure its performance and levels of improvement. The result of this is that it is not clear to many officers and members, how the various components fit together into a coherent whole and which aspects of the arrangements have a greater priority.



- 45 There is clear evidence of an improving culture of performance across the Council. Staff and managers in all the service areas we examined are becoming increasingly aware of the importance of performance management and managers are offering stronger leadership around performance and improvement issues. However, this trend is characterised by an ad hoc, unplanned approach to communication and there is no high-level consistent programme or strategy designed to identify and cascade what the Council means by a performance management culture and to enthuse and motivate staff into focussing on performance improvement. The lack of such a corporate strategy (distinct from the Council's overall improvement plan) may result in some service areas developing at a slower rate than others as managers do not have a robust, shared approach to refer to.
- 46 The Council has developed a very comprehensive action plan to address the recommendations in our detailed report.

## Local Area Agreements

- 47 We carried out a high level overview of potential risk areas in the developing governance for the pilot local area agreements. In carrying out the work, it was agreed that we would liaise closely with the Government Office for the West Midlands to avoid duplication with their six-monthly review. Good progress is being made by the Council and its partners in addressing, to a greater or lesser extent, all of the issues set out above in the key risk areas. There are no serious weaknesses or gaps in the arrangements being developed and the Council's arrangements compare well to those we have reviewed elsewhere. There is clear enthusiasm among partners to make the LAA process work for the area and an obvious commitment to continuing the good work achieved to date. However, within each of the risk areas, particularly financial management, there is still more work to do before the overall arrangements can be said to be sufficiently robust and embedded. Specifically in financial management, the Council needs to work with Government Office to develop a plan to formalise how the issue of increasing the Single Pot is to be taken forward. We have since provided additional good practice guidance around financial management in LAAs to your officers. The Council has drawn up an action plan to address the recommendations in our full report.
- 48 Government office has recognised the good progress the Council has made and has given the Council two "green lights" ratings for achievement and prospects for improvement.

## Pooled budgets

- 49 A year ago we carried out 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.

- 50 Our overall conclusion is that the integration of 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. Some parts of the budget were being managed as separate health and social care elements.
- 51 In response to the overspend in learning disabilities, a fundamental review of key elements of service provision was 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 we felt a more strategic approach to managing the pooled fund was needed to ensure that resources are appropriately targeted. In both areas these needed to be supported by strengthened commissioning arrangements and stronger partnership agreements which incorporate clear measurable outcomes, with associated monitoring mechanisms.
- 52 We felt that the PCT and Council needed to ensure that the pooled budget arrangements were supported by clear and updated agreements to reflect progress and new strategic priorities. Our main recommendation to strengthen their partnership working through the pooled budget arrangements, was that the PCT and Council should update the agreements for each service area 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.
- 53 Delivery of the joint action plan addressing the recommendations in our detailed report is still planned for this spring. This issue is particularly significant given the Council's proposal to form a Public Service Trust with the local Primary Care Trust this year.

## Financial management and value for money

- 54 As your appointed auditor, I have reported separately to your Audit and Corporate Governance Committee on the issues arising from our/the 2005/06 audit and have provided:
- an unqualified opinion on your accounts;
  - a conclusion on your VFM arrangements to say that these arrangements are adequate; and
  - a report on the Best Value Performance Plan confirming that the Plan has been audited.
- 55 The findings of the auditor are an important component of the CPA framework described above. In particular the Use of Resources score is derived from the assessments made by the auditor in the following areas.
- Financial Reporting (including the preparation of the accounts of the Council and the way these are presented to the public).
  - Financial management (including how the financial management is integrated with strategy to support council priorities).
  - Financial Standing (including the strength of the Council's financial position).
  - Internal Control (including how effectively the Council maintains proper stewardship and control of its finances).
  - Value for money (including an assessment of how well the Council balances the costs and quality of its services).
- 56 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in these five areas as follows.

**Table 3**

<b>Element</b>	<b>Assessment</b>
Financial reporting	3 out of 4
Financial management	3 out of 4
Financial standing	2 out of 4
Internal control	2 out of 4
Value for money	3 out of 4
<b>Overall assessment of the Audit Commission</b>	<b>3 out of 4</b>

*(Note: 1=lowest, 4=highest)*

- 57 The key issues arising from the audit, as reflected in the above judgements where appropriate, are as follows.

## Financial reporting - audit of 2005/06 accounts

- 58 We assessed the Council's production of accounts as good and an improvement on the previous year. The accounts were produced by 30 June and were well supported with working papers. The Council also produced a good summary annual review of the accounts for the public. To achieve further improvement the accounts presented for audit should have no non-trivial errors and analytical review needs to be further developed.
- 59 We are required by professional standards to report to those charged with governance (in this case the Audit and Corporate Governance Committee) certain matters before we give an opinion on the financial statements. We reported four matters.
- There was difficulty in reconciling end of year balances with the PCT. There have been protracted delays in the PCT settling invoices with the Council. In September the Council was owed over £1 million by the PCT in relation to pooled budget contributions.
  - The valuation of Hillside intermediate Care Centre.
  - Two balance sheet errors which the Council subsequently corrected for in relation to long term loans and tangible assets.
  - Governance arrangements around a severance payment made in 2005/06. These have subsequently been revised.

## Financial management

- 60 Our overall conclusion on financial management is that there are good arrangements in place but these now need to be fully embedded.
- 61 The Council has made very good progress over the last year in improving the quality and reliability of financial management arrangements particularly in adult social care. Particularly significant was the production of a robust Medium Term Financial Plan which is focussed on the achievement of the Council's objectives. The Council need to continue this improvement and fully embed the new financial management arrangements. We also note that training is being developed for Members and officers.
- 62 We also considered how the Council manages its asset base. The Council demonstrates some good practice in this area. The Council is taking action to improve the capacity of the asset management and property services team and to recruit a permanent head of this service. This is important given the level of input required in key areas such as the reconsideration of the Council's Accommodation strategy.

## Financial standing

- 63 We concluded that the Council's financial standing meets the minimum requirements for the Use of Resources assessment.
- 64 Achieving financial balance is an important element of financial standing and historically the Council has been successful at this. Good financial standing is also about effectively managing activities and their associated budgets to avoid significant under-spending and the non-achievement of objectives. It is also about setting aside prudent but not excessive levels of reserves in relation to risks. For the last three years the Council has started the year forecasting the need to use approximately £3m of its general reserve. However, due to large unplanned under-spending within a number of departments a contribution has been made to reserves of between £3 and 4m. Capital reserves have remained static at approximately £20m.
- 65 We have seen significant improvements in this financial year. Until recently the Council has had high levels of general reserves for which there was no clear strategy on how they would be used. As part of the production of the medium term financial plan, revenue reserves were reviewed and significant amounts of reserves were earmarked against specific risks. Further improvement is still needed, including a reappraisal of the level of reserves that the Council should now hold.
- 66 The Council's financial position reported in the 2005/06 accounts shows revenue balances (earmarked and general) of £28.4m and a net under spend of £4.1m against budget. Much of this under-spending and the resultant increase in the level of balances was due to the operation of the Council's previous committed expenditure rules and carry over rules. The Council continues to work to a target of £3.0m for unallocated balances. The Council has revised these arrangements for carrying forward under-spends. There were overspends in two areas of Adult and Community Services. Adult Social Care overspent by £828k and there was an overspending of £593k on homelessness. These overspends were mitigated by an under-spending on community services of £430k. The planned overspend on Adult and Community Services in 2006/07 has been reduced by concerted action from £3.6 million to £1 million. The most recent forecasts of the Council show a significant under-spend against the 2006/07 budget of around £2.5 million.
- 67 Schools balances were £8.7m at the end of 2005/06 and although this is a small drop from the previous year, it is recognised that this level of balances is high. The Council is seeking to reduce this.
- 68 The Council's pensions liability (the amount liabilities exceeded assets) at the 31 March 2006 was £100m. Though a small fall from 2005, the level of this deficit is a cause for concern as the Council is not currently in a position to meet its future pension liabilities for its workforce.
- 69 The Medium Term Financial Plan identifies very significant savings deriving from the Herefordshire Connects transformation programme which is discussed later in this Letter. It will be vital that these savings are robustly monitored.

## Systems of internal financial control

- 70 The Council's systems of internal control meet the minimum requirements for the Use of Resources assessment.
- 71 There have been significant improvements this year in risk management arrangements. The Council has put in place a risk register which assigns key individuals to risk. The register is actively managed as can be seen from the movement of the waste disposal risk into the corporate log. Champions have been put in place to drive risk forward and Members have been trained. However there is still scope for improvement. The Council now needs to demonstrate that it actively manages risk and there are outputs from that management. Officers need to be trained in risk awareness and the Council need to demonstrate that they have adequately considered partnerships in their risk assessments.
- 72 There have also been significant improvements in the internal control arrangements of the Council. The Audit and Corporate Governance Committee has been in operation for over 12 months, having had five meetings and has been improving with each meeting. The Committee now provides a focus for audit reports and governance issues, giving these a greater profile. It also has started to track progress on previous internal and external audit reports, an area which is developing. The Statement of Internal Control (SIC) is reviewed by the Audit Committee and there is much wider involvement in the process than previously. Issues raised during the 2005/06 audit are being or have been addressed. To improve further, the elements that have been put in place over the last year need to embed. The assurance framework needs to embed and the links between the Council's objectives and risks could be clearer. Reconciliations of key feeder systems need to occur monthly. Partnership arrangements need to be developed with standing orders showing how good governance and partnerships relate.
- 73 Probity and propriety arrangements have not progressed in the same way as other parts of this assessment. The process in relation to gifts and hospitality is being strengthened following our review. The whistle blowing policy has not been communicated to those who contract with the Council. The Council has been proactive in trying to raise awareness concerning ethical behaviour but it also needs to raise awareness of whistle blowing procedures and the anti fraud and corruption policy. This can be done by providing leaflets and placing posters where they would be seen and giving presentations to staff.
- 74 We carried out a survey of Members and Senior Officers to assess the adequacy of your ethical governance arrangements. The results showed a reasonable level of awareness and in most instances the survey results were favourable. There are some areas where the Council will need to take some action.
- More improved training is required, specifically around understanding of what the Standards Board is and when issues should be reported and a more informed knowledge of Statutory Acts which affect the Council.
  - The communicating of your high ethical standards to the General Public needs improvement.

- The work of the Standards Committee was not well known amongst respondents.
- Communicating the whereabouts of public documents to the Public could be improved upon.

75 We plan to assist the Council in developing these arrangements after the forthcoming elections by delivering training to officers and members.

## Value for money

76 We considered both the Council's achievement of value for money and the arrangements to manage and improve value for money. Overall we concluded that both good achievement and good arrangements are demonstrated.

77 Overall spend on services is below average when compared with similar councils. Service outcomes in some areas are good and some improvements have been achieved (eg speed of processing planning applications), however the Council has also seen a decline in performance in some significant areas. The capital programme is linked to priorities, and is reasonably well managed. In broad terms, the Council still achieves a lot for its level of resourcing.

78 The Council's understanding of its cost pressures is improving, with a more robust and rigorous approach to medium term planning. There is a more robust approach to integrating service and resource planning. Areas of overspending are identified and a range of steps are being taken to address them. The key area is Adult Social Care which has significant projected overspends and will present a continuing challenge over the medium term. There is a better grasp on costs and benchmarking information in some services, but this is still not consistent across all service areas. Corporate approaches to procurement are still not well developed.

79 Arrangements for challenging and driving better value for money (VFM) and more efficient ways of working are improving, but many of these improvements are still at an early stage and have yet to show their impact. For example, the Council believes the Herefordshire Connects programme to have the potential to deliver significant improvements in both customer service and cash-releasing efficiencies. This programme, and the more robust approaches to medium term planning, is already having an impact on the organisation's culture. However, a VFM culture is still not well developed or embedded across all service areas. A consistent pattern of under-spending in most service areas indicates that there is still scope in service budgets to drive further efficiencies, and the lack of targets in a significant number of 2005/06 performance indicators meant that the Council's capacity to assess improved VFM was weakened. There is room for improvement in the challenge provided by Scrutiny.

- 80 There is a lack of straightforward and transparent accounting for how well services are doing in their delivery of value for money. It is not always clear from service plans and performance reports how improved value for money has been achieved. The Council has set itself challenging targets for efficiency gains, but it does not always have assurance that non-cashable efficiency gains are being robustly stated.



## Other work

### Waste management

81 The Council continues, together with Worcestershire County Council, to seek to reach an agreement with its PFI partner on arrangements for delivering the recycling requirements of the contract. It is disappointing that progress has been slow and the implementation of national recycling targets and penalties mean that there is an urgent need to resolve this issue.

82 We noted in our 2003/04 letter that:

‘Until the discussions with the contractor are finally concluded, there remains a risk that the contract could terminate. Contract termination could have a significant impact on the financial standing of the Councils, because:

- termination clauses in the original contract will require the Councils to repay the contractors shareholder equity in exchange for bringing waste management assets and facilities back in-house;
- the Councils are likely to have to enter into a new contract in order to achieve the objectives of the Waste Management Strategy. Re-procurement costs are likely to be significant and the Councils would be unlikely to secure the level of government PFI funding that was made available for the existing contract; and
- the inherent delay in putting new contract arrangements in place would expose both councils to potential future financial penalties under the Waste Emissions and Trading Act for failing to meet landfill diversion targets.

Members need to be mindful of these significant financial risks in particular, in considering the Council’s medium term financial strategy’.

83 This continues to be our view. Members should also be aware of the financial and environmental risks that the recycling arrangements present before they are approved.

### Herefordshire Connects Programme

84 Herefordshire Connects is a fundamental part of the Council transformation plan. It is expected to cost over £25 million over five years and is currently at the procurement phase. Due to the scale of this commitment we carried out a very short overview whilst the project was progressing.

- 85 Based on the limited work undertaken, we found several strengths in the approach taken by the Council including project management and the procurement approach. We have raised several important issues which need to be considered by Members at this stage. These include the following.
- Extent to which the contract will deal with proposed Public Service Trust.
  - The need for a risk assessment for the contract when it goes live.
  - The lack of an options appraisal.
  - The capacity of staff to deal with work needed now such as a benefits realisation and subsequently in managing the contract.
  - The extent to which the contract specification has limited the choice of a technical solution.
- 86 We are currently discussing our draft report with your officers.

## Grant claims

- 87 In accordance with Strategic Regulation, the Audit Commission has continued with a more risk-based approach to the certification of grant claims. We have reduced our audit of these claims but our ability to reduce further depends on the adequacy of the Council's control environment.
- 88 The Council's arrangements for managing and quality assuring grant claims submitted for audit has improved in the past year partly as a result of a new protocol and setting up a grant claims co-ordinator. To help improve arrangements further the Council needs to be more proactive in chasing departments where claims are outstanding.

## Conclusion

- 89 This letter has been discussed and agreed with the Chief Executive and Director of Resources and presented at the Cabinet.
- 90 The Council has taken a positive and constructive approach to our audit and inspection I would like to take this opportunity to express my appreciation for the Council's assistance and co-operation.

## Availability of this letter

- 91 This letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk), and also on the Council's website.

**Elizabeth Cave**

**District Auditor and Relationship Manager**



**ACTION PLAN AUDIT SERVICES REPORT -TELEPHONE****Report By: Audit Services Manager****Wards Affected**

County-wide

**Purpose**

To inform the Audit and Corporate Governance Committee on the current status of the actions being taken on recommendation made by Audit Services.

**Financial Implications**

None identified

**RECOMMENDATION**

**THAT (a) The report is noted.**

**Reasons**

As part of their review of work done by Audit Services the Audit and Corporate Governance Committee requested that they were updated on the actions being taken by the Council in relation to recommendations made.

**Considerations**

1. Appendix 1 sets out in detail the actions being taken on the recommendations made by Audit Services.
2. Five recommendations were made with all five being accepted for action, all form part of the current cost savings review being carried out.

**Risk Management**

3. If action were not taken on the recommendations it is likely that any possible savings identified would be lost.

**BACKGROUND PAPERS**

Audit Report Telephone Usage.



**ACTION PLAN**  
**AUDIT SERVICES REPORT - TELEPHONE USAGE**

R	Recommendation	Level	Agreed Y/N	Client's Comments	Action By Who/When
1	<p>Review existing policy / guidance documentation for using desk and mobile phones for business and personal calls. Provide guidance on alternative cost-effective methods of communication, and maximum duration for certain types of call.</p> <p>Explain how misuse is recorded and checked</p> <p>Management to review and action</p>	2	Y	<p>Head of ICT to table at next IPG group meeting</p> <p>Strategic Procurement and Efficiency Manager to consider as part of current cost savings review.</p>	Dean Hogan
2	<p>With regards to desk phones, provide management with information, or access to on-line call logger data for their areas of responsibility.</p> <p>ICT for action</p>	2	Y	<p>This forms a part of the deliverables of the new Community Network project. For mobiles this information is already provided</p> <p>Strategic Procurement and Efficiency Manager to consider as part of current cost savings review.</p>	Dean Hogan
3	<p>Provide management with information to enable them to check their departments' performance in answering 95% of all telephone calls, and 80% of them within 15 seconds. Refer to the published Customer Service Standards.</p> <p>ICT for action</p>	2	Y	<p>This forms a part of the deliverables of the new Community Network project</p> <p>Customer Services are the owners of the reporting and adherence to the standards</p> <p>Strategic Procurement and Efficiency Manager to consider as part of current cost savings review.</p>	Dean Hogan
4	<p>During subsequent mobile phone contract negotiations, it is recommended that there is a rationalisation process to remove mobile phones from staff that are not using them, and non-essential users.</p> <p>ICT for action</p>	2	Y	<p>A rationalisation audit is already ongoing and discussions are underway with the new Procurement and Efficiency Manager with respect to the opportunity for the Regional Centre of Excellence to fund three pilot study projects for the use of personal mobile phones</p> <p>Strategic Procurement and Efficiency Manager to consider as part of current cost</p>	Dean Hogan

**ACTION PLAN  
AUDIT SERVICES REPORT - TELEPHONE USAGE**

R	Recommendation	Level	Agreed Y/N	Client's Comments	Action By Who/When
				savings review.	
5	The Authority may consider issuing pool phones to groups of low or occasional users. Management to review and action	2	Y	Strategic Procurement and Efficiency Manager to consider as part of current cost savings review.	Dean Hogan



## AUDIT COMMISSION AUDIT AND INSPECTION PLAN 2007-2008

**Report By: Audit Services Manager**

### Wards Affected

County-wide

### Purpose

To inform the Audit and Corporate Governance Committee of the Audit Commission's Audit and Inspection Plan for 2007-2008 (Appendix 1 refers).

### Financial Implications

None.

### RECOMMENDATION

**THAT Subject to any comments from the Audit and Corporate Governance Committee, the Audit and Inspection Plan 2007-2008 be noted.**

### Reasons

The plan sets out the audit and inspection work that the Audit Commission propose to undertake for 2007-2008.

### 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 2007-2008 the Audit Commission has estimated their total fee to be £351,725, summarised below. The Audit Commission will formally advise the Council if any changes to the fee become necessary.

	<b>2007-2008</b>	<b>2006-2007</b>
	<b>£</b>	<b>£</b>
Audit Work	247,100	212,227
Inspection Work	22,125	49,780
Certification of Claims and Returns	<u>82,500</u>	<u>85,000</u>
<b>Total Fee</b>	<b><u>351,725</u></b>	<b><u>347,007</u></b>

4. With regard to CPA and inspection activity the Audit Commission does not intend to carry out any service inspection during 2007/08. Work within this area will be covered in the annual Direction of Travel assessment and liaison work between the Council and the Audit Commission, other inspectorates, government office and other key stakeholders by the Council's Relationship Manager.
5. The Audit Commission will carry out their audit of the Council's financial statements in accordance with International Standards on Auditing.
6. The Audit Commission will complete a Use of Resources assessment for 2007 which will focus on the importance of having sound and strategic financial management to ensure that resources are available to support the Council's priorities and improve services.
7. Data quality work will be based on a three-stage approach covering:  
Stage 1 – management arrangements;  
Stage 2 – competencies check; and  
Stage 3 – risk based data quality spot checks of a sample of performance indicators.
8. It is important to note that the results of the work at Stage 3 will inform the Commission's CPA assessment.
9. With regard 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 Commission has identified the following risks in terms of the 2006/07 financial statements:
  - creating a GAAP compliant Revaluation Reserve to replace the Fixed Asset Restatement Account;
  - potential revisions to accounting treatment for Waste Management PFI; and
  - valuation of fixed assets and coding of intangible assets.

It must be borne in mind that other risks might be identified from Audit Commission work.
11. The Audit Commission's initial assessment of risk on Use of Resources has identified one high risk and five medium risk areas. The high risk relates to the Herefordshire Connects Project. They intend to carry out a review on the implementation phase of the programme. In addition the medium risks were identified as:
  - Proposed Public Service Trust;
  - Adult Social Care performance, budgetary overspends and future growth pressures;

- Accommodation Strategy;
- Governance
- Revisions to Waste Management PFI

## **Risk Management**

12. If the Council does not meet the Audit Commission's expectations it could have an adverse affect on the Council Use of Resources score and other corporate assessments.

### **BACKGROUND PAPERS**

Audit and Inspection Plan 2007-2008.



# **Audit and Inspection Plan**

**Herefordshire Council**

**Audit 2007/2008**

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**

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 to 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.

### **Copies of this report**

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## Introduction

- 1 This plan has been developed by the Relationship Manager and the appointed auditor. It sets out the audit and inspection work that we propose to undertake for the 2007/08 financial year. The plan is based on the Audit Commission's risk-based approach to audit planning and the requirements of Comprehensive Performance Assessment (CPA). It reflects:
  - audit and inspection work specified by the Audit Commission for 2007/08;
  - current national risks relevant to your local circumstances; and
  - your local risks and improvement priorities.
- 2 Your Relationship Manager will continue to help ensure further integration and co-ordination with the work of other inspectorates.
- 3 As we have not yet completed our audit for 2006/07, the audit planning process for 2007/08, including the risk assessment, will continue as the year progresses, and the information and fees in this plan will be kept under review and updated as necessary.

## Responsibilities

- 4 We comply with the statutory requirements governing our audit and inspection work, in particular:
  - the Audit Commission Act 1998;
  - the Local Government Act 1999 (best value inspection and audit); and
  - the Code of Audit Practice.
- 5 The Code of Audit Practice (the Code) defines auditors' responsibilities in relation to:
  - the financial statements (including the Statement on Internal Control (SIC)); and
  - the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 6 The Audit Commission's Statement of responsibilities of auditors and of audited bodies sets out the respective responsibilities of the auditor and the Council. The Audit Commission has issued a copy of the Statement to every audited body.
- 7 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our audit work is undertaken in the context of these responsibilities.



## CPA and Inspection

- 8 The Audit Commission's CPA and inspection activity is underpinned by the principle of targeting our work where it will have the greatest effect, based upon assessments of risk and performance.
- 9 The Council's CPA category is therefore a key driver in the Commission's inspection planning process. For CPA 2006, the Council was categorised as three stars.
- 10 We have applied the principles set out in the CPA framework, *CPA – the Harder Test*, recognising the key strengths and areas for improvement in the Council's performance. The key strengths and areas for improvement, taken from the recent direction of travel statement are set out below.
- 11 Overall the Council is maintaining its performance and has made improvements in priority areas including safeguarding vulnerable children and helping more elderly adults to live at home. Further progress in children's and adult services has been limited by skills shortages which are now being resolved.
- 12 Performance in both benefits and homelessness dipped in 2005/06 but is recovering well. There have been improvements in planning, recycling and the amount of household waste collected, but environmental health and trading standards have deteriorated. The Council has worked effectively with its partners to reduce crime and improve the health of children and young people.
- 13 The improvement plan drawn up following the Audit Commission's corporate assessment has been strengthened. The business transformation programme, Herefordshire Connects, continues to be developed, but still presents some risks for the Council. Corporate resource management has improved significantly and services continue to provide good value for money. Although there has been an improvement in public satisfaction with most Council services and in public access to services, overall satisfaction with the Council has fallen and is low compared with similar councils.
- 14 The Council is making steady progress in strengthening its performance management arrangements and in embedding a performance culture.
- 15 On the basis of our planning process we have identified where our inspection activity will be focused for 2007/08 as follows. We have recently started on cultural services and do not propose to carry out a service inspection in 2007/08.

**Table 1 Summary of inspection activity**

<b>Inspection activity</b>	<b>Reason/impact</b>
Relationship Manager (RM) role	To act as the Commission's primary point of contact with the Council and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Direction of Travel (DoT) assessment	An annual assessment, carried out by the RM, of how well the Council is securing continuous improvement. The DoT label will be reported in the CPA scorecard alongside the CPA category. The DoT assessment summary will be published on the Commission's website.

## Work under the Code of Audit Practice

### Financial statements

- 16 We will carry out our audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 17 We are required to issue an opinion on whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Council as at 31 March 2008 and its income and expenditure for the year.
- 18 We are also required to review whether the SIC has been presented in accordance with relevant requirements, and to report if it does not meet these requirements or if the SIC is misleading or inconsistent with our knowledge of the Council.

### Use of resources

#### Value for money conclusion

- 19 The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. The Code also requires auditors to have regard to a standard set of relevant criteria, issued by the Audit Commission, in arriving at their conclusion.
- 20 In meeting this responsibility, we will review evidence that is relevant to the Council's corporate performance management and financial management arrangements. Where relevant work has been undertaken by other regulators we will normally place reliance on their reported results to inform our work.
- 21 We will also follow up our work from previous years to assess progress in implementing agreed recommendations.

#### Use of resources assessment

- 22 The Audit Commission has specified that auditors will complete a use of resources assessment for 2007/08. The assessment focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the Council's priorities and improve services.
- 23 The work required to arrive at the use of resources assessment is fully aligned with that required to arrive at the auditor's value for money conclusion.

- 24 We will arrive at a score of 1 to 4, based on underlying key lines of enquiry, for each of the following themes.

Theme	Description
Financial Reporting	<ul style="list-style-type: none"> <li>• Preparation of financial statements.</li> <li>• External reporting.</li> </ul>
Financial Management	<ul style="list-style-type: none"> <li>• Medium-term financial strategy.</li> <li>• Budget monitoring.</li> <li>• Asset management.</li> </ul>
Financial Standing	<ul style="list-style-type: none"> <li>• Managing spending within available resources.</li> </ul>
Internal Control	<ul style="list-style-type: none"> <li>• Risk management.</li> <li>• System of internal control.</li> <li>• Probity and propriety.</li> </ul>
Value for Money	<ul style="list-style-type: none"> <li>• Achieving value for money.</li> <li>• Managing and improving value for money.</li> </ul>

- 25 We will report details of the scores and judgements made to the Council. The scores will be accompanied, where appropriate, by recommendations of what the Council needs to do to improve its services.
- 26 The auditor’s scores are reported to the Commission and are used as the basis for its overall use of resources judgement for the purposes of CPA.

## Data quality

- 27 The Audit Commission has specified that auditors will be required to undertake audit work in relation to data quality. This is based on a three-stage approach covering:
- stage 1 - management arrangements;
  - stage 2 - completeness check; and
  - stage 3 - risk-based data quality spot checks of a sample of performance indicators.
- 28 The work at stage 1 will link to our review of the Council’s arrangements to secure data quality as required for our value for money conclusion and, together with the results of stage 2, will inform the risk assessment for the detailed spot check work to be undertaken at stage 3. The results of the work at stage 3 will inform the Commission’s CPA assessment.

- 29 Our fee estimate reflects an assessment of risk in relation to the Council's performance indicators. This risk assessment may change depending on our assessment of your overall management arrangements at stage 1 and we will update our plan accordingly, including any impact on the fee.

## **Best Value Performance Plan**

- 30 We are required to carry out an audit of your Best Value Performance Plan (BVPP) and report on whether it has been prepared and published in accordance with legislation and statutory guidance.

## Assessing risks

- 31 The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. It also means making sure that our work is co-ordinated with the work of other regulators, and that our work helps you to improve.
- 32 Our risk assessment process starts with the identification of the significant financial and operational risks applying at the Council with reference to:
- our cumulative knowledge of the Council;
  - planning guidance issued by the Audit Commission;
  - the specific results of previous and ongoing audit work;
  - interviews with Council officers;
  - liaison with internal audit; and
  - the results of other review agencies' work where relevant.
- 33 We have not included a risk assessment for our audit of the financial statements as many of the specific risks may not become apparent until after we have completed our 2006/07 audit. We will issue a separate opinion audit plan for our audit of the financial statements in October/November 2007. At this stage we are aware of the following risks that are likely to impact on our audit of the financial statements:
- creating a GAAP-compliant Revaluation Reserve to replace the Fixed Asset Restatement Account;
  - potential revisions to accounting treatment for waste management PFI; and
  - valuation of fixed assets and coding of intangible assets.
- 34 For each of the significant risks identified in relation to our use of resources work, we consider the arrangements put in place by the Council to mitigate the risk, and plan our work accordingly.
- 35 Our initial risk assessment for use of resources work is provided in Appendix 1. This will be updated through our continuous planning process as the year progresses.

## Work specified by the Audit Commission

### Whole of government accounts (WGA)

- 36 We will be required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office which is proportionate to risk.

### National Fraud Initiative

- 37 The Council participates in the National Fraud Initiative which is the Audit Commission's computerised data matching exercise designed to detect fraud perpetrated on public bodies. This work will be carried out by an individual appointed to assist in the audit of the Council's accounts (in accordance with section 3(9) of the Audit Commission Act 1998). An additional fee of £1,050 will be charged for this.

## Voluntary improvement work

- 38 We are currently not proposing to do any voluntary improvement work during 2007/08.



## Certification of grant claims and returns

39 We will continue to certify the Council's claims and returns on the following basis:

- claims below £100,000 will not be subject to certification;
- claims between £100,000 and £500,000 will be subject to a reduced, light-touch certification; and
- claims over £500,000 will be subject to a certification 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 certification approach for these claims.

## The audit and inspection fee

- 40 The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales 2007/08. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 41 The total indicative fee for audit and inspection work included in this audit and inspection plan for 2007/08 is £269,225 which compares with the planned fee of £262,007 for 2006/07.
- 42 Further details are provided in Appendix 2 which includes a breakdown of the fee; specific audit risk factors; the assumptions made when determining the audit fee, for example, the timeliness and quality of draft accounts presented for audit and the supporting working papers; specific actions Herefordshire Council could take to reduce its audit and inspection fees; and the process for agreeing any changes to the fee. The fee includes all work identified in this plan unless specifically excluded.
- 43 In addition we estimate that we will charge approximately £82,500 for the certification of claims and returns.
- 44 As indicated in paragraphs 2 and 35, the audit planning process will continue as the year progresses and it is likely that there will be some changes to our planned work and hence to the indicative fee quoted in paragraph 43 above. Any changes to the fee will be agreed with you.

## Other information

### The audit and inspection team

- 45 The key members of the audit and inspection team for the 2007/08 audit are shown in the table below.

**Table 2**

Name	Contact details	Responsibilities
Elizabeth Cave Relationship Manager and District Auditor	<a href="mailto:l-cave@audit-commission.gov.uk">l-cave@audit-commission.gov.uk</a> 0845 634 2360	The primary point of contact with the authority and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders. Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive.
Terry Tobin Audit Manager	<a href="mailto:t-tobin@audit-commission.gov.uk">t-tobin@audit-commission.gov.uk</a> 0845 634 2360	Manages and co-ordinates the different elements of the audit work. Key point of contact for the Director of Resources and liaison with Audit and Corporate Governance Committee.
Ailsa Bell Area Performance Lead	<a href="mailto:a-bell@audit-commission.gov.uk">a-bell@audit-commission.gov.uk</a> 0845 634 2360	Responsible for the delivery of elements of the use of resources work including the value for money theme of the use of resources assessment.

### Independence and objectivity

- 46 We are not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.
- 47 We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised at Appendix 3.

## Quality of service

- 48 We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact the Relationship Manager or District Auditor in the first instance. Alternatively you may wish to contact the Head of Operations, Phil Jones.
- 49 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet *Something to Complain About* which is available from the Commission's website or on request.



## Planned outputs





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

**Table 3**

Planned output	Indicative date
Opinion Audit Plan	November 2007
Data Quality Report	October 2008
Annual Governance Report	30 September 2008
Opinion on the Financial Statements and Value for Money Conclusion	30 September 2008
Final Accounts Memorandum (to the Director of Finance)	November 2008
Use of Resources Report	December 2008
Direction of Travel Statement	February 2008
Annual Audit and Inspection Letter	February 2008
BVPP Report	December 2008
Review of progress against Adult Social Care Improvement Plan	TBA
Herefordshire Connects	June 2007

## Appendix 1 – Initial risk assessment – use of resources

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor's responsibilities
Herefordshire Connects Project.  <a href="#">A.2.7</a>	Large number of staff involved in process. Board overseeing process. Consultants now being engaged on evaluation of selection of potential strategic partner.	High	We will review the implementation phase.	UOR KLOE 4.1 - The council manages its significant business risks.
Proposed Public Service Trust.  <a href="#">A.2.7</a>	The Council and PCT have appointed a project manager to assist change management. Eight project groups set up to review key themes reporting to joint PCT/Council Board.	Medium	We will keep a watching brief on the developing governance arrangements.	UOR KLOE 4.1 - The council manages its significant business risks.

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor’s responsibilities
Adult Social Care performance, budgetary overspends and future growth pressures.  <a href="#">A.2.7</a>	The Council have implemented a more robust financial management regime, carried out a thorough needs analysis and the MTFS has taken this into account.	Medium	The MTFS demonstrates considerable pressure on future resources due to significant growth in Adult Social Care needs but also assumes changes in delivery of services. We will undertake a review of progress in delivering the revised strategy in Adult Social Care. We intend this to include a cross-cutting element with the PCT. This will also allow us to review improvements in pooled budget arrangements.	UOR KLOE 4.1-The Council manages its significant business risks. UOR KLOE 3.1 - Financial Management. UOR 5.1 and 5.2-VFM
Accommodation Strategy  <a href="#">A.2.7</a>	The Council have set up a project group to oversee this area.	Medium	Review progress on this issue.	UOR 3. Financial Management.
Governance  <a href="#">A.2.7</a>	The Council have recognised their weaker areas within probity and propriety arrangements and are updating their constitution.	Medium	We will provide additional training by way of workshops for both officers and members.	UOR 4.3 Probity and Propriety.
Revisions to Waste Management PFI  <a href="#">A.2.7</a>	Council is working closely with Worcestershire County Council who have engaged advisors.	Medium	Review proposals for any VFM or legal issues. Review accounting treatment.	UOR 5.1 and 5.2-VFM and UOR 4.1 council manages its significant business risks.



## Appendix 2 – Audit and inspection fee

- 1 Table 4 provides details of the planned audit and inspection fee for 2007/08 with a comparison to the planned fee for 2006/07.

**Table 4**

<b>Audit area</b>	<b>Planned fee 2007/08 £</b>	<b>Actual fee 2006/07 £</b>
<b>Audit</b>		
Financial statements(including Whole government accounts)	137,405	130,067
Use of resources (including studies, BVPP and data quality)	109,695	82,161
<b>Total audit fee</b>	<b>247,100</b>	<b>212,228</b>
<b>Inspection</b>		
Relationship management	11,062	35,406
Direction of Travel	11,063	Included In RM above
Service inspection	0	14,373
<b>Total inspection fee</b>	<b>22,125</b>	<b>49,779</b>
<b>Total audit and inspection fee</b>	<b>269,225</b>	<b>262,007</b>
Certification of claims and returns	82,500	85,000
Voluntary improvement work	0	0

- 2 The fee for Herefordshire Council is a 2.75 per cent increase on the previous year. The fee proposed for 2007/08 is +13 per cent compared to the scale fee and is within the normal level of variation specified by the Commission.
- 3 The Audit Commission has the power to determine the fee above or below the scale fee where it considers that substantially more or less work is required than envisaged by the scale fee. The Audit Commission may, therefore, adjust the scale fee to reflect the actual work that needs to be carried out to meet the auditor's statutory responsibilities, on the basis of the auditor's assessment of risk and complexity at a particular body.



- 4 It is a matter for the auditor to determine the work necessary to complete the audit and, subject to approval by the Audit Commission, to seek to agree an appropriate variation to the scale fee with the Council. The Audit Commission expects normally to vary the scale fee by no more than 30 per cent (upwards or downwards). This fee then becomes payable.
- 5 The fee of £269,225 (plus VAT) will be charged in 12 equal instalments from April 2007 to March 2008.

## Specific audit risk factors

- 6 In setting the audit fee we have taken into account the following specific risk factors:
  - possible creation of a Public Service Trust;
  - implementation of the business transformation project, Herefordshire Connects; and
  - pressures on resources in relation to increases in demands for adult social care services and way these services are currently provided.

## Assumptions

- 7 In setting the fee, we have assumed that:
  - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2006/07.
  - 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 systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
  - good quality working papers and records will be provided to support the financial statements by the agreed start of our audit;
  - requested information will be provided within agreed timescales;
  - prompt responses will be provided to draft reports; and
  - additional work will not be required to address questions or objections raised by local government electors.
- 8 Where these assumptions are not met, we will be required to undertake additional work which is likely to result in an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the opinion audit plan.

- 9 Changes to the plan will be agreed with you. These may be required if:
- new residual audit risks emerge;
  - additional work is required of us by the Audit Commission or other regulators; and
  - additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.

## **Specific actions Herefordshire Council could take to reduce its audit and inspection fees**

- 10 The Audit Commission requires its auditors to inform a council of specific actions it could take to reduce its audit and inspection fees. We have identified the following actions Herefordshire Council could take.
- Improve analytical review of financial statements.

## **Process for agreeing any changes in audit fees**

- 11 If we need to make any significant amendments to the audit fee during the course of this plan, we will firstly discuss this with the Chief Executive/Director of Finance. We will then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee.

## Appendix 3 – Independence and objectivity

- 1 Auditors appointed by the Audit Commission are required to comply with the Commission’s Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of my appointment. When auditing the financial statements auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 2 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 3 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:
  - discloses in writing all relationships that may bear on the auditor’s objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
  - confirms in writing that the APB’s ethical standards are complied with and that, in the auditor’s professional judgement, they are independent and their objectivity is not compromised.
- 4 The standard defines ‘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 and corporate governance committee. The auditor reserves the right, however, to communicate directly with the authority on matters which are considered to be of sufficient importance.
- 5 The Commission’s Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

6 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows:

- appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the audit plan as being 'additional work' and charged for separately from the normal audit fee;
- auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission;
- the District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years;
- the District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body; and
- the District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.