

AGENDA

Audit and Governance Committee

Date: **Tuesday 29 June 2010**

Time: **2.00 pm**

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

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

For any further information please contact:

Paul Rogers

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Agenda for the Meeting of the Audit and Governance Committee

Membership

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

GUIDANCE ON DECLARING PERSONAL AND PREJUDICIAL INTERESTS AT MEETINGS

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A personal interest is an interest that affects the Councillor more than most other people in the area. People in the area include those who live, work or have property in the area of the Council. Councillors will also have a personal interest if their partner, relative or a close friend, or an organisation that they or the member works for, is affected more than other people in the area. If they do have a personal interest, they must declare it but can stay and take part and vote in the meeting.

Whether an interest is prejudicial is a matter of judgement for each Councillor. What Councillors have to do is ask themselves whether a member of the public – if he or she knew all the facts – would think that the Councillor's interest was so important that their decision would be affected by it. If a Councillor has a prejudicial interest then they must declare what that interest is. A Councillor who has declared a prejudicial interest at a meeting may nevertheless be able to address that meeting, but only in circumstances where an ordinary member of the public would be also allowed to speak. In such circumstances, the Councillor concerned will have the same opportunity to address the meeting and on the same terms. However, a Councillor exercising their ability to speak in these circumstances must leave the meeting immediately after they have spoken.

AGENDA

	Pages
1. APOLOGIES FOR ABSENCE To receive apologies for absence.	
2. NAMED SUBSTITUTES (IF ANY) To receive details any details of Members nominated to attend the meeting in place of a Member of the Committee.	
3. DECLARATIONS OF INTEREST To receive any declarations of interest by Members in respect of items on the Agenda.	
4. MINUTES To approve and sign the Minutes of the meeting held on 12 March 2010.	5 - 8
5. AUDIT FEE LETTER 2010/11 AND AUDIT OPINION PLAN To inform the Audit and Governance Committee of the work to be undertaken for 2010/11 financial year by the Audit Commission. The report also provides a total indicative fee.	9 - 30
6. ANNUAL GOVERNANCE STATEMENT 2009/10 To seek the Audit and Governance Committee's approval of the draft Annual Governance Statement.	31 - 48
7. AUDIT PLAN 2010/11 To present the 2010/11 Audit Plan to the Audit and Governance Committee.	49 - 58
8. AUDIT SERVICES ASSURANCE REPORT 2009/10 To update Members on the status of various items of work and bring to Members' attention any key internal control issues.	59 - 86
9. STATEMENT OF ACCOUNTS 2009/10 To report to the Audit and Governance Committee on the 2009/10 Statement of Accounts.	87 - 166
10. RISK MANAGEMENT REVIEW To present the Audit and Governance Committee with an update on the process the Council follows for risk management and the way the risk register is used and updated as a positive aid to management.	167 - 174
11. CREDITOR PAYMENT AUTHORISATION To report on progress to ensure the Council requirements for Creditor Payment Authorisations are being carried out in accordance with the Council's Constitution.	175 - 178

12. WORK PROGRAMME 2010/1

To consider the work programme of Audit and Governance Committee.

179 - 184

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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.
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HEREFORDSHIRE COUNCIL

BROCKINGTON, 35 HAFOD ROAD, HEREFORD.

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HEREFORDSHIRE COUNCIL

MINUTES of the meeting of Audit and Governance Committee held at The Council Chamber, Brockington, 35 Hafod Road, Hereford, HR1 1SH on Friday 12 March 2010 at 10.00 am

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

Councillors: MJ Fishley, JHR Goodwin, KS Guthrie and PJ McCaull

In attendance: Councillor WLS Bowen

43. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor R Mills and AM Toon.

44. NAMED SUBSTITUTES (IF ANY)

Councillor KS Guthrie substituted for Councillor R Mills.

45. DECLARATIONS OF INTEREST

There were no declarations of interest.

46. MINUTES

RESOLVED: That the Minutes of the meeting held on 29 January 2010 were approved as a correct record and signed by the Chairman.

47. AUDIT STRATEGY AND AUDIT CHARTER 2010

The Chief Internal Auditor presented the 2010/11 Audit Strategy and Audit Charter for consideration and approval by the Audit and Governance Committee. He drew Members' attention to the headings set out in the Internal Control Matrix at (a) to (k) in paragraph 17 of Appendix 1 and emphasised that the Audit Commission would focus on fundamental systems, hence, more weight was given to them. He informed Members that at the next Committee meeting the Internal Audit Plan would show the headings set out in the Matrix format. He further stated that due to timing the Joint Management Team had not yet been consulted on the Strategy, therefore its comments would need to be added following that consultation.

With regard to an issue raised relating to high risk financial systems, paragraph 9 refers in Appendix 1, the Chief Internal Auditor informed Members that there were approximately ten key financial systems deemed fundamental as their failure could have an adverse impact on the Council.

RESOLVED: That the Audit and Governance Committee approve, subject to any comments from the Joint Management Team and to the Director of Resources informing Members by email of those comments, the 2010/11 Audit Strategy and Audit Charter.

48. UPDATE ON PROCUREMENT PROCEDURES WITHIN ASSET MANAGEMENT AND PROPERTY SERVICES

The Head of Asset Management and Property Services presented a report on the procurement procedures within Asset Management and Property Services (AMPS). In drawing Members attention to paragraph 2 in the Key Points summary, he clarified that one audit report only had been given a marginal assessment. He emphasised that steps had been taken to deal with the issues in the audit report and that these steps were itemised in paragraph 10 of the report.

With reference to various issues raised with the Head of Asset Management and Property Services, the Committee noted the following points:

- Members would be informed of the meeting date to be arranged between the Assistant Chief Executive, Legal and Democratic and the Property Services Management Team regarding governance arrangements.
- the contract rules and procedures had been translated fully within AMPS.
- since his involvement with AMPS there had been no instances where schools had acted unilaterally in respect of contract letting.

RESOLVED: That the Committee notes the report and progress made and expresses its satisfaction with the action taken.

49. INTERIM AUDIT SERVICES ASSURANCE REPORT 2009/10 NO.3

The Chief Internal Auditor presented a report which updated Members on the work status and which brought to Members' attention to any key internal control issues. He made emphasis and also informed Members of the following:

- 22 GEM audits remained outstanding.
- £836,000 would be coming into the Partnership as a result of the final LPSA 2 claim being signed off.
- work regarding issues at Llangrove School had been signed off and a progress report would be submitted following the follow up visit.
- he would inform Members by email of the data quality issues which had resulted in an unsatisfactory audit opinion assessment being given to the National 135 Carers Receiving Needs area.
- in respect of the Minster College audit, the final conclusion would be reported in the Annual Assurance Report.
- Governance and Anti-Fraud programme of work would be included in the 2010/11 Audit Plan.

The Vice-Chairman referred to item 90 in Appendix 3 and suggested that the extent to which procurement rules and procedures were being adhered to across all of the Council's services should be investigated.

In response to an issue raised by a Member regarding the recharging of costs to parish Councils in relation to elections, the Director of Resources stated that he would write to the Member in relation to the matter.

RESOLVED That

- (i) **the Chief Internal Auditor be invited to undertake a broad but shallow investigation into the extent to which procurement rules and procedures are being adhered to across all services but with particular attention to where procurement authority has been delegated outside the Resources directorate;**
- (ii) **Item Nos. 95,104,109,110 and 112 in Appendix 3 be closed.**

50. PROCESSING OF TRAVEL AND SUBSISTENCE CLAIMS

The Chief Internal Auditor presented a report which informed the Committee of actions in place to ensure that travel and subsistence claims were processed correctly.

The Committee noted that

- basic mistakes were the reasons for claims not getting through the system. The number of claims being sent back had been reduced significantly.
- the Children and Young Peoples Directorate had the largest number of claims per month but since the audit, the number which did not meet the criteria had reduced to nil.
- Members' claims were reviewed as part of the audit programme. Two audits relating to Members Allowances/Register of Interests and Gifts and Members Allowances had both received a Satisfactory opinion.
- any issues such as persistent offenders would be reported to the Committee.

RESOLVED: That the report be noted.

51. ANTI- FRAUD AND ANTI- CORRUPTION POLICY 2010

The Chief Internal Auditor presented a report which updated the Anti-fraud and Anti-corruption Policy for consideration and approval. He emphasised that it was a requirement of the Audit and Governance Code which the Council had agreed, to approve the Anti-Fraud and Anti Corruption policy which was set out in Appendix.

The Committee noted that

- officers had been consulted and their comments included in the policy, paragraph 9 in the report refers.
- staff and the public would be able to access the policy on the Internet.
- Anti-fraud and Anti-corruption work would be part of the 2010/11 Audit Plan which would be presented at the next Committee meeting.

- effective steps being taken at the recruitment stage would be through references and Criminal Records Bureau checks.

RESOLVED: That the updated Anti-Fraud and Anti-Corruption Policy be approved subject to any comment made by Joint Management Team.

52. CREDITOR PAYMENT AUTHORISATION

The Head of Benefit and Exchequer Services presented a report on progress in ensuring that the Council requirements for Creditor Payment Authorisations were being carried out in accordance with the Council's Constitution. He emphasised that the number of items being returned to the originating departments had reduced as a consequence of ensuring that authorised signatories had been made aware of the action required to ensure that vouchers are correctly and completely authorised. Training was being carried out and guidance was available on the Intranet.

The Committee noted that

- vouchers are returned which do not adhere to the strict criteria. 1300 vouchers had been returned in the year to date. In many cases new staff were an issue but when they were made aware of the error it did not occur again.
- authorised signatories who persistently did not adhere to the criteria would have their authority to sign vouchers withdrawn.
- staff training at all levels in respect of the creditor payment system was currently under review. The Audit Commission had been very complimentary of the training programme.

The Chief Internal Auditor informed Members that the breakdown of returned payment vouchers as shown in the Appendix was the information which gave the area concerned a marginal opinion. The latest audit had provided a satisfactory opinion.

RESOLVED: That the report be noted.

The meeting ended at 11.05 am

CHAIRMAN

MEETING:	AUDIT AND GOVERNANCE COMMITTEE
DATE:	29 JUNE 2010
TITLE OF REPORT:	ANNUAL AUDIT FEE LETTER AND AUDIT OPINION PLAN
OFFICER:	DIRECTOR OF RESOURCES

CLASSIFICATION: Open

Wards Affected

County-wide

Purpose

To inform the Audit and Governance Committee of the work to be undertaken for 2010/11 financial year by the Audit Commission. The report also provides a total indicative fee.

Key Decision

This is not a Key Decision.

Recommendation

- THAT** (a) the Audit and Governance Committee notes the content of the Annual Audit Fee Letter; and
- (b) the Audit and Governance Committee notes the content of the Audit Opinion Plan.

Reasons

1. The Audit Commission is the Council's appointed external auditor. It is important the Audit and Governance Committee is informed of the total planned fee and the planned outputs of the work programme.

Considerations

2. The Annual Audit Fee letter (attached) contains details of the amount to be paid to the Audit Commission (£305,191) and an additional amount of £141,826 for the Audit Opinion Plan (attached) on the council's financial statement. The total fee of £447,017 is reflected in the Council's budget so that the proposed is fully funded.
3. An important underlying assumption used in setting the fee is that the general level of risk in relation to the audit of financial statements is not significantly different from that identified in 2009/10.

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

4. The Audit Commission will issue a separate plan for the audit of the financial statements in Spring 2011. This will detail the risks identified, planned audit procedures and any changes in fee. The Audit Opinion Plan for 2009/10 and associated fees are attached to this report
5. The letter's Appendix 1 contains planned outputs and indicative dates that will help plan committee agendas in 2009/10.

Risk Management

6. The fees indicated in the letter may be affected by a variation in risk levels and these will be monitored as the year progresses.

Background Papers

None

19th March 2010

Mr Chris Bull
Chief Executive
Herefordshire Council
Brockington
Hafod Road
Hereford

Dear Chris

Annual audit fee 2010/11

I am writing to confirm the audit work that we propose to undertake for the 2010/11 financial year at Herefordshire Council. The fee is based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission for 2010/11.

As I have not yet completed my audit for 2009/10, audit planning for 2010/11, including the risk assessment will continue as the year progresses and I will review and update the fees as necessary.

The Audit Commission has published its work programme and scales of fees 2010/11. The fee proposed for 2010/11 (excluding vat) is £305,191 and will be billed in monthly instalments.

This fee has increased by 6% from £287,916 last year. This is a result of changes in international auditing standards which increase the audit procedures I need to carry out in local government audits in 2010/11. However in recognition of the financial pressures facing public bodies now, the Commission has decided to refund to the Council in April 6% of the scale fee which is £14,861 of this proposed fee increase. The Commission's reason for refunding part of the actual fee paid by the Council is that it wants the fee scales to still reflect the real cost involved.

In setting the fee at this level, I have assumed the other general risks level for the audit of the financial statements are not significantly different from that identified in 2009/10.

I will issue a separate plan for the audit of the financial statements in Spring 2011. This will detail the risks identified, planned audit procedures and any changes in fee. If I need to make any significant amendments to the audit fee during the audit I will discuss this with you. I will then prepare a report, outlining the reasons the fee needs to change, for discussion with the Audit and Governance Committee.

My Use of Resources assessments will be based on the evidence from three themes:

- Managing Finances
- Governing the Business; and

- Managing Resources

The key lines of enquiry specified for the assessment are set out in the Audit Commission's work programme and scales of fees 2010/11. My work on use of resources informs my 2010/11 value for money conclusion. However I have identified some significant risks in relation to my financial audit and value for money conclusion. For each risk, I consider the arrangements put in place by the Council to mitigate the risk, and plan my work accordingly. My early risk assessment for the audit work is shown in the table below:

Risk	Planned work	Timing
Edgar Street Grid	We will review the Council's arrangements for managing the Edgar Street Grid Project and in particular the governance arrangements.	July 2010
Support Services Review: in partnership with the PCT and Hospital Trust, the PCT is proposing to transfer its support services to an alternative provider.	In conjunction with the PCT auditor, we will consider the progress the partnership are making with this project	Autumn 2010
Planning Services	We will review the progress the Council has made to address the recommendations in our report on Planning Services last year.	Autumn 2010

I will issue a number of reports relating to my work over the course of the audit. These are listed at Appendix 1.

The above fee excludes work the Commission may agree to undertake using its advice and assistance powers. Each piece of work will be separately negotiated and a detailed project specification agreed with you. We are not currently planning to undertake such work this year.

The key members of the audit team for the 2010/11 are:

Audit Manager – Terry Tobin 0844 798 7562

Team Leader – Martin Bell 0844 798 7566

I am 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 me in the first instance.

Alternatively you may wish to contact the West Midlands Head of Operations, W.Midlands (wmidlands@audit-commission.gov.uk).

Yours sincerely

Elizabeth Cave
District Auditor
cc Director of Resources.

Appendix 1: Planned outputs

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

Table 2

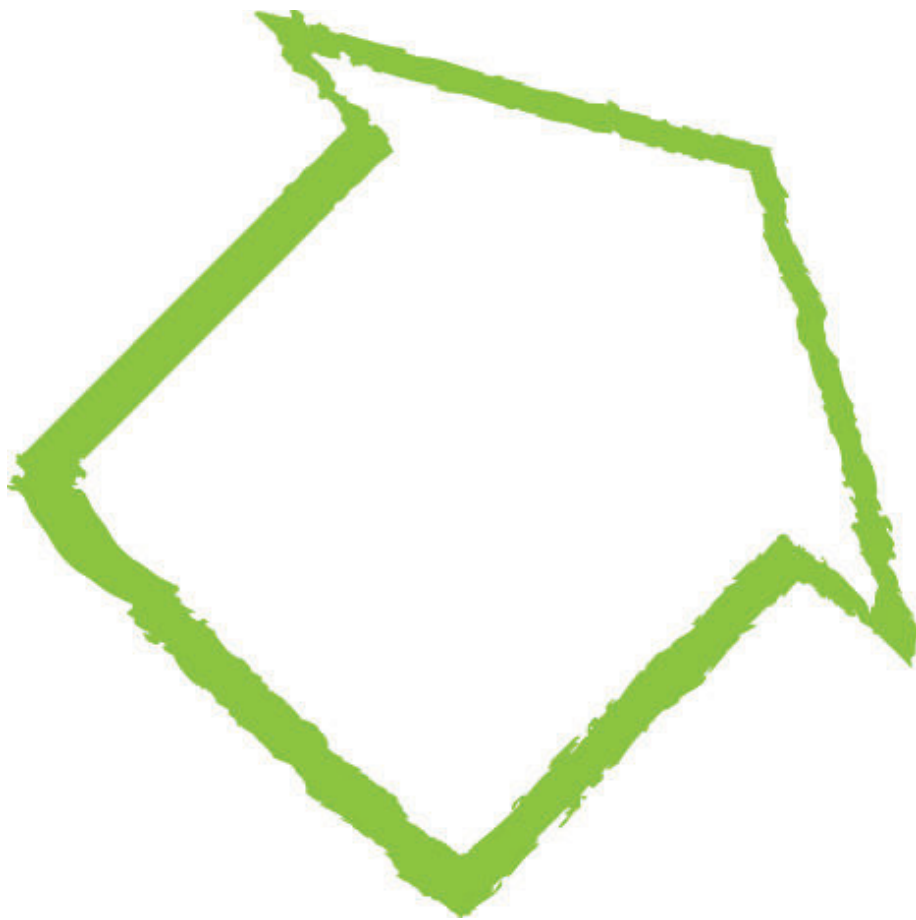
Planned output	Indicative dates
Audit Plan	April 2010
Edgar Street Grid	July 2010
Planning Review Follow Up	December 2010
Support Services Review	January 2011
Audit Opinion Plan	March 2011
Annual Governance Report	September 2011
Auditor's report giving the opinion on the financial statements and value for money conclusion	September 2011
Annual Audit Letter	December 2011

Audit Opinion Plan

Herefordshire Council

Audit 2009/10

May 2010



Contents

Introduction	3
Responsibilities	4
Fee for the audit of financial statements	5
Auditor's report on the financial statements	6
Identification of specific risks	7
Testing strategy	8
Key milestones and deadlines	9
The audit team	10
Appendix 1 – Basis for fee	12
Appendix 2 – Independence and objectivity	13
Appendix 3 – Working together	15

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 non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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

Introduction

- 1 This plan sets out the audit work that we propose to undertake for the audit of financial statements 2009/10. The plan is based on the Audit Commission's risk-based approach to audit planning. It reflects:
 - audit work specified by the Audit Commission for 2009/10;
 - current national risks relevant to your local circumstances; and
 - your local risks.

Responsibilities

- 2 The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to every audited body.
- 3 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.
- 4 We comply with the statutory requirements governing our audit work, in particular:
 - the Audit Commission Act 1998; and
 - the Code of Audit Practice.

Fee for the audit of financial statements

- 5 The original fee for the audit of the Council's financial statements is £141,826, as indicated in my letter of 24 April 2009.
- 6 In setting the fee, we have assumed that:
 - the level of risk in relation to the audit of accounts is consistent with that for 2008/09;
 - good quality working papers will be supplied to support the restatement of 2008/09 balances to comply with the CIPFA Statement of Recommended Practice 2009 (SoRP 2009); and
 - Internal Audit undertakes appropriate work on the material systems identified in our joint working agreement and this is available for our review by 30 April 2010.
- 7 The published CIPFA SoRP 2009 changed the basis of accounting for PFI and similar schemes and as a result will require the restatement of the balance sheet. The additional fee to audit this significant change is estimated to be £7,500.
- 8 Where any of the other assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee. Where this is the case, we will discuss this in the first instance with the Director of Resources and we will issue supplements to the plan to record any revisions to the risk and the impact on the fee.
- 9 Further information on the basis for the fee is set out in Appendix 1.

Specific actions Herefordshire Council could take

- 10 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take. As in previous years, we will work with staff to identify any specific actions that the Council could take and to provide ongoing audit support.

Auditor's report on the financial statements

- 11 I will carry out the audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 12 I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view of the financial position of the Council as at 31 March 2010.

Identifying opinion audit risks

- 13 As part of our audit risk identification process, we need to fully understand the audited body to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. We do this by:
 - identifying the business risks facing the Council, including assessing your own risk management arrangements;
 - considering the financial performance of the Council;
 - assessing internal control - including reviewing the control environment, the IT control environment and Internal Audit; and
 - assessing the risk of material misstatement arising from the activities and controls within the Council's information systems.

Identification of specific risks

14 We have considered the additional risks that are appropriate to the current opinion audit and have set these out below.

Table 1 **Specific risks**
Specific opinion risks identified

Risk area	Audit response
The 2009 SoRP changed the basis of accounting for PFI and similar schemes requiring the re-statement of opening balances and 2008/09 comparative information.	We will review the Council's approach and proposed re-stated balances prior to the preparation of the 2009/10 financial statements.
The 2009 SoRP changed the basis of accounting for collection fund transactions and balances requiring the re-statement of opening balances and 2008/09 comparative information.	We will review the proposed accounting treatment and re-statements prior to the preparation of the 2009/10 financial statements.
As in 2008/09, we are not able to rely on a controls based approach to the audit of the creditor payments (CEDAR) and payments to independent care homes (ISIS).	We will design substantive tests that address the risks of mis-statement identified and liaise with Internal Audit over the most efficient way of obtaining assurance.
We are uncertain about the Council's accounting treatment of investment assets and rental income in the light of guidance provided in the SoRP Guidance Notes 2009.	We will review the accounting arrangements for investment assets.
Early substantive testing of the physical existence of plant and equipment on the Council's asset register identified errors of both inclusion and omission in the register and the Council has agreed to promptly review it before closing down the accounts.	We will substantively test the existence of the revised asset register in relation to plant and equipment.

Testing strategy

- 15 On the basis of risks identified above we will produce a testing strategy which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year end.
- 16 Our testing can be carried out both before and after the draft financial statements have been produced (pre- and post-statement testing).
- 17 Wherever possible, we will complete some substantive testing earlier in the year before the financial statements are available for audit. We have identified the following areas where substantive testing could be carried out early.
- Draft re-stated balances for PFI and similar schemes and collection fund balances.
 - Draft pooled budget statements (to provide assurance for the PCT auditor by the end of April).
 - Bank reconciliation.
 - The reliability of pension fund data and estimates provided to and by the actuary for the FRS17 valuation.
 - Investments – direct confirmation of ownership.
 - Year-end feeder system reconciliations.
 - Substantive testing of creditor payments and ISIS payments (or review of internal audit testing).

Where other early testing is identified as being possible, this will be discussed with officers.

- 18 Wherever possible, we seek to rely on the work of Internal Audit to help meet our responsibilities. For 2009/10, we expect to be able to use the results of their testing of the following key financial systems:
- CEDAR general ledger;
 - CEDAR creditor payments;
 - ISIS payments to independent care providers;
 - SPOCC supporting people payments; and
 - SELIMA payroll.

Key milestones and deadlines

- 19 The Council is required to prepare the financial statements by 30 June 2010. We are required to complete our audit and issue our opinion by 30 September 2010. The key stages in the process of producing and auditing the financial statements are shown in Table 2.
- 20 We will agree with you a schedule of working papers required to support the entries in the financial statements.
- 21 We will meet key officers regularly throughout the audit at a different frequency depending upon the need and the number of issues arising.

Table 2 **Proposed timetable**

Task	Deadline
Control and early substantive testing	January to April 2010
Receipt of accounts	10 June 2010
Forwarding audit working papers to the auditor	13 July 2010
Start of detailed testing	13 July 2010
Present report to those charged with governance at the Audit committee	By 30 September 2010
Issue opinion	By 30 September 2010

The audit team

22 The key members of the audit team for the 2009/10 audit are shown in the table below.

Table 3 **Audit team**

Name	Contact details	Responsibilities
Liz Cave District Auditor	l-cave@audit-commission.gov.uk 0844 798 7552	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion.
Terry Tobin Audit Manager	t-tobin@audit-commission.gov.uk 0844 798 7562	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Resources

Independence and objectivity

- 23 I am 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.
- 24 I comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised in Appendix 2.

Meetings

- 25 The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers. Our proposals are set out in Appendix 3.

The audit team

Quality of service

- 26 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 me in the first instance. Alternatively, you may wish to contact our Head of Operations, Phil Jones.
- 27 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

- 28 Reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.
-

Table 4 **Planned outputs**

Planned output	Indicative date
Opinion audit plan	15 March 2010
Annual governance report	30 September 2010
Auditor's report giving an opinion on the financial statements	30 September 2010
Final accounts memorandum	30 October 2010

Appendix 1 – Basis for fee

- 1 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 work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees.
- 2 The risk assessment process starts with the identification of the significant financial and operational risks applying to Herefordshire 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 officers; and
 - liaison with Internal Audit.

Assumptions

- 3 In setting the fee, I have assumed that:
 - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2008/09;
 - you will inform us of significant developments impacting on the audit;
 - Internal Audit meets the appropriate professional standards;
 - Internal Audit undertakes appropriate work on the five key financial systems referred to in our joint working agreement;
 - good quality working papers and records will be provided to support the financial statements by 13 July 2010;
 - 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.
- 4 Where these assumptions are not met, I will be required to undertake additional work which is likely to result in an increased audit fee.

Appendix 2 – 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 the 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 Governance Committee. The auditor reserves the right, however, to communicate directly with the Council 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 and Inspection 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.
- 7 The District Auditor and members of the audit team must abide by the Commission’s policy on gifts, hospitality and entertainment.

Appendix 3 – Working together

Meetings

- 1 The audit team will maintain knowledge of your issues to inform our risk-based audit through regular liaison with key officers. We will present our reports to the Audit and Governance Committee.

Sustainability

- 2 The Audit Commission is committed to promoting sustainability in our working practices and we will actively consider opportunities to reduce our impact on the environment. This will include:
 - reducing paper flow by encouraging you to submit documentation and working papers electronically;
 - use of video and telephone conferencing for meetings as appropriate; and
 - reducing travel.

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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www.audit-commission.gov.uk

MEETING:	AUDIT AND GOVERNANCE COMMITTEE
DATE:	29 JUNE 2010
TITLE OF REPORT:	ANNUAL GOVERNANCE STATEMENT 2009-10
OFFICER:	CHIEF INTERNAL AUDITOR

CLASSIFICATION: Open

Wards Affected

County-wide

Purpose

To seek the Audit and Governance Committee's approval of the draft Annual Governance Statement.

Key Decision

This is not a Key Decision.

Recommendation

THAT

- (a) **The Audit and Governance Committee reviews the draft Annual Governance Statement 2009-10 attached as Appendix 1 to this report.**
- (b) **The Audit and Governance Committee approves the Annual Governance Statement 2009-10 for inclusion in the Statement of Accounts for 2009-10.**

Key Points Summary

The areas where action is required can be summarised as follows.

- The review of the Code of Governance
- The need to continue to embed risk management.
- Review and update the Data Quality Policy
- The formal assessment of its system of internal audit.
- The Monitoring Officers Report is required as quickly as possible following receipt of the required information from the Local Government Ombudsman.
- Ensure that the improvements to the ISIS (which is used to pay independent providers for

Further information on the subject of this report is available from
Tony Ford – Chief Internal Auditor on (01432) 260425

social care) are carried out in a timely manner.

- Corporately progress on Good Environmental Management (GEM) audits needs to improve

Alternative Options

1. There are no alternative options as the publication of the statement is a statutory requirement.

Reasons for Recommendations

2. This is a statutory requirement

Introduction and Background

3. The Council appoints the Audit and Governance Committee to ensure the effective and fully compliant governance of the Council and in particular to ensure that all aspects of the financial affairs of the Council are properly and effectively conducted.

Key Considerations

4. The Annual Governance Statement is prepared in advance of the annual accounts it provides a commentary from management on compliance with the Council's Code of Governance and identifies areas for further improvement.
5. The Council has a responsibility for conducting at least annually a review of the effectiveness of the governance framework including the system of internal control. Sign off by Joint Management Team is an integral part of the review.
6. Actions on the significant internal control issues identified in the Annual Governance Statement for 2008/09 were reported to the Audit and Governance Committee on a regular basis as part of the regular Audit Interim Assurance Reports.
7. The Audit and Governance Code authorises the Audit and Governance Committee to review and approve the Council's Annual Governance Statement. The Code also states that '*The Annual Governance Statement is prepared in advance of the annual statements of account: it provides a commentary from management on the compliance with the Council's code of governance and identifies areas for further improvement.*'

Community Impact

8. None Identified

Financial Implications

9. None.

Legal Implications

10. The Accounts and Audit Regulations include requirements for all local authorities to produce an Annual Governance Statement.

Risk Management

11. There is the risk that the statement is not presented to the Audit and Governance Committee on time. To ensure compliance the production of the statement forms part of the Chief Internal Auditors work plan, and the closing of accounts time table produced by Financial Services

Consultees

12. Consultation has taken place with Joint Management Team and the Assistant Chief Executive Legal and Democratic and their comments have been taken into account.

Appendices

Appendix 1 Draft Annual Governance Statement 2009-10

Background Papers

- The Audit and Governance Code.

Draft Annual Governance Statement 2009-10**1. SCOPE OF RESPONSIBILITY**

- 1.1 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, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In discharging this duty, the Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions. These include arrangements for the management of risk.
- 1.3 The Council has adopted a code of corporate governance that is consistent with the principles of the Chartered Institute of Public Finance & Accountancy (CIPFA) / Society of Local Authority Chief Executives (SOLACE) framework for delivering good governance in local government. A copy of the code can be obtained from the Assistant Chief Executive (Legal & Democratic Services).
- 1.4 The Annual Governance Statement for 2008/09 explains how the Council has complied with its code of corporate governance. It also explains how the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement have been met.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

- 2.1 The governance framework comprises the systems, processes, culture and values by which the Council is managed and controlled. The framework also sets out how the Council accounts to, engages with and leads the community.
- 2.2 The governance framework enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost effective services.
- 2.3 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives as an individual's failure to comply with policies and procedures, even when provided with comprehensive training on them can never, be entirely eliminated.
- 2.4 The system of internal control is based on an ongoing process designed to:
 - a. Identify the risks to the achievement of the Council's policies, aims and objectives.

Draft Annual Governance Statement 2009-10

- b. Evaluate the likelihood and impact of the risks should they be realised.
- c. Identify and implement measures to reduce the likelihood of the risks being realised and to negate or at least mitigate their potential impact.

3. THE GOVERNANCE FRAMEWORK

- 3.1 The Council's corporate governance framework was approved by the Audit and Corporate Governance Committee on 21st November 2008. It seeks to ensure that the principles of good governance are embedded into all aspects of the Council's work. The five principles agreed by the Audit and Corporate Governance Committee have been linked to the six principles of good governance outlined in the SOLACE/CIPFA publication 'Delivering Good Governance in Local Government.'
- 3.2 For ease of reference, the following table matches the Council's set of principles with those contained in the SOLACE/CIPFA guidance.

SOLACE / CIPFA* Guidance - Principle 1	Focusing on the purpose of the authority, on outcomes for the community and creating and implementing a vision for the local area.
Council - Principle 1	Provide the best possible service to the people of Herefordshire.
SOLACE / CIPFA* Guidance - Principle 2	Members and officers working together to achieve a common purpose with clearly defined functions and roles.
Council - Principle 2	Define the roles of members and officers, ensure that they work together constructively, and improve their effectiveness.
SOLACE / CIPFA* Guidance - Principle 3	Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
Council - Principle 3	Require high standards of conduct.
SOLACE / CIPFA* Guidance - Principle 4	Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.
Council - Principle 4	Take sound decisions on the basis of good information.
SOLACE / CIPFA* Guidance -	Developing the capacity and the capability of

Draft Annual Governance Statement 2009-10

Principle 5	members and officers to be effective.
Council - Principle 2	Define the roles of members and officers, ensure that they work together constructively, and improve their effectiveness.
SOLACE / CIPFA* Guidance - Principle 6	Engaging with local people and other stakeholders to ensure robust public accountability.
Council - Principle 5	Be transparent and open: responsive to Herefordshire's needs and accountable to its people.

- 3.3 To comply with the Code of Governance (approved by Council on 31st October 2008) the following has been carried out.

Principle 1 Provide the best possible service to the people of Herefordshire

- 3.4 There is an agreed Annual Operating Plan for 2009/10.
- 3.5 The Council has a joint Risk management and Assurance Policy and Joint Risk Management Assurance Guidance which was approved by Cabinet on 26th November 2009
- 3.6 The Council has an Environmental Management system (British Standard 14001).
- 3.7 The Council continues to develop the deep partnership with Herefordshire Primary Care Trust, with work being done on the best approach to shared service delivery.

Principle 2- Define the roles of members and officers, ensure that they work together constructively, and improve their effectiveness

- 3.8 The Constitution clarifies roles and responsibilities and ensures accountability for setting the policy framework; including the corporate objectives and long term outcomes in the Corporate Plan, for fulfilling executive functions; including a much clearer scheme of delegation to officers, improved planning arrangements and greater clarity of roles for all councillors.
- 3.9 The role(s) of scrutiny are now clearly set out in the Constitution; the recommendations of the recent scrutiny review have been implemented and scrutiny work programmes will now include policy development, regular performance management (using the ICPR) and scrutiny reviews.
- 3.10 The new scheme of delegation will enable elected members to focus on strategic priorities.

Draft Annual Governance Statement 2009-10

3.11 The Chief Executive is the Head of Paid Service, the Director of Resources is designated the Section 151 Officer and the Assistant Chief Executive - Legal and Democratic is designated the Council's Monitoring Officer.

3.12 There is a formal staff performance review requirement for all officers.

Principle 3 – Require High Standards of Conduct

3.13 Member officer development on a range of governance topics has been undertaken in the past 12 months. This has included training for Members and Officers on the new Constitution, on the single Planning Committee, to which members of the Standards Committee were invited to attend. A bespoke programme of development was carried out to support of the overview and scrutiny function, and work planning activity in particular.

3.14 Work has continued with Parish Councils to promote good local governance, including undertaking some targeted work with some Councils and more general training and development work with HALC. The Herefordshire Parish Compact was highlighted in a national study on Parish governance.

3.15 There are Codes of Conduct for Members and Officers

3.16 The Standards Committee has continued to actively promote high standards of ethical behaviour through its casework, training and development activities. The Standards Committee were consulted on the new Constitution to ensure that it reflected high ethical standards.

3.17 Additional Independent Members have been appointed to serve on the Standards Committee.

3.18 The Council continues to develop its shared values, which act as a guide for decision making and a basis for developing positive and trusting relationships within the Council.

3.19 There are procedures and policies in place to ensure that Members and Officers are not influenced by prejudice, bias or conflicts of interests when making decisions and when dealing with stakeholders.

3.20 A register of member's interest is maintained and updated on a regular basis.

3.21 A updated Antifraud and Anticorruption Policy is in place

3.22 A Whistle blowing Policy is in place, and forms part of the Council's Constitution.

3.23 There is a formal Monitoring Officer Statement in relation to the use of the Monitoring Officers powers.

Draft Annual Governance Statement 2009-10

- 3.24 Written assurances are received from key managers. These assurances highlight areas of concern and confirm that the service area has effective controls in operation.

Principle 4 - Take sound decisions on the basis of good information

- 3.25 There is an overview and effective scrutiny function that encourages constructive challenge.
- 3.26 The Council has an Audit and Governance Committee, which is independent of the executive and scrutiny functions.
- 3.27 The new report writing framework and template has been developed to ensure that all reports have contributions from key support officers e.g. finance, legal, risk management, consultation. Report writing guidance makes it clear what other matters should be considered when preparing reports e.g. equalities and human rights, alternative options
- 3.28 Decisions made by Cabinet and Committees are based upon written reports as presented.
- 3.29 There is a Data Quality Policy previously agreed by Cabinet

Principle 5 - Be transparent and open: responsive to Herefordshire's needs and accountable to its people

- 3.30 All meetings are held in public unless there are legal reasons for confidentiality.
- 3.31 The format of the Cabinet meeting has been changed to ensure greater transparency of decision making and to emphasise the separate roles of cabinet members, scrutiny members, political group leaders and to ensure that those in attendance express the views of the members of the Committee or group that they represent. Cabinet debates should be more focused and decisions are better informed as a result
- 3.32 The public are allowed to ask a question at Council as long as a copy of the question is deposited with the Assistant Chief Executive – Legal and Democratic.
- 3.33 There is a Herefordshire Customer Insight Unit, established as a single point of contact for Herefordshire Council and the Primary Care Trust. The unit is made up of officers from across the Council and Primary Care Trust, who work together to administer and monitor feedback.
- 3.34 Since being established in January 2010 a total of 177 compliments and 352 complaints have been received, it should be noted that no complaints were escalated to the Local Government Ombudsman or to the Parliamentary and Health Service Ombudsman.
- 3.35 Arrangements are in place for the Council to engage with the public, and these include the publication of the Herefordshire Matters Magazine and public meetings as part of Partners and Communities Together (PACTs).

Draft Annual Governance Statement 2009-10

4. REVIEW OF EFFECTIVENESS

- 4.1 Herefordshire Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the managers within the Council who have responsibility for the development and maintenance of the governance environment, the Chief Internal Auditor reports on the audits conducted throughout the year, and also by comments made by the external auditor and other review agencies and inspectorates.
- 4.2 The process of review is continuous and results in the Chief Internal Auditor's assurance reports presented at each meeting of the Audit & Corporate Governance Committee. These reports are used to inform the Annual Governance Statement. The Annual Governance Statement is signed by the Leader of the Council, the Chief Executive, Director of Resources and Assistant Chief Executive - Legal & Democratic.
- 4.3 The main independent sources of assurance on the operation of the corporate governance framework are the Council's Audit Services team, its external auditors and other external review bodies and the Audit and Governance Committee.
- 4.4 The review of effectiveness for the current financial year identified that the following work had been undertaken in 2009/10 in relation to the key aspects of the Council's governance framework outlined in paragraph 4.5 to 4.70.

a. Constitution

- 4.5 The first phase of the review of Constitution led by The Interim Assistant Chief Executive - Legal and Democratic has been completed. With Council approving the revised Constitution on 13th November 2009.
- 4.6 The involvement of the Constitution Review Working Group (CRWG) Members (and other Members) demonstrates that the development of the new constitution has been an opportunity for issues to be discussed, options considered and proposals recommended to Council, thus demonstrating the active participation of Members in governance and constitutional matters
- 4.7 The Council's new Constitution sets out the way the Council functions, the responsibilities of its constituent parts and the rules and codes it applies in a simple and easily understood format. This work has been progressed by the Interim Assistant Chief Executive Legal and Democratic (Monitoring Officer) with the support of the Constitutional Review Working Group (CRWG).
- 4.8 The Constitutional Review Working Group has commenced work on Phase 2 of the constitutional and governance review.
- 4.9 The Council approved a new Budget & Policy Framework, Financial Procedure Rules and Contract Procedure Rules in July 2008, along with

Draft Annual Governance Statement 2009-10

'mini guides' for members and officers on the asset management, financial management and procurement issues covered in these documents. These are under review as part of phase two of the constitutional review.

- 4.10 The financial management training programme for officers continued during the year. During the year members attended a wide range of training subjects/events including new Constitution workshops.
- 4.11 Part 5 of the Council's Constitution 'The Codes' sets out various codes included the updated Members Code of Conduct, Code on Gifts and Hospitality and the updated member/Officer Relations Protocol, came into effect from 1st January 2010.
- 4.12 One decision made by Cabinet was called in during 2009/10 as follows:
- a. ESG Retail Quarter Development Agreement.
- 4.13 Cabinet responded formally to the comments made by the Community Services Scrutiny Committee.
- 4.14 On 28th May 2010 the Annual Report of the Overview and Scrutiny Committee was presented to Council. The report summarised the work undertaken by the six Scrutiny Committees in 2009/10. It is intended that the summary report will form the basis of a fuller Herefordshire Council Scrutiny Committees Annual Report 2009/10 which will be published and made available on the Council's website.

b. Corporate objectives & priorities

- 4.15 On 17th March 2009 Joint Management team approved The Council's Annual Operating Statement 2009-10, which set out what the Council had already done and what it intended to do over the years 2009-10 and 2010-11. The Operating Statement was based on the Council's Corporate Plan for 2008-11 and showed progress against key commitments and targets for 2008-09, it also refreshed the targets for the remaining years of the Corporate Plan and the key actions needed to achieve them. The Statement provides the starting point for performance monitoring reporting and management across the Council during 2009-10.

c. Medium Term Financial Strategy

- 4.16 The Medium Term Financial Strategy was developed in line with the Council's approved financial procedures. There was an integrated approach to corporate, service and financial planning processes.
- 4.17 The updated Medium Term Financial Management Strategy for 2009–12 was presented to Cabinet on 19th February 2009. Cabinet recommended to Council the recommendations for updating.
- 4.18 In their Use of Resources report dated November 2009, the Audit Commission noted that *'there is a good well integrated system for medium term financial planning linked to priorities and we have seen many positive outcomes from the process'*.

Draft Annual Governance Statement 2009-10**d. Code of Governance**

- 4.19 On 21st October 2008 Council reviewed and approved the revised Code of Governance. Both the Audit and Corporate Governance Committee and the Standards Committee took part in the consultation process.
- 4.20 The Audit & Corporate Governance Committee approved the Annual Governance Statement for 2008/09 at its June 2009 meeting. Actions taken on the significant internal control issues identified in the year were reported to the Audit and Governance Committee during the year.
- 4.21 The three Interim Assurance Reports by the Chief Internal Auditor informed the Audit and Corporate Governance Committee of progress on key issues identified in 2008/09
- 4.22 The significant internal control issues identified in the Annual Governance Statement for 2008/09 are being addressed, with the current status outlined in the current Chief Internal Auditors Annual Assurance Report.
- 4.23 The Audit & Corporate Governance Committee considered the Audit Commission's Annual Governance Report at their September 2009 meeting. The Audit Commission made seven high priority recommendations, which have been accepted and actioned by the Director of Resources.
- 4.24 The review and update of the Code of Governance forms part of the second phase of the review of the Constitution.

e. Financial management arrangements

- 4.25 The Audit Commission's Annual Audit and Inspection Letter dated December 2009 highlighted that the Council manages its finances well and that the Council was aware that future cost pressures such as an aging local population and reductions in central government funding, will mean that the medium term financial position will be difficult.
- 4.26 The Council responded to the Audit Commission's Use of Resources Report dated November 2009 A detailed action plan was presented to The Audit and Corporate Governance Committee at its January 2010 meeting in response to the opportunities for improvement that were identified.
- 4.27 The Council delivered services within budget for 2009/10.

f. Performance management arrangements

- 4.28 The Audit Commission's Use of Resources Report dated November 2010 highlights that the way the Council monitor and manages its performance has improved. .

Draft Annual Governance Statement 2009-10

- 4.29 The framework has been refreshed to take account of the Council's deep partnership with the PCT.
- 4.30 The performance Improvement framework encompasses the Council's arrangements for preparing directorate and service plans in support of corporate priorities.
- 4.31 The arrangements for monitoring performance within directorates and reporting progress to members is established and culminated in regular Integrated Corporate Performance Reports to Cabinet in 2009/10 The performance report details performance against key priorities, targets and commitments. Each Integrated Corporate Performance Report is subject to rigorous challenge by the Overview and Scrutiny Committee and the relevant scrutiny committees.
- 4.32 The end of year Integrated Corporate Performance Report was presented to Cabinet on 17th June 2010. In summary the report states that
- a. Direction of Travel: For those indicators where data has been reported that can be compared with the same period last year, only 50% are showing improvement.
 - b. Achievement of Targets: where either end of year or latest data is available 54% of indicators have achieved target.
 - c. The majority of Local Area Agreement indicators are on track.
 - d. Joint Management Team will be adopting a new approach to performance improvement, with an increased focus on how performance improvement is built in to the day to day work of Directorates, aided by the rollout of Performance Plus which will provide senior managers with 'live' performance information.
- 4.33 Each directorate has a designated Performance Improvement Manager who works alongside the directorate management team and senior managers to ensure that performance management is embedded into directorate and service activities.

g. Risk management arrangements

- 4.34 The Cabinet Member Resources has responsibility for Risk Management, with the Deputy Chief Executive responsible for risk management at officer level. In November 2009 Cabinet approved the Joint Risk Management Policy and the Risk Management Assurance Guidance,
- 4.35 The Audit Commission's Annual Letter dated December 2009 highlighted that risk management was adequate and that the council needed to review the effectiveness and impact of risk management in helping to deliver innovative projects.

Draft Annual Governance Statement 2009-10

- 4.36 Follow up action on Audit Services recommendations made in 2008/9 showed that planned progress was a lot slower than planned. The new Deputy Chief Executive is giving risk management a high priority, with Joint Management Team considering a report by an external consultant. Future action will include annual mandatory risk management training for directors, heads of Service and key managers. Further follow work will be carried up by Audit Services.

h. Anti fraud, anti corruption and whistle-blowing policies

- 4.37 As part the Council's review of the Constitution Council approved the revised Confidential Reporting Code (Whistle-blowing) in November 2009, which was distributed to members and officers. Officers are also made aware of these policies through reminders on payslips and other corporate communication channels. This has been supported by training for employees, which also covered the officer code of conduct, the Anti Fraud Policy and the Whistle-blowing Policy.

i. Project management arrangements

- 4.38 The Council has adopted the Prince 2 project management methodology for all major programmes and projects. The key principles of the Prince 2 methodology are applied to the management of less major projects. There is a Corporate Programmes team with project management responsibilities.

j. Community engagement

- 4.39 Cabinet approved the joint Hereford Council and NHS Herefordshire Customer Strategy on 26th November 2009.
- 4.40 Community engagement continues to be given a high priority. As well as a heavy programme of questionnaire based surveys on a wide range of topics two new initiatives were established in 2009-10. "Herefordshire 100" is a mechanism established to consult minority groups, such as migrant agricultural workers or the BAME (Black, Asian and other Minority Ethnic Groups) population, by training "community researchers" who interview people from similar backgrounds to themselves.
- 4.41 The "Reaching the Hearts of Herefordshire" programme has been introduced to support elected members in their role as community leaders, and in engaging local people, community groups and partners in order to achieve outcomes in line with the priorities of ward constituents. The Council makes all its communication activities visible by a "Have your say" link on the home page of the website.
- 4.42 The Council together with its partners run PACT (Partners and Communities Together) meetings in 12 locations across the county. One of the aims of these meetings is to contribute to building strong links with local communities; they also provide an opportunity for members of the public to raise issues of concern and for the Council to explain how services are provided. During 2009/10 there were 36 PACT meetings. Feedback continues to inform corporate objectives and priorities and service improvements.

Draft Annual Governance Statement 2009-10

4.43 In Partnership with the Primary Care Trust the newsletter 'Herefordshire Matters' was published regularly during the year

4.44 In Partnership with the Primary Care Trust the newsletter 'Herefordshire Matters' was published regularly during the year.

k. Data Quality

4.45 The Audit Commission's Use of Resources Report dated November 2009 recognises that the Council has had to do a lot of work to make sure that the data it produces is accurate, they also recognise that it is starting to pay off as the information that it uses to make decisions is getting better although it is not complete yet.

4.46 The annual report on progress against the 2009/10 data quality action plan is scheduled to be considered by Cabinet on 22 July 2010. It will show a marked improvement during the second half of the year. There are now no tasks rated 'red' although a number are still amber. There are three reasons for this; the task depends on other organisations, the task is still underway but not complete or the task is part of a continuing process.

4.47 The Data Quality Policy is due for review, this is in progress.

l. Independent review

4.48 The Audit & Corporate Governance Committee met five times during the year. The Audit Commission's Annual Audit Letter dated December 2009 states that *'the Audit & Corporate Governance Committee provides robust challenge'*.

4.49 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.

4.50 The Audit Services team operates 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 Chief Internal Auditor which is given as satisfactory for 2009/10.

4.51 The Audit & Corporate Governance Committee receives interim and annual reports on internal audit activity and approves the annual audit plan and Audit Strategy.

4.52 The Audit Commission's Use of Resources Report dated November 2009 informed the Council that *'Internal Audit play a key role in the Council's assurance framework, but the Council has not yet formally accessed the effectiveness of its system of internal audit'*.

Draft Annual Governance Statement 2009-10

- 4.53 The formal review of the Council's system of internal audit is currently in progress.
- 4.54 The Monitoring Officer will be commenting on the Annual Ombudsman Report, which is due to be received by the Council some time in June 2010., in addition the Monitoring Officers formal statement regarding the use of Monitoring Officer powers will be published in July 2010.
- 4.55 Following the review of the Council's fundamental systems and other key systems the out come was that all fundamental were either good or satisfactory, however a marginal audit opinion was given to the key system ISIS which is used to pay independent providers for social care services.

m. External Inspections**Annual Audit and Inspection Letter (December 2009)****Value for money**

- 4.56 The Audit Commission in their Annual Audit Letter stated that *'Herefordshire Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.* The Letter also notes the progress made on planning services that should also save money. The setting up of the Integrated Commissioning Directorate between the Council and NHS Herefordshire is seen as a positive method to deliver improvements

Procurement Issues

- 4.57 The Council is making steady progress embedding good procurement practice and monitoring adherence to the procurement framework. The Council has put in place effective arrangements to manage and challenge the change in partnership arrangements with Amey.

Comprehensive Area Assessment

- 4.58 The organisational assessment was 2 out of 4. The Council is viewed as being "on a springboard for future improvement". Improvements to the way it manages itself are evident in many areas but more time is needed to see the full results. Major changes have been made to the way the Council and NHS Herefordshire work together.
- 4.59 Managing performance was assessed as 3 out of 4 with good plans for the future of the county which will lead to radically changing the way that organisations work together. Changes to services have led to improvements for people.
- 4.60 Ofsted has rated the Council's children services as performing well with A level exam results being amongst the best in the West Midlands. GCSE rates are showing improvements. The Council looks after the children in its care well
- 4.61 Services for adults are improving and people are being more involved in planning and deciding the care they get. Further improvements can be made by making the process more systematic and collecting views of these who use the Council's services

Draft Annual Governance Statement 2009-10

- 4.62 The Council has a good understanding of the needs and view of the people in the county. People's satisfaction with individual services is better than their satisfaction with the Council as a whole. Research is underway to understand this difference.

Information Technology Security Techniques (ISO 27001)

- 4.63 The external assessor SGS completed their last 2009/10 certification audit in November 2009 and concluded that Herefordshire Council has established and maintained its management system in line with the requirements of the standard and demonstrated the ability of the system to systematically achieve agreed requirements for products and services within the scope and the Council's policy and objectives. There were no major issues identified.
- 4.64 The Council's certification was continued

Environmental Management System (ISO 14001)

- 4.65 The external assessor SGS completed their last 2009/10 certification audit in January 2010, and concluded that Herefordshire Council has not established and maintained its management system in line with the requirements of the standard and demonstrated the ability of the system to systematically achieve agreed requirements for products and services within the scope and the Council's policy and objectives. There was one major non conformity identified.
- 4.66 The Council's certification was continued.
- 4.67 A substantial number of GEM audits had to be postponed or cancelled as there was a lack of trained auditors across the Council.

n. Assurances by Key Managers

- 4.68 Written assurances have been received from key managers. These assurances highlight areas of concern and confirm that:
- (a) Action is being taken on recommendations from audit reviews.
 - (b) Council money is being banked promptly and that reconciliations to the Council's corporate finance systems are up to date.
 - (c) Gifts and hospitality have been declared in line with Council policy.
 - (d) Effective controls are operational in each service area.
- 4.69 Written assurances have also been received from directors and heads of service giving assurance that there are no incidents of suspected fraud or corruption within their service area.
- 4.70 The Audit & Corporate Governance Committee has been advised of the implications of the result of the review of the effectiveness of the governance framework. The Committee will monitor progress with plans

Draft Annual Governance Statement 2009-10

to address the areas identified for improvement in order to ensure that systems are continually improved

5. SIGNIFICANT GOVERNANCE ISSUES

- 5.1 The significant governance issues identified as a result of the annual review of the Council's governance arrangements are as follows:
- 5.2 The review of the Code of Governance to be completed as soon as possible. (Assistant Chief Executive – Legal and Democratic)
- 5.3 The need to continue to embed Risk Management. (Deputy Chief Executive)
- 5.4 Review and update the Data Quality Policy. (Deputy Chief Executive)
- 5.5 The formal assessment of the Councils system of internal audit.(Director of Resources)
- 5.6 The Monitoring Officers Statement is completed as soon as possible. (Assistant Chief Executive – Legal and Democratic)
- 5.7 Ensure that improvements are made to the key system given a marginal audit opinion.(Director of Resources)
- 5.8 Improve Corporately in relation to the completion of the Good Environmental Management Audit Plan. (Sustainable Communities Director).

Cllr Roger Phillips
Leader of the Council

Signed:
Date:

Chris Bull
Chief Executive & Head of Paid Services

Signed:
Date:

David Powell
Director of Resources & Section 151 Officer

Signed:
Date:

Charlie Adan
Interim Assistant Chief Executive - Legal &
Democratic :

Signed:
Date

MEETING:	AUDIT AND GOVERNANCE COMMITTEE
DATE:	29 JUNE 2010
TITLE OF REPORT:	AUDIT PLAN 2010/11
OFFICER:	CHIEF INTERNAL AUDITOR

CLASSIFICATION: Open

Wards Affected

County-wide

Purpose

To present the 2010/11 Audit Plan to the Audit and Governance Committee.

Key Decision

This is not a Key Decision.

Recommendation

THAT Subject to any comments from the Audit and Governance Committee the 2010/11 Audit Plan is adopted.

Key Points Summary

- The Audit Plan covers a fixed period of one year.
- Paragraph nine identifies consultancy work.
- The base plan has been aligned to resources available.
- Priority will be given to fundamental and other key systems work.
- Paragraph 18 identifies the joint programme of work that will be jointly carried out with the PCT internal auditors.
- The Audit Plan will be reviewed on a regular basis in consultation with the Deputy Chief Executive and individual Directors.

Alternative Options

1. There are no alternative options as this is a requirement of the Audit and Governance Code...

Further information on the subject of this report is available from
Tony Ford – Chief Internal Auditor on (01432) 260425

Reasons for Recommendations

2. This is a requirement of the Audit and Governance Code.

Introduction and Background

3. Preparation and adoption of the Audit Plan represents best practice as required by the CIPFA Code of Practice for Internal Audit In Local Government and is an integral part of the Council's Internal Controls procedures.

Key Considerations

4. The Code of Practice for Internal Audit in Local Government in the United Kingdom (2006) states that "The Head of Internal Audit should prepare a risk-based audit plan designed to implement the audit strategy. In preparing the plan, the Head of Internal Audit should take account of the adequacy and outcomes of the organisation's risk management, performance management and other assurance processes".
5. The approach to preparing the Annual Audit Plan is fundamentally based upon the Council's Risk Strategy and covers risk assessments in the following areas:
 - (a) Financial standards, which will cover the Council's fundamental systems.
 - (b) Non-fundamental systems.
 - (c) Corporate governance arrangements to include anti-fraud activity.
 - (d) Other key systems.
 - (e) ICT protocols and controls (Council-wide).
 - (f) Establishment visits.
 - (g) Verification and probity audits.
 - (h) Results of recommendations follow-up.
 - (i) Performance Management.
6. Each area is assessed for potential risks and classified as an extreme, high, medium, or low risk. In addition, within each risk area, consideration is also given to residual risk for specific functions, or establishments, based upon past Audit opinion and current knowledge.
7. A key part of the risk methodology is that fundamental systems are always extreme no matter what their previous audit opinion is, as these are critical systems whose failure could cause major disruption or loss of financial control to the Council. These systems are identified by an analysis of the Council's last published accounts and further identification of the information systems impacted upon.
8. The Code also states that "the plan should be fixed for a period of no longer than one year. The plan should outline the assignments to be carried out, their respective priorities and the estimated resources needed. The plan should differentiate between assurance and other work".
9. All the work in the Audit Plan (Appendix 1 refers) is assurance work except for the following:

- (a) ICT Protocols Agresso Installation (Consultancy) 10 days.
- (b) ICT Protocols - IPG Group (Consultancy) 10 days.
- (c) Other Key Systems – Shared Services (Consultancy) 20 Days.

10. In addition all the work within the current plan forms the basis for the Chief Internal Auditor to give an opinion on the Council's systems of internal control and is therefore deemed a priority; however preference will be given to fundamental system work due to the impact on the assurance work of the Audit Commission.
11. Links to the Council's Standing Orders and Financial Regulations, and scheme of delegation are evidenced by audit work set out below:
- (a) Establishment audits covering inventories, budget monitoring and control, procurement and contracts, purchasing and stock control, income, Insurance, voluntary funds and imprest accounts.
 - (b) Reviews at Directorate level covering compliance with Standing Orders for the Regulation of Contracts.
 - (c) A review of the Gifts and Hospitality Register; and receipt of written assurances from key managers including Directors and Heads of Service.
 - (d) Fundamental reviews such as those covering Debtors, Treasury Management, Creditors, and Payroll also contribute.
 - (e) Reviews of delegation arrangements at Corporate and Directorate level.
12. Following the risk assessment, the base plan identified 1700 days of resources compared to available resources of 1603 days, a difference of some 97 days. Available days were aligned with requirements as follows

	Days	Days
Base Plan		1700
Non-fundamental System - Registrar of Births, Deaths and Marriages	10	
Non-fundamental System – Supply Cover	15	
Verification and Probity	10	
Contingency reduction	62	
Total reductions		97
Adjusted Base Plan		1603

13. The adjustment made to align the plan to available resources, does not include any high risk areas and should not impact adversely on the work required to give an opinion on the Councils overall internal control environment.
14. The Council's improvement programme (including Shared Services) will continue to be supported by the secondment of an Audit Manager to the programme fulltime.
15. With regards to Fundamental Systems the Audit Commission requirements for 2010 -11 are currently being ascertained, and these will be reported to members when known. The Chief Internal Auditor will then liaise with Directors and Heads of Service to ensure that the requirements of the Audit Commission are met in full.

16. The plan also reflects continuing Audit Services involvement in supporting key corporate priorities such as the Performance Management Framework, Project Management, Risk Management, Local Area Agreements (LAA), Herefordshire Connects and the Public Service Trust.
17. The last CIPFA Customer Survey identified the need for Value for Money reviews, to address this issue and taking account of the Council's drive on reducing duplication, where audit reviews identify duplication this will be highlighted in the final report, with suggestions for elimination of such duplication.
18. The Chief Internal Auditor has meet with the PCT Internal Auditors and agreed joint projects that will be undertaken during 2010/11. This will cover
 - a. Shared Services Consultancy
 - b. Integrated Commissioning
 - c. ISO 27001 work.
 - d. Section 75 Agreements
 - e. Health Delivery of Outcomes. (World Class Commissioning)
 - f. Continuing Health Care
19. Any further revisions to the plan for 2010 -11 will be reported to members.

Community Impact

20. None Identified

Financial Implications

21. None.

Legal Implications

22. Under the Accounts and Audit Regulations 2003 (as amended) established that the Council shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to Internal Control.
23. In addition under Section 151 Local Government Finance Act 1972 the Director of Resources (as Section 151 Officer) is responsible for ensuring that proper arrangements exist for the management of the Council's financial affairs. Reliance on Internal Audit is fundamental to the fulfilment of that responsibility. .

Risk Management

24. There is the risk that the Audit Plan is not completed. The key control measure will be monthly progress reports to the Director of Resources. Progress on the Audit plan will form part of the Interim Assurance Reports to the Audit and Governance Committee. If required temporary resources will be brought in to cover any vacancies if they arise

Consultees

25. Consultation has taken place with Joint Management Team and the Joint Director of ICT on the plan and their comments have been taken into account.

Appendices

Appendix 1 Audit Plan 2010/11

Background Papers

- The Code of Practice for Internal Audit in Local Government in the United Kingdom (2006).
- The Audit and Governance Code.

**HEREFORDSHIRE COUNCIL
AUDIT PLAN 2010-11**

AUDIT AREA	DAYS
a. FUNDAMENTALS	
Treasury Management	25
Cash and Deposit	25
Bank Reconciliation	20
Debtors	25
Creditors	35
FMS	40
Payroll (Corporate and Education)	50
Housing Benefit- Investigations & Intervention	10
Housing Benefit-Quality and Performance	30
Education Transport	25
Children Services- Early Years	25
Amey Contract	30
Total Fundamentals	340
b. NON-FUNDAMENTALS	
Deputy Chief Executive	
Agency Payments-Corporate	15
Sustainable Communities Directorate	
Payments to Bus Contractors	15
Market Fees and Charges	10
Penalty Charge Notice	10
Community Grants and SLAs	10
Children Services Directorate	
Revenue/ Capital Grants	10
Sure Start	15
Public Health	
Environmental Health Fees and Charges	10
Continuing Health Care (Joint)	5
Total Non-Fundamental Systems	100
c. GOVERNANCE AND ANTI-FRAUD	
Inventory Checks	10
Fraud Detection Anti Money Laundering	5
Staff Register of Gifts	5
Fraud Prevention- Policy Reviews, updates	5
Complete CIPFA Managing the Risk of Fraud Checklist	5
Telecoms	10
Private Sector Housing Grants	15
Regeneration Developments	10
National Fraud Initiative	40
Car park Income	15
Developing Antifraud Culture-Publicity on Payslips, Posters Intranet	5
Annual Governance Statement	20
Scheme of Delegation- Chief Executive	5
Scheme of Delegation – Public Health	5
Scheme of Delegation – Provider Service	5
Scheme of Delegation- Integrated Commissioning	5

**HEREFORDSHIRE COUNCIL
AUDIT PLAN 2010-11**

AUDIT AREA	DAYS
Procurement and Contract Procedures – Public Health	10
Procurement and Contract Procedures – Deputy Chief Executive	10
Procurement and Contract Procedures – Provider Service	10
Audit and Governance Committee Procurement Review Work	15
Total Governance and Anti Fraud	210
d. OTHER KEY SYSTEMS	
Risk Management	20
Use of Resources-Internal Control	5
Audit & Corporate Governance Committee	35
Recruitment and Selection	20
Project Management	15
Partnership Arrangement	15
CRB Procedures	15
Member Allowances December 2009 – March 2010	10
Member Allowances April 2010 to July 2010	12
Member Allowances August 2010 to December 2010	10
Shared Services- Consultancy (Joint)	20
Integrated Commissioning (Joint)	20
Total Other Key Systems	197
e. ICT PROTOCOLS AND CONTROLS (COUNCIL-WIDE)	
Thorn -ISO 27001 Physical Security (Joint)	6
Thorn-ISO27001 Team Compliance (Joint)	6
Thorn-ISO27001 – Risk Treatment (Joint)	6
Thorn ISO27001- Third Party Compliance (Joint)	6
Thorn ISO 27001 – Business Continuity (Joint)	6
ISO27001 – Technical Compliance (Joint)	6
IPG Group Assurance (Consultancy)	10
Corelogic/Framework i	15
Revenues- IDOX	5
Revenues- Academy	5
Managed Learning, platform/VLE- Access controls	5
Access Control-CT,HB;NDR, payroll, Cash Receipting	8
Home Point	6
E-POP Cedar E- Purchasing System	8
Agrosso Installation (Consultancy)	10
Total ICT Protocols and Controls Council-Wide	108
f. ESTABLISHMENT VISITS	
Bank Account Schools	100
Primary Schools Toolkit	200
Total Establishments Visits	300
g. VERIFICATION AND PROBITY	
Diversity Standard	10
Data Protection	15
Good Environmental Management(GEM)	10
Total Verification and Probity	35

**HEREFORDSHIRE COUNCIL
AUDIT PLAN 2010-11**

AUDIT AREA	DAYS
h. RECOMMENDATION FOLLOW UP	
Trade and Domestic Waste	5
Travel and Subsistence	5
Procurement and Contract Procedures Resources	5
National Indicator 135 Carers	2
Education FMS	5
Drugs Forum	3
Asset Register	5
NDR/Council Tax	5
ISIS Payments	5
Minster School	5
Instrumental Music	5
ISO 27001	5
Section 75 Agreements (Joint)	10
Supporting People	10
Total Recommendation Follow Up	75
i. PERFORMANCE MANAGEMENT	
Performance Management Framework including SRDs	30
Performance Indicators (to be identified)	40
Data Quality Assurance Check	10
Local Area Agreement	15
Health Delivery of Outcomes (Joint)	10
Total Performance Management	105
Total Contingency	133
TOTAL PLANNED DAYS	1603

MEETING:	AUDIT AND GOVERNANCE COMMITTEE
DATE:	29 JUNE 2010
TITLE OF REPORT:	AUDIT SERVICES ASSURANCE REPORT 2009/10
OFFICER:	CHIEF INTERNAL AUDITOR

CLASSIFICATION: Open

Wards Affected

County-wide

Purpose

The purpose of the Interim Assurance Report is to update members on the status of various items of work and bring to their attention any key internal control issues.

Key Decision

This is not a Key Decision.

Recommendation

THAT subject to any comments the Audit & Governance Committee wish to make the report be noted.

Key Points Summary

- Ten key issues were identified in the Council's 2009 Annual Governance Statement (Appendix 1 refers).
- There are currently 14 Committee Resolutions that are open (Appendix 2 and 3 refers);
- Four audit reviews were given a marginal audit opinion, one an unsatisfactory audit opinion and one an unsound audit opinion;
- Initial National Fraud Initiative (NFI) work is complete, however it has been a time consuming exercise.
- There are improvements in the progress made by schools in relation to the Financial Management Standard.
- Corporately progress on Good Environmental Management (GEM) audits will need to improve.
- The Council's internal control environment has been given a satisfactory audit opinion by the

Further information on the subject of this report is available from
Tony Ford Chief Internal Auditor on (01432) 260425

Chief Internal Auditor.

- The overall rating of internal audit from the CIPFA Audit Customer Satisfaction Survey was good.

Alternative Options

1. There none as this report is for information purposes in compliance with the Code of Practice and the Audit and Governance Code,

Reasons for Recommendations

2. To ensure compliance with good practice as set out in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom, and the Audit and Governance Code.

Introduction and Background

3. To ensure that the Committee is informed of progress on the Audit Plan and any key internal control issues identified.

Key Considerations

Key Issues Identified in 2008/09

4. The Audit and Governance Committee considered the Annual Assurance report for the year ending 31st March 2009 on 19th June 2009 at the same time the Committee reviewed and adopted the Annual Governance Statement. The key issues identified for improvement are set out in Appendix 1 along with the comments of the lead officer regarding the current position.

Audit and Governance Committee Resolutions

5. Regarding resolutions made by the Committee from May 2007 to June 2008 (Appendix 2 refers) there are four open and ongoing following the last meeting held on 12th March 2010. Replies received from relevant officers have been included in the updated version of the appendix.
6. With reference to resolutions made by the Committee from July 2008 to date (Appendix 3 refers) there are ten open and ongoing following the last meeting held on 12th March 2010. Replies received from relevant officers have been included in the updated version of the appendix.

Fundamental Systems

7. The Council's target is that all fundamental systems achieve at least a satisfactory audit opinion. All fundamental systems reviewed were given a good or satisfactory audit opinion.

Non Fundamental Systems

8. There were ten reviews at various stages of progress, with seven being finalised. Of the seven finalised the report on Trade and Domestic Waste was given a Marginal Audit opinion. Although the current Waste Operations Officer has started and continues to improve procedures there was the need for improvements regarding stock control, monitoring of charges and income control. In line with the Council's Financial Procedure Rules the Leader, Chair of the Audit and Governance Committee and Cabinet Member – Environment and Strategic Housing have been sent a copy of the report. In addition four non fundamental

systems were given a satisfactory audit opinion and two a good audit opinion.

Governance and Anti-fraud

9. The nature of the National Fraud Initiative (NFI) means that work is ongoing, however the current status can be summarised as follows.
 - a. **Benefit Matches** – There were in total 1,942 cases of which 1,570 have been processed and closed, with 79 cases as work in progress. One benefit fraud case has been completed, which related to a taxi driver. The overpayment is recorded as £542 and an official caution was applied.
 - b. **Council Tax Matches** – There were in total 1,387 cases of which 1,342 have been processed and closed with 25 cases work in progress, a total of 129 instances were identified where customers were not entitled to the single persons discount which resulted in some £63,600 (as at 22nd March 2010) being saved in relation to discounts given. The outcome was due to the combined effort of the Revenues Team and the Benefit Fraud and Intervention Team. There were also 58 incidences of none declared changes in circumstances in relation to rising 18 year olds (as shown on the Electoral Register); as a result of this work a total saving of some £15,500 was achieved.
 - c. **Payroll Matches** - There were 131 matches, investigation identified no instances of fraud.
 - d. **Creditor Payments** – There were five reports detailing a potential duplicate creditor payments match (via differing criteria types e.g. by duplicate creditor name and address; bank account numbers; invoice amount, reference number and creditor name). There were 878 individually matched transactions. Given the high number of matches a risk based approach was taken based upon Audit Commission guidelines. Those investigated did not identify any incidences of fraud.
 - e. **Blue Badges** - There were 76 matches identified, follow up action confirmed that 62 badge holders were deceased.
 - f. **Concessionary Travel Passes** – There were 96 matches identified, follow up action has identified that 62 holders were deceased.
 - g. **Insurance Claims** - There were nine matches, which were investigated by Audit Services in liaison with the Corporate Risk Team. No instances of fraud were identified.
 - h. **Company House Matches** – This was a report available to the Audit Commission who requested that Audit Services review its contents. Following scrutiny of the Council's Payroll and Creditor systems and physical examination of a sample of payments no incidences of fraud were identified.
10. Following the completion of the travel and subsistence report, a marginal audit opinion was given due to data quality, and the need to complete the form correctly, as well as authorising officers ensuring that forms are correct and complete. The committee requested further information on the actions currently being taken to ensure that travel and subsistence claims are correctly processed. This report was submitted to the committee at its meeting of 12th March 2010.

11. A review of procurement and contractual procedures has been completed in Property Services and a marginal opinion given; this was due to the need for procedures within the service area to be updated to ensure compliance with the Council's Standing Orders. The newly appointed Contracts and Commissioning Officer is carrying out a review of the practices and procedures. In line with the Council's Financial Procedure Rules the Leader, Chair of the Audit and Governance Committee and Cabinet Member – Resources have been sent a copy of the report. At the request of the Committee, the Head of Asset Management and Property submitted a report to the committee on the actions taken by the service on areas for improvement previously identified.
12. The rolling programme of inventory checks continues, there are no concerns in this area.

Other Key Systems

13. As part of the work on the Council's Annual Governance Statement key officer Statements of Assurance for the period to June 2009, September 2009, December 2009 and March 2010 have been requested.
14. Reports relating to members expenses were given a satisfactory audit opinion.
15. The revised Antifraud and Corruption Policy was presented to the Audit and Governance Committee on 12th March and approved.
16. CRB consultancy work was to provide advice and guidance regarding the robustness of the new CRB System in place for Herefordshire Council and ensure that procedures are in line with the Herefordshire Council Criminal Records Bureau Policy and Procedure (HR009) and the CRB Code of Practice.
17. The review of the ISIS payments system has been completed and a Marginal Audit Opinion given, members should be aware that this system was given an Unsatisfactory Audit Opinion last year. Audit Services are of the view that management are making progress in this area.

ICT Protocols and Controls (Council-Wide)

18. Work on reviewing the Council's ISO27001 arrangements with the four areas reviewed raising no concerns. In addition the access controls review of major financial systems was given a Satisfactory Audit Opinion.

Establishments

19. Work continues to assess the financial management arrangements within primary schools in line with the Department for Children, Schools and Families (DCSF) Standard. Currently 21 have met the standard, two have a conditional pass and three have not met the standard. Future follow up work will be carried out by the Audit Services team.

Verification and Probity

20. Both Good Environmental Management (GEM) System audits have been completed, with a minor non conformance being issued for each.
21. The GEM audit plan is supported by trained auditors across the Council, as previously reported information from the GEM team showed there were 56 audits due for completion, with only thirteen been completed, four postponed or cancelled, with 39 still to be completed by the end of March 2010.
22. Although most auditors on the programme had indicated that they would be able to complete

their allocated audits by the March 2010. The final position for 2009/10 was that only 29 audits (52%) were completed, with the remaining 27 being postponed or cancelled.

Recommendation Follow up

23. Audit Services recommendation follow up action showed that 74% of Recommendations were either fully completed or mostly completed, the full outcome is listed below.

Recommendations	Fully Completed	Mostly Completed	Partly Completed	Not Actioned	No longer Relevant	Total
Number	127	30	37	15	5	214
Percentage	60%	14%	17%	7%	2%	100%

24. The Risk Management review was given a Marginal Opinion last year and ten recommendations made. The recommendation follow up review showed that two were completed, four were partly completed and no action taken on four. Further follow up work is planned.
25. Joint Management Team has considered a report by an external consultant, they have agreed that there will be annual mandatory risk management training for Directors, Heads of Service and Key Managers, in addition to the setting up of a Corporate Management Risk Group to monitor risks, with a senior officer group tasked to “cross examine” risks across the partnership.

Performance Management

26. At the request of the Audit Commission two indicators relating to 2008/09 are being reviewed. One has been given a Satisfactory Audit Opinion and the Carers Receiving Needs Assessments indicator was given an Unsatisfactory Opinion. The risk assessment for 2009/10 has been completed and indicators identified will form part of future audit work.
27. The final LPSA 2 claim has been signed off by the Chief Internal Auditor with some £836k coming to the Partnership.
28. To date the fieldwork for the review of the Council’s Performance Management Framework has been completed together with the testing on documents supplied, no major issues were identified.

Critical Recommendations

29. Three Critical Recommendations were made in relation to the Llangrove Primary School Report. These recommendations formed part of the action plan signed of by the Head-teacher. Audit Service follow up has shown that of the three only one was outstanding (partly done).
30. Two Critical Recommendations were made in relation to the performance indicator report NI 135 (Carers Receiving Needs Assessments). Follow up work is due in 2010/11 and members will be informed on progress.

Joint Working

31. The IT Audit and The Good Environmental Management PCT Gap Analysis have been

completed.

Audit Opinion

32. The Chief Internal Auditor has used the Internal Control Audit Opinion Matrix agreed by the Audit and Corporate Governance Committee to form an objective opinion on the effectiveness of the Council's internal control environment for 2009/10. The application of the internal control Audit Opinion Matrix is informed by the matters he has brought to the Committee's attention in Audit Services Assurance Report for 2009/10.
33. The Chief Internal Auditor is of the opinion that the Council's overall level of internal control was satisfactory for 2009/10.
34. The following table summarises the overall position for 2009/10

Internal Control Audit Opinion	Range	Score 2009/10
Good	85-100	
Satisfactory	65 - 84	70.5
Marginal	51 -64	
Unsatisfactory	31 -50	
Unsound	0 - 30	

CIPFA Customer Survey

35. The CIPFA Customer Survey has been received and the overall rating is good, the survey covered 35 headings, which can be summarised as follows:

	Excellent	Good	Adequate	Less than Adequate	Total
Number of headings	1	26	7	1	35

36. The less than adequate issue relates to the lack of value for money review, which has been addressed in the Audit Plan for 2010/11

Performance Indicators.

37. Appendix 5 sets out the Key Performance Indicators applying to the service, the two areas that require improvement relate to sickness levels and the percentage of audits completed within plus 10% of target times. Action is being taken by the Chief Internal Auditor to address these areas.

Community Impact

38. N/a

Financial Implications

39. There are no financial Implications.

Legal Implications

- 40 The Accounts and Audit Regulations 2003 (as amended) established that the Council shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to Internal Control.

Risk Management

41. There is a risk that the level of work required to give an opinion on the Council's systems of Internal Control is not achieved. The Director of Resources and the Chief Internal Auditor keep delivery of the annual Internal Audit Plan under continual review in order to mitigate this risk.

Consultees

42. Relevant officers have been requested to update action taken on key issues identified in 2008/09 and past Audit and Governance Committee resolutions. Their replies have been included in the relevant appendices.
43. The draft report was presented to Joint Management Team and their comments added.

Appendices

Appendix 1 - Annual Governance Statement 2008/09 Key Issues Identified.

Appendix 2 – Audit and Governance Committee Resolutions May 2007 to June 2008.

Appendix 3 - Audit and Governance Committee Resolutions July 2008 to 12 March 2010.

Appendix 4 – Status Audit Plan 2009/10.

Appendix 5 – Audit Service Performance Indicators.

Background Papers

- The Code of Practice for Internal Audit in Local Government in the United Kingdom (2006).
- The Audit and Governance Code.

**ANNUAL GOVERNANCE STATEMENT (AGS) 2008/9
STATUS OF SIGNIFICANT GOVERNANCE ISSUES**

AGS-Reference	Significant Governance Issue	Current Action/Comments
5.2	Review the Code of Governance in line with the approved governance framework. (Assistant Chief Executive – Legal and Democratic)	It is proposed that the Code of Corporate Governance be reviewed as part of the next Phase of work on the Council's Constitution
5.3	Complete actions on the areas for improvement identified by the Audit Commission in their Use of Resources Report. (Director of Resources).	Programme completed and informing preparation for action plan to be based on current use of resources assessment.
5.4	Urgent corrective action is taken by Directors to ensure that there is an improvement in performance in relation to performance indicator outturn. (Deputy Chief Executive).	Performance is considered (and challenged) at least monthly at Directorate Management Teams, and areas of under performance and remedial action are considered. With regards to data quality there is the policy and action plan that are being followed, and any issues identified will be also considered by relevant management teams. Change Champions are also contributing to performance and data quality.
5.5	Improve the embedding of risk management across the Council (Assistant Chief Executive- Legal and Democratic)	The revised Risk Management Policy and Guidance document has been approved by Cabinet. Some officers have been given training on the new requirements. Of the ten audit recommendations made two have been completed, four partly completed and no action has been taken on four. Joint Management Team has considered a report by an external consultant, they have agreed that there will be annual mandatory risk management training for Directors, Heads of Service and Key Managers, in addition to the setting up of a Corporate Management Risk Group to monitor risks, with a senior officer group tasked to 'cross examine ' risks across the partnership
5.6	Urgent action is taken to ensure that the outstanding data quality actions are completed by the revised dates and that Cabinet receive monthly updates on progress. (Assistant Chief Executive – HR and OD)	The Audit and Corporate Governance Committee received a Data Quality Update report at it meeting on 20November 2009. Efforts continue to complete all the outstanding actions in the Data Quality Action Plan. The Audit and Governance Committee has been informed on the extent of Directorates local procedures on data quality.
5.7	Action is taken on the recommendations made by Audit	There are approved action plans, which have been monitored by the

**ANNUAL GOVERNANCE STATEMENT (AGS) 2008/9
STATUS OF SIGNIFICANT GOVERNANCE ISSUES**

AGS-Reference	Significant Governance Issue	Current Action/Comments
	Services regarding the Creditors and Payment to independent systems providers (Director of Resources).	Head of Revenues and Benefits. The current year's reviews have been completed and both systems have received improved Audit opinions.
5.8	Ensure that the areas identified as areas for improvement in the Audit Commission's report on Planning Services are actioned. (Director of Regeneration).	All of the recommendations in the Audit Commission's Report have been accepted and an action plan has been developed which has been approved by Cabinet in order to address all of the issues raised. In particular detailed work has been undertaken in respect of the proposed new Committee Structure in accordance with the Audit Commissions findings. An initial report has been considered at Full Council and the new structures will be dealt with as part of the Council's new Constitution which was considered at the meeting of Council in November. Progress of the implementation of the Action Plan is monitored by the Environment Scrutiny Committee.
5.9	Ensure that the areas identified for improvement in the Audit Commissions report 'Review of Procurement' are actioned. (Deputy Chief Executive, Director of Resources).	This is underway and the Audit Commission under took a follow up audit. This is being reviewed but noted progress.
5.10	The Herefordshire Children's Safeguarding Board continue to monitor the agreed action plan. (Director of Children Services)	There is a new independent Chair of the Board. The Action Plan is monitored by the Board and progress is being made.
5.11	Continue to promote the Council's antifraud and whistle-blowing policies, keeping them under review. (Assistant Chief Executive - Legal and Democratic, Director of Resources)	Poster 'Employees Role in Maintaining High Standards of Conduct' on notice boards at Council Offices. Level 2 Financial Training includes an introduction to the antifraud policy and the whistle-blowing policy. Employees Role in maintaining High Standards of Conduct highlighted on payslips. The revised Anti-fraud and Anti-corruption Policy has been approved by the Audit and Governance Committee,

**Audit & Corporate Governance Committee
Resolutions and Recommendations May 2007 – June 2008 Requiring Further Monitoring**

Item	Minute No	Meeting Date	SUBJECT	RESOLUTION/RECOMMENDATION	RESPONSIBLE OFFICER	CURRENT POSITION	PLANNED COMPLETION DATE	STATUS
40	49 (iii)	30/11/07	Update of Action in the Special Report – Governance Improvement Plan.	The Strategic Monitoring Committee be requested to review the control of asset management process and procedure and actions which are taken against officers who do not adhere to these rules.	Zack Pandor (Geoff Cole)	Following Consultation with the Chairman and Deputy Chairman the review will form part of the Inventory Audit planned by Audit Service	30/04/2010	
41	51 (i)	30/11/07	Updated Interim Assurance report 2007/08	A form of wording to be incorporated in the Financial Standing Orders to ensure that contract sums cannot be divided to be reduced below £50,000.	David Powell (Sonia Rees)	The Contract Procedure Rules at paragraphs 6.2.3 to 6.2.8 contain provisions that provide for the calculation of financial limits for contracts (in the context of the EU procurement regulations). The non aggregation principle reflected in those provisions is a fundamental principle of EU procurement law and the Council must follow the EU	31/05/2010	

**Audit & Corporate Governance Committee
Resolutions and Recommendations May 2007 – June 2008 Requiring Further Monitoring**

Item	Minute No	Meeting Date	SUBJECT	RESOLUTION/RECOMMENDATION	RESPONSIBLE OFFICER	CURRENT POSITION	PLANNED COMPLETION DATE	STATUS
						<p>principles in all its contracting activities. Therefore, the provisions of paragraph 6.2.4 apply and are applied to the limits in paragraph 5.1.7 of the Contract Procedure Rules to prevent the splitting of contracts into smaller low value ones in order to avoid the application of that principle. It is accepted that it would be clearer if the principle was also reflected and a similar provision to that in paragraph 6.2.4 included in paragraph 5.1. However, it is not essential.</p> <p>By way of reassurance, the Legal team provide advice on</p>		

**Audit & Corporate Governance Committee
Resolutions and Recommendations May 2007 – June 2008 Requiring Further Monitoring**

Item	Minute No	Meeting Date	SUBJECT	RESOLUTION/RECOMMENDATION	RESPONSIBLE OFFICER	CURRENT POSITION	PLANNED COMPLETION DATE	STATUS
						<p>contracting and apply this principle when giving such advice.</p> <p>The Contract and Financial Procedure Rules in the new Constitution (to take effect on 1 January 2010) have not been reviewed as part of the recent constitutional review. Council agreed on 13 November 2009 that these rules should be reviewed as part of the next phase of work on the Council's constitution. That review is currently being planned and the Audit and Governance Committee will be involved in that work</p>		
42	51 (ii)	30/11/07	Update of Action in the	An action plan be formulated regarding monies payable by Parish	Charlie Adan	There is a review of elections services	30/06/10	

**Audit & Corporate Governance Committee
Resolutions and Recommendations May 2007 – June 2008 Requiring Further Monitoring**

Item	Minute No	Meeting Date	SUBJECT	RESOLUTION/RECOMMENDATION	RESPONSIBLE OFFICER	CURRENT POSITION	PLANNED COMPLETION DATE	STATUS
			Special Report – Governance Improvement Plan.	Councils when elections take place.	(Alan McLaughlin)	underway that is intended to identify and remedy some recent problems in that service area. These are matters for the Returning and Registration officer but I can confirm that the arrangements for parish elections e.g. local count arrangements, the charges levied for parish elections and the arrangements for recovery of election costs from parishes and elsewhere are all being reviewed and will be updated as necessary.		
47	56(i)	21/12/07	Update on Community Network Upgrade and Critical recommendations In Use	All Councillors be given half day awareness training on Prince 2 Project Management and also on the analysis of business cases.	Dean Taylor (Annie Faulder) (Andrew Williams)	Potential dates have been circulated to members of the Audit and Governance Committee. The training should be	30/04/2010	

**Audit & Corporate Governance Committee
Resolutions and Recommendations May 2007 – June 2008 Requiring Further Monitoring**

Item	Minute No	Meeting Date	SUBJECT	RESOLUTION/RECOMMENDATION	RESPONSIBLE OFFICER	CURRENT POSITION	PLANNED COMPLETION DATE	STATUS
			of Contractors In ICT Services.			done by the end of July 2010.		

Audit & Corporate Governance Committee
Follow Up on Resolutions & Recommendations made between 3rd July 2008 and 12th March 2010

Item	Minute No	Meeting Date	SUBJECT	RESOLUTION/RECOMMENDATION	RESPONSIBLE OFFICER	CURRENT POSITION	PLANNED COMPLETION DATE	STATUS
OPEN AND ONGOING ITEMS								
67	105	03/07/08	Review of Code of Corporate Governance	The Audit & Corporate Governance Committee receives a report formally reviewing the Code of Corporate Governance at the meeting scheduled to be held on 20 March 2009.	Charlie Adan (Alan McLaughlin)	The Code of Corporate Governance was considered and used as a guiding document in the recent constitutional review process and it was raised as a matter for further review by the Chair of the Standards Committee in his comments to Council on 13 November 2009. It is proposed that the Code of Corporate Governance be reviewed as part of the next Phase of work on the Council's Constitution	31/05/2010	
89	5	19/06/09	Review of Procurement	The introduction of procurement and contract performance reporting systems , recommendation R2 paragraph 14 of the Audit	David Powell	The development of comprehensive systems for the reporting and	September 2010	

Audit & Corporate Governance Committee
Follow Up on Resolutions & Recommendations made between 3rd July 2008 and 12th March 2010

Item	Minute No	Meeting Date	SUBJECT	RESOLUTION/RECOMMENDATION	RESPONSIBLE OFFICER	CURRENT POSITION	PLANNED COMPLETION DATE	STATUS
				Commission's report		monitoring of procurement will be a high priority task of the new joint Head of Procurement expected to be in post this Spring.		
90	5	19/06/09	Review of Procurement	The Audit and Corporate Governance Committee work plan be amended to make specific provision for procurement investigation and reports.	David Powell	The Committees revised terms of reference which came in to effect on 1 st January 2010 states that <i>'The Committee shall receive assurance from the Chief Internal Auditor that officers are complying with the Council's procurement policy and processes in all respects'</i> . The Director of Resources and Chief Internal Auditor will consult with the Chairman and Deputy Chairman of the Audit and Governance Committee to agree the Committees requirement and	12 th March 2010	

Audit & Corporate Governance Committee
Follow Up on Resolutions & Recommendations made between 3rd July 2008 and 12th March 2010

Item	Minute No	Meeting Date	SUBJECT	RESOLUTION/RECOMMENDATION	RESPONSIBLE OFFICER	CURRENT POSITION	PLANNED COMPLETION DATE	STATUS
						include the agreed programme in the 2010-11 Audit Plan, which will be submitted to the Audit and Governance Committee for approval on 12 th March 2010		
91	5	19/06/09	Review of Procurement	The Audit and Corporate Governance Committee work plan to include the oversight and completion of training needs and analysis of in-house procurement expertise throughout the Council Directorates.	David Powell	The effectiveness and capacity of joint procurement will be another important issue for the new joint Head of procurement. A progress report on competence and capacity will be submitted to the committee by end of September 2010.	September 2010	
92	5	19/06/09	Review of Procurement	A report be submitted to the Committee on the process the Council follows for risk management and the way risk management is used and updated as a positive aid to management.	Andrew Rewell	The revised Risk Management Policy and Guidance document was presented to Cabinet on 26 th November 2009The required report is a separate agenda item.	29 th January 2010	
96	12	19/06/09	Audit Services	Anti - Fraud Training to be added to	Tony Ford	Training was	31/03/10	Closed

Audit & Corporate Governance Committee
Follow Up on Resolutions & Recommendations made between 3rd July 2008 and 12th March 2010

Item	Minute No	Meeting Date	SUBJECT	RESOLUTION/RECOMMENDATION	RESPONSIBLE OFFICER	CURRENT POSITION	PLANNED COMPLETION DATE	STATUS
			Assurance Report	the Training for members schedule		completed on 23 rd April 2010		
105	28	20/11/09	Interim Audit Services Assurance Report 2009/10 No. 1	The Committee requires all action on the remaining 13 items in Appendices 2 and 3 to the report to be completed to the Committee's satisfaction by the time of the next meeting or the respective Directors and executives attend the meeting in person to explain why each issue remains open and when it will be completed.	Members of the Audit and Governance Committee			
108	35	29/01/10	Annual Audit and Inspection Letter	An update report on the progress of the Audit Commission's recommendations shown on page 22 on the agenda be submitted to the next meeting of the Committee	David Powell			R1: ref. waste management contract - on track R2: ref planning services – on track R3: ref Adult - Services – completed R4: Use of Resources completed – but now stopped with new Government now in place
111	41	29/01/10	Risk Management	That a report be submitted to the next meeting informing the committee of evidence where the Corporate Risk Register process are not being followed, detailing the	Andrew Rewell	Linked to 92 above		

Audit & Corporate Governance Committee
Follow Up on Resolutions & Recommendations made between 3rd July 2008 and 12th March 2010

Item	Minute No	Meeting Date	SUBJECT	RESOLUTION/RECOMMENDATION	RESPONSIBLE OFFICER	CURRENT POSITION	PLANNED COMPLETION DATE	STATUS
				risks in all areas of the Council and how they are mitigated.				
113	47	12/03/10	Audit Strategy and Audit Charter 2010	The committee approves, subject to any comments from the joint management team and to the director of resources informing members by email of those comments, the 2010/11 audit strategy and audit charter	Tony Ford	Verbal update		
114	49	12/03/10	Interim Audit Services Assurance Report 2009/10 No.3	The chief internal auditor be invited to undertake a broad but shallow investigation into the extent to which procurement rules and procedures are being adhered to across all services but with particular attention to where procurement authority has been delegated outside the Resources Directorate	Tony Ford	Now included as an audit in the 2010/11 Audit Plan.		

**HEREFORDSHIRE COUNCIL
AUDIT PLAN 2009-10**

AUDIT AREA	Status	Audit Opinion
a. FUNDAMENTALS		
Bank Reconciliation	Final	Good
Creditors	Final	Satisfactory
Payroll (Corporate and Education)	Final	Satisfactory
Debtors	Final	Good
Council Tax and NDR	Final	Satisfactory
Supporting People	Final	Satisfactory
Education LMS and Finance	Final	Satisfactory
Benefits Fraud and Intervention	Final	Good
Asset Register	WIP	
Financial Management System(FMS)	Draft with Client	Good
b. NON-FUNDAMENTALS		
Deputy Chief Executive		
Out of Hours Payments - Corporate	Final	Satisfactory
Resources Directorate		
Industrial Estate Income	Final	Satisfactory
Anti Money Laundering	Draft with Client	Good
Children Services Directorate		
The Hereford Academy - Transfer of Assets	Final	Satisfactory
Pupil Numbers	Final	Good
Environment and Culture Directorate		
Waste Contract Management-PFI	Final	Satisfactory
Trade and Domestic Waste	Final	Marginal
Car Park Income	Work In progress	
Integrated Commissioning Directorate		
Integrated Commissioning Budgetary Control/Monitoring Consultancy	Draft with Client	
Regeneration Directorate		
Homeless Persons Loans	Draft with Client	
c. GOVERNANCE AND ANTI-FRAUD		
Travel and Subsistence	Final	Marginal
National Fraud Initiative (All Areas)	Draft with Client	N/a
Annual Governance Statement	On going	
Procurement and Contract Procedures – Resources	Final	Marginal
Staff Loans	Final	Satisfactory
Staff Register of Gifts	Final	Satisfactory
Amey/Property Services In Scope Works	Final	Satisfactory
Community Network Procurement	Final	Good
Anti-fraud Policy	Final	N/a
Inventory Checks	WIP	
d. OTHER KEY SYSTEMS		
Section 75 Agreements	Draft with Client	
Audit & Corporate Governance Committee	Ongoing	
Member Allowances/Register of Interests and Gifts(2008/09)	Final	Satisfactory
Members Expenses (April to July 2009)	Final	Satisfactory
Members Expenses (August to November 2009)	Final	Satisfactory
ISIS Payments	Final	Marginal

**HEREFORDSHIRE COUNCIL
AUDIT PLAN 2009-10**

AUDIT AREA	Status	Audit Opinion
CRB Checks Consultancy	Draft with Client	
e. ICT PROTOCOLS AND CONTROLS (COUNCIL-WIDE)		
ISO 27001 Technical Compliance	Final	Minor non-compliance
ISO 27001 Physical Security	Final	Full - Compliance
ISO 27001 3 rd Party Management	Final	Full - Compliance
ISO 27001 Business Continuity	Final	Minor Non Compliance
Integrated Social Care Solution Phase 1	Final	Satisfactory
Access Controls (CT, HB,NDR Payroll)	Final	Satisfactory
Access Controls (Cedar, E.pops)	Draft with Client	Satisfactory
f. ESTABLISHMENT VISITS		
Llangrove Primary School	Final	Unsound
Minster College	Draft with Client	
Schools Establishment Audits (DCSF Standard)		
Weobley Primary School	Final	FMSiS Not Met
Pembridge C.E Primary School	Final	FMSiS Met
Wigmore High/Primary School	Final	FMSiS Met
Lady Hawkins High School DCSF Toolkit	Final	FMSiS Met
Leominster Junior School	Final	FMSiS Met
Bodenham St. Michaels C.E Primary School	Draft with Client	
Burley gate C.E. Primary School	Final	FMSiS Met
Eardisley C.E. Primary School	Final	FMSiS Met
Goodrich C.E. Primary School	Final	FMSiS Met
St. James' C.E Primary School	Final	FMSiS Not Met
Wellington Primary School	Final	FMSiS Met
Canon Pyon C.E. Primary School	Final	FMSiS Not Met
Kimbolton St. James Primary School	Final	FMSiS Met
Ewyas Harold Primary School	Final	FMSiS Met
Garway Primary School	Final	FMSiS Met
Brookfield Special School	Final	FMSiS Conditional
Kingsland C.E Primary School	Final	FMSiS Conditional
Kingstone & Thruxton Primary School	Final	FMSiS Met
Luston Primary School	Final	FMSiS Met
Gorsley Goffs Endowed Primary School	Final	FMSiS Met
St. Martin's Primary School	Final	FMSiS Met
Leintwardine Endowed Primary School	Final	FMSiS Met
Ashperton Primary School	Final	FMSiS Met
Marden Primary School	Final	FMSiS Met
Orieton Primary School	Final	FMSiS Met
Riverside Primary School	Final	FMSiS Met
Eastnor Parochial Primary School	Draft with Client	
Leominster Ivington C.E. Primary	Draft with Client	
Kington Primary	Final	FMSiS Met
g. VERIFICATION AND PROBITY		
Good Environmental Management(GEM)	Final	Minor Non Compliance
Good Environmental Management(GEM) Part 2	Final	Minor Non

**HEREFORDSHIRE COUNCIL
AUDIT PLAN 2009-10**

AUDIT AREA	Status	Audit Opinion
		Compliance
Corporate Impacts - Procurements	Final	Minor Non Compliance
Good Environment Management PCT Gap Analysis	Draft with Client	
h. RECOMMENDATION FOLLOW UP		
Waste Management Contract	Final	n/a
Benefits Quality , Performance & Processing	Final	n/a
Section 106	Draft with client	n/a
Llangrove Primary School	Draft with Client	n/a
Travel and Subsistence	Draft with Manager	n/a
ISO 27001	Final	n/a
i. PERFORMANCE MANAGEMENT		
National Indicator 181 Housing Benefit/Council Tax Right Time Indicator	Final	Satisfactory
National Indicator 135 Carers Receiving Needs Assessments	Final	Unsatisfactory
LPSA Grant Claim	Final	N/a
Performance Management	WIP	

Quantification and Classification of Internal Control Levels

System and Establishment Audits

Opinion	Definition
Good	A few minor recommendations (if any). No material risk identified.
Satisfactory	Minimal risk; a few areas identified where changes would be beneficial.
Marginal	A number of areas have been identified for improvement.
Unsatisfactory	Unacceptable risks identified, changes should be made.
Unsound	Major risks identified; fundamental improvements are required.

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

**HEREFORDSHIRE COUNCIL
AUDIT PLAN 2009-10**

Compliance Audits

Opinion	Definition
Full-Compliance	Areas reviewed met requirements
Minor Non-Compliance	Areas reviewed failed to meet requirements in some non-critical areas or opportunities for improvement were identified.
Major Non-Compliance	Areas reviewed failed to meet requirements in some critical areas

Many audits are tests of whether a standard or part of a standard has been met. Examples are GEM audits and ISO27001. Majority of compliance audits will find minor compliance.

DCSF FMSiS Standard - Toolkit Assessments

Opinion	Definition
FMSiS Met	The Standard has been met
FMSiS Awaiting SIC	The Standard will be met when the Statement of Internal Control has been signed by the Head Teacher and Chair of Governors.
FMSiS Conditional	The Standard is expected to be met in the short term
FMSiS Not Met	The Standard is not expected to be met in the short term

Schools are expected to reach a standard of financial management (FMSiS - Financial Management in Schools). The assessment reaches a conclusion of meeting the standard or not. In addition, the DCFS allow a conditional pass that means a small number of issues need addressing before a pass is issued. This is the normal status before a full pass is confirmed.

“Awaiting SIC” - Some schools wait until the assessment is finished before signing the SIC. This is sensible and any schools in this status will be given a pass shortly.

KEY PERFORMANCE INDICATORS 2009/10

Local Performance Indicators	2009/10	Actual 2009/10	2009/10 RAG
Description	Target		Rating
The percentage of Audits completed with in plus 10% of target times	80%	63%	
Managers review of draft audits within 15 days of receipt of draft	80%	75%	
Management accepts Level 1 and Level 2 Recommendations	95%	99.8%	
Finals issued within 10 working days of agreement by Client Officer.	80%	84%	
Assignment Briefs Completed and issued	100%	100%	
Answer telephone calls within 15 seconds	80%	99.2%	
Answer telephone calls	80%	85.2%	
90% of Service Managers are Satisfied with the Audit Service	90%	92.2%	
CIPFA Opinion Survey result	good	good	
Completion of 2009 Staff opinion survey	100%	100%	
Ensure that all Audit Services staff have a Return to Work Interview.	100%	100%	
Audit Service Sickness level to be kept with in Council Target	7 days	8 days	
Have Monthly Audit Services Team meetings	12 (100%)	12	
Present Annual Governance Statement to Audit and Corporate Governance Committee	26/05/09	26/05/09	
Interim Assurance Report No 1 presented to the Audit and Corporate Governance Committee	20/11/09	20/11/09	
Interim Assurance Report No 2 presented to the Audit and Corporate Governance Committee	29/01/10	29/01/10	
Interim Assurance Report No 3 presented to the Audit and Corporate Governance Committee	12/03/10	12/03/10	
Audit Strategy presented to the Audit and Corporate Governance Committee	April 09	March 2009	

MEETING:	AUDIT AND GOVERNANCE COMMITTEE
DATE:	29 JUNE 2010
TITLE OF REPORT:	STATEMENT OF ACCOUNTS
OFFICER:	TECHNICAL ACCOUNTING MANAGER

CLASSIFICATION: Open

Wards Affected

County-wide

Purpose

To report to the Audit and Governance Committee on the 2009/10 Statement of Accounts.

Key Decision

This is a Key Decision which has been delegated by Full Council to the Audit and Governance Committee.

Recommendation(s)

THAT the Audit and Governance Committee approve the 2009/10 Statement of Accounts.

Key Points Summary

The council is required to produce a statement of accounts in accordance with legal and accounting requirements and to have these approved by 30th June. The statement is a technical document setting out the council's financial accounting information. Management accounting information is reported to Cabinet and Scrutiny committees throughout the year and the out-turn position was reported to Cabinet on 17th June 2010. There have been significant changes to the accounting requirements for the statement of accounts in 2009/10.

Alternative Options

- 1 None.

Reasons for Recommendations

- 2 The Accounts and Audit Regulations 2003 place a legal obligation on councils to approve their annual statement of accounts by 30 June.

Further information on the subject of this report is available from
Heather Foster Technical Accounting Manager on (01432) 260284

Introduction and Background

- 3 The purpose of the statement of accounts is to give electors, members, employees and other interested parties (including the Audit Commission) clear information about the council's finances.
4. The statement has been drawn up in accordance with the Accounts and Audit Regulations, the CIPFA Best Value Accounting Code of Practice and the CIPFA Code of Practice on Local Authority Accounting in Great Britain; A Statement of Recommended Practice 2009/10 (2009 SORP). The 2009 SORP consolidates the statutory requirements and accounting standards that the council is legally required to follow.
5. The revenue and capital out-turn position compared to budget was reported to Cabinet on 17th June 2010 and a summary of the position is included in the Explanatory Foreword to the Statements. The focus of the formal Statement of Accounts is the financial accounting and external reporting requirements of the council.

Key Considerations

6. The 2009 SORP introduced significant changes to the accounts, the biggest being the early implementation of part of International Financial Reporting Standards (IFRS) in respect of Private Finance Initiative (PFI accounting) and similar contracts. In general, where properties used to deliver PFI services were previously off balance sheet they are likely to be brought on-balance sheet under IFRS, with a corresponding liability to pay for the assets over the life of the contracts. Prior period adjustments are required back to the start of the contracts.
7. The council has 2 formal PFIs, Whitecross School and Waste disposal (in partnership with Worcestershire County Council). However, the requirements extend to other contracts involving the provision of assets and services and a full review of all relevant contracts was undertaken to determine whether they fell under the definition. As a result an additional contract was identified as falling within the scope of a PFI type contract, which was the Shaw Healthcare contract for the provision of residential care.
8. The 2009 SORP also changed accounting for council tax and national non-domestic rates (NNDR). Previously all entries were shown in the council's accounts, including the elements for West Mercia Police and Hereford and Worcester Fire Authority. Now the council is viewed as being an agent for the preceptors and only the council's proportion of balances (e.g. council tax arrears) are shown in the balance sheet. Similarly, the collection of National Non-Domestic Rates (NNDR) is treated as being carried out by authorities as an agent activity on behalf of central government.
- 9 The notes accompanying the accounts are also specified by statutory requirements and accounting standards. In addition to the new notes to accompany the PFI changes the most significant addition in 2009/10 is a new requirement to publish information on senior officer remuneration. For senior employees whose full-time equivalent salary is between £50,000 and £150,000 the disclosure is by way of job title and for those whose salary is £150,000 or more they are identified by name.

Community Impact

- 10 None.

Financial Implications

11 These are outlined in the report.

Legal Implications

12 The Accounts and Audit Regulations 2003 place a legal obligation on councils to approve their annual statement of accounts by 30 June.

Risk Management

13 The requirement to approve the Statement of Accounts by end of June is a legal requirement and a detailed timetable is produced to ensure the deadline is achieved. Further risk management activity is addressed by providing high quality working papers and officer time to help external auditors form an appropriate judgment on the Statement of Accounts by 30 September 2010.

Consultees

14 None.

Appendices

Appendix 1 – Statement of Accounts 2009/10.

Background Papers

- None identified.



*Herefordshire
Council*

HEREFORDSHIRE COUNCIL

STATEMENT OF ACCOUNTS

2009-2010

CONTENTS

	Page No.
1. INTRODUCTION	4
2. EXPLANATORY FOREWORD	5
3. STATEMENT OF ACCOUNTING POLICIES	14
4. STATEMENT OF RESPONSIBILITIES	22
5. INCOME AND EXPENDITURE ACCOUNT	23
6. STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE	25
7. STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES	26
8. BALANCE SHEET	27
9. CASH FLOW STATEMENT	28
10. NOTES TO THE CORE STATEMENTS	30
11. THE COLLECTION FUND	69
12. GLOSSARY	73

1. INTRODUCTION

The Statement of Accounts for 2009/10 is the key financial report that presents the council's overall revenue and capital position for the year.

The accounts have been compiled to comply with the CIPFA Statement of Recommended Practice (SORP) 2009. The most significant change this year relates to the way we account for PFI and similar contracts, which now follow international financial reporting standards (IFRS) with the assets shown on our balance sheet. The format of the accounts is heavily prescribed; this is intended to promote good practice by local authorities and a consistency of approach.

Within the notes, to comply with a new legal requirement to publish information on senior officers' remuneration, and to demonstrate greater transparency and accountability we have listed all remuneration for senior managers earning above £50,000.

The 2009/10 financial year has been challenging and some frontline services areas have had to meet increasing demands. Overall the council delivered a balanced budget aided by the use of surpluses within corporate budgets and use of general and specific reserves.

There have been additional reserves established this year, predominantly the insurance reserve to ensure funding is available for any potential current and future year insurance claims. There is also funding to deliver the Local Development Plan "Shaping our Place 2026", utilising Local Development Framework monies for this purpose.

During the year the council maximised the use of both revenue and capital grants, offsetting all relevant expenditure to minimise call on core funds. Subsequently there was an under spend on borrowing costs due to the slippage on capital schemes, thus reducing the funding requirement.

Financial information to our customers has improved. Budget holders now receive automated reports every month, which are a basis for estimating the forecast outturn. This provides Cabinet and Scrutiny Committees with regular updates allowing them time to challenge and instigate recovery plans where necessary. Scrutiny Committee reports have been expanded to include non financial activity and trend information to provide a broader understanding of what the budget funds and delivers.

Cllr Harry Bramer
Cabinet Member for Resources
June 2010

2. EXPLANATORY FOREWORD

2.1 Introduction

2.1.1 The following Statement of Accounts for Herefordshire Council presents the overall financial position for the Authority for the year ended 31st March 2010 and have been produced in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom, a statement of recommended practice published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

2.2 Revenue Expenditure and Income

Summary

2.2.1 The council achieved a balanced position against budget on the revenue account by use of corporate items such as treasury management and reserves transfers. The following table summarises the overall position.

	£000
Directorate over spends	2,595
Savings on 2009 pay award	(553)
Treasury management including borrowing and investment income	(642)
Additional central government funding	(87)
Use of winter maintenance reserve	(500)
Use of social care reserve	(772)
Other changes	(41)
Net position	<u>(0)</u>

2.2.2 The overall position includes a number of transfers to and from revenue reserves. In addition to the budgeted use of £1 million of general reserves, £500,000 was transferred from the winter maintenance reserve and £772,000 from the social care contingency reserve.

2.2.3 As part of the year end process new reserves were also created:

- Insurance Reserve (£544,000)
In previous years a provision has been created for outstanding insurance claims. To comply with Audit recommendations this has now been amended, keeping a provision based on the level of claims outstanding at the end of 2009/10 and a reserve which represents the potential of future years' claims.
- Pool Car Reserve (£10,000)
This reserve was created from the surplus generated from running the fleet of pool cars. It will enable a replacement programme to commence, funding new vehicles in future years and sustaining pool car availability.
- Local Development Framework (£270,000)
The under spend on the Housing Planning Delivery Grant will be allocated towards the costs to deliver the Local Development Plan "Shaping our Place 2026", and has been approved by the funding body.
- Area Based Grant (£53,000)
A small amount of the ABG grant identified for the Children's Trust was unspent. Approval was given to utilise the funding in 2010/11, thus the money has been ring-fenced for this purpose.

Service Area out-turn position

2.2.4 The net over spend for the council’s directorates of £2.59 million was made up as follows:

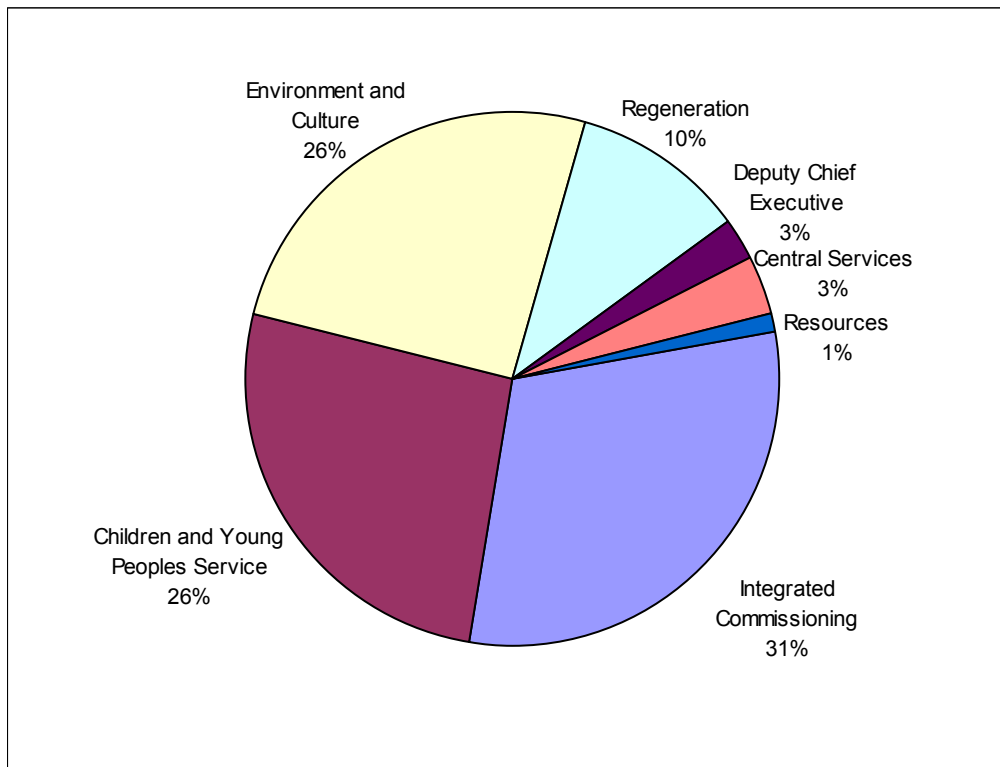
Directorate	Budget *	Actual *	(Under)/Over Spends
	£000	£000	£000
Integrated commissioning	45,243	47,974	2,731
Children and Young People	41,695	41,832	137
Deputy Chief Executive	4,299	4,210	(89)
Environment and Culture	40,343	40,585	242
Regeneration	16,554	16,488	(66)
Resources	991	631	(360)
Central Services	5,482	5,482	0
Total	154,607	157,202	2,595

* These figures include reallocated support services, overheads and capital charges.

2.3 Analysis of Revenue Expenditure and Income

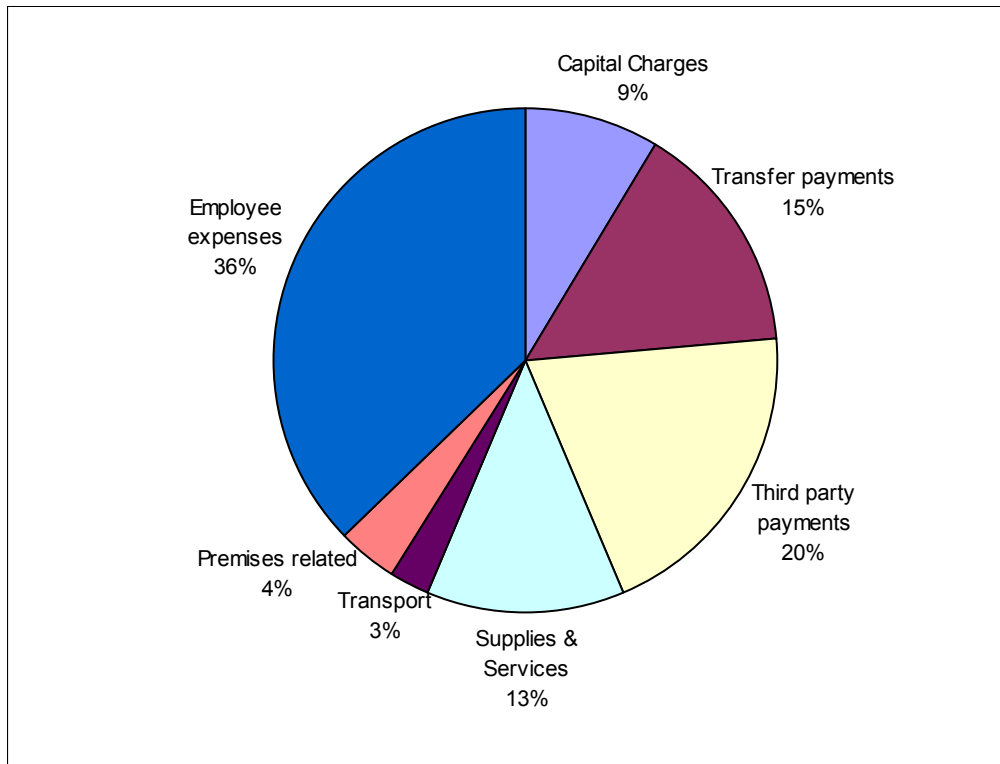
2.3.1 The net cost of services within the Income and Expenditure Account is £158.4 million, made up of the following directorates:

Analysis of Net Expenditure by Directorates



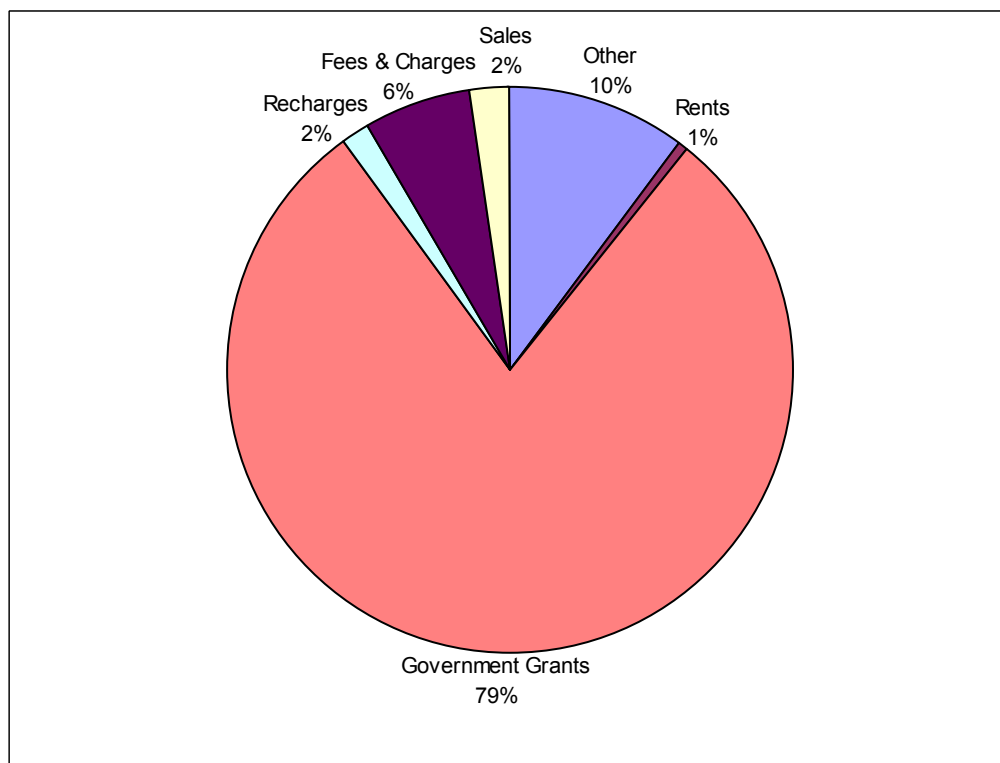
2.3.2 The gross cost of services was £385.8 million, spent on the following types of expenditure:

Analysis of Gross Service Expenditure



2.3.3 The gross income for the year for services was £227.4 million and came from the following sources:

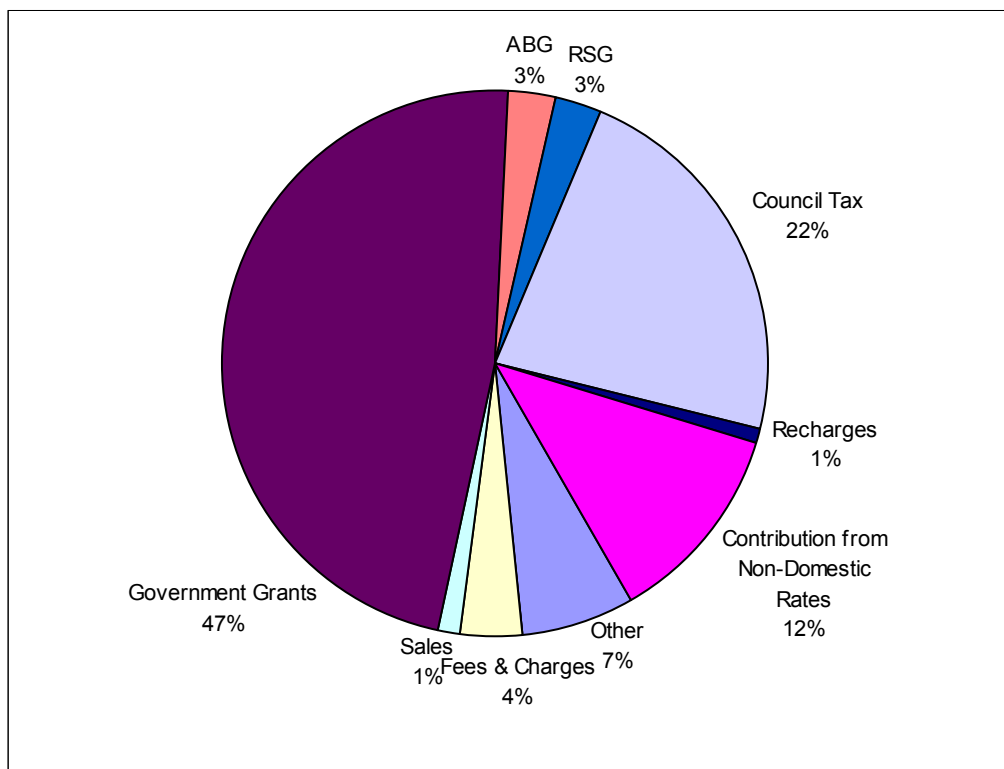
Analysis of Income within Services



2.3.4 The figure for government grants includes £84.5 million Dedicated Schools Grant, which is a ring-fenced grant towards schools expenditure. The grants figure also includes £52 million in respect of the payment and administration of housing and council tax benefits.

2.3.5 In addition to income generated by services and service specific grants, the council received £10.4 million Revenue Support Grant (RSG) £10.3 million Area Based Grant (ABG) and £45 million in redistributed non-domestic rates towards financing the council’s net expenditure. Council tax income totalled £84.8 million in 2009/10, including parish and town councils’ precepts.

Total Revenue Income



2.4 Capital Programme

2009/10 Out-turn

2.4.1 With regard to capital spending some £69.7 million was incurred compared to the original forecast of investment in the council’s assets of £67.6 million. The increase reflects the receipt of additional Department of Children, Families and Schools (DCFS) capital grants to accelerate capital schemes in the Children’s Services Directorate.

2.4.2 Herefordshire Council utilised supported borrowing of £13.5 million, capital receipts reserve funding of £4.9 million, revenue of £0.3 million, grants of £40.6 million and prudential borrowing of £10.4 million to fund capital expenditure in 2009/10.

2.4.3 Summary of Capital Expenditure

Capital expenditure for the year is summarised as follows:

	£000
Highways, footways and bridges	11,770
Education new build, refurbishment and improvements to existing schools	26,208
Corporate Accommodation	4,301
Ross on Wye Flood Alleviation	2,320
Affordable Housing Grants and Private Sector Renewal	3,593
Children's Centers and Extended Schools Provision	2,892
Purchase of learning disability properties	2,600
Hereford Connects	2,492
Rotherwas Futures	2,322
Other schemes	11,209
	<u>69,707</u>

Prudential Borrowing

2.4.4 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. In 2009/10 the council utilised £10.4 million of prudential borrowing to fund the capital programme. The table below summarises the out-turn position:

	£000	£000
2009/10 Planned Prudential Borrowing		16,588
Add: Slippage from 2008/09	5,127	
New Funding Allocations	3,136	
Less: Slippage into future years	(13,281)	
No longer required	(1,202)	(6,220)
		<u>10,368</u>

2.4.5 Included in the £13.3 million slippage into future years is £4.2 million for corporate accommodation, £2.8 million for the Herefordshire Connects/Shared Services programme and £2.5 million for Masters House in Ledbury.

Future years' capital programme

2.4.6 The council maintains as a minimum a full three-year rolling capital programme reflecting commitments, links to strategic plans and estimated sources of capital funding. The forecast capital programme detailed by the sources of funding is as set out below.

	2010/11	2011/12	2013/14
	£000	£000	£000
Sources of funding			
Grants and Contributions	40,254	7,362	0
Prudential Code Borrowing	18,601	2,814	559
Capital Receipts Reserves	5,820	500	0
Supported Capital Expenditure (Revenue)	13,230	13,000	13,000
	<u>77,905</u>	<u>23,676</u>	<u>13,559</u>

2.5 The Council's Borrowing

2.5.1 The council's borrowing strategy is determined each year within the Treasury Management Strategy, which is approved as part of the budget process. External borrowing is taken out to support the council's capital programme and borrowing limits are set in accordance with the Prudential Code for Capital Finance in Local Authorities.

2.5.2 In 2009/10 a new loan of £10 million was taken out as follows:

Date	Amount £	Period of loan	Rate of Interest
05/03/10	10,000,000	10 years	2.96%

2.5.4 The new loan is repayable in equal instalments of £500,000 every six months over the next ten years.

2.5.5 In addition, on two occasions in March 2010 the council borrowed funds from other local authorities to meet short-term cash flow requirements. On both occasions the loans were for one week only and the interest rates paid varied from 0.40% to 0.55%.

2.5.6 The council had a total of £125.15 million outstanding loan debt at 31st March 2010 of which £13.27 million is treated as repayable within twelve months. Of this amount £12 million relates to two long-term market loans where the lenders have an annual option to increase the rates of interest being charged and, if a lender did increase the rate, the council would then have the option to repay the loan.

2.6 The Council's Reserves

2.6.1 The council has a policy of maintaining a minimum of £4.5 million of general reserves as a contingency against unforeseen emergencies and events. At the end of 2009/10 the council held general reserves of £5.39 million compared with a position of £6.39 million in 2008/09. Specific reserves totalled £14.2 million (£16.06 million in 2008/09), which are detailed in paragraph 10.20 in the Statements.

2.7 Pensions

2.7.1 In accordance with Financial Reporting Standard 17 on Retirement Benefits (FRS 17), Paragraph 10.29 to the Statements sets out the council's assets and liabilities in respect of the Local Government Pension Scheme (LGPS). Herefordshire Council's non-teaching staff are members of the Worcestershire County Council Pension Fund.

2.7.2 2009/10 was a year of great volatility for pension funds with large movements on the assessment of the schemes assets and liabilities. The net deficit shown as at 31st March 2010 is £163.4 million, which is approximately 76% of the fair value of the assets (89% at 31st March 2009). 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.

2.7.3 The pension fund position is reviewed every three years and was last revalued as at 31st March 2007. Further to the revaluation, the council's employers' contribution increased from 18.2% of pensionable pay in 2007/08 to 20.4% by 2010/11, with phased increases over that period. A revaluation exercise is now underway as at 31st March 2010 with the results expected in the autumn of 2010.

- 2.7.4 Following a recommendation from the Audit Commission arising from the 2008/09 accounts audit the pension fund liability in the balance sheet now includes the liability to fund ex-Hereford and Worcester teachers' unfunded benefits. This totals £1.2m, which will be paid over a number of years.

2.8 Private Finance Initiatives (PFIs and Similar contracts)

- 2.8.1 The most significant change to the accounts in 2009/10 is in respect of PFI and similar contracts. From 2009/10 PFIs and similar contracts are no longer accounted for under UK accounting standards but on International Financial Reporting Standards (IFRS).
- 2.8.2 The requirements are based on IFRIC 12 *Service Concession Arrangements*. In general, where properties used to deliver PFI services were previously off balance sheet they are likely to be brought on-balance sheet under IFRS with a corresponding liability to pay for the assets over the life of the contracts. Prior period adjustments are required back to the start of the contracts. This has resulted in changes to the 2008/09 comparative figures in the current statement of accounts.
- 2.8.3 The council has 2 formal PFIs, Whitecross School and Waste disposal (in partnership with Worcestershire County Council) and one other contract identified as falling under IFRIC 12, the Shaw Healthcare Contract.
- 2.8.4 The value of the assets on balance sheet at 31 March 2010 relating to these contracts totalled £26.2 million. Further details on the PFI contracts are shown in Note 10.4 to the accounts.

2.9 Impact of Economic Climate

- 2.9.1 The impact of the economic downturn was reflected in the council's medium-term financial strategy when setting the 2009/10 budget. It was clear that levels of income would be less in 2009/10, particularly in the areas of planning, car parking and land charges. A reduction of £500,000 was built into the budget to meet this shortfall in income, but the actual reduction exceeded this by around £347,000.
- 2.9.2 The economic downturn has had a significant impact on the council's investment income due to the reduction in interest rates and £1.5 million was taken out of the 2009/10 investment income budget. The out-turn position on investment income was £5,000 more income than budgeted.

2.10 The 2009/2010 Statement of Accounts

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

The Income and Expenditure Account

- 2.10.1 The Income and Expenditure account brings together all income receivable and expenditure incurred in delivering services during 2009/10. The 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 2009/10.
- 2.10.2 The Income and Expenditure account shows a net deficit of £29.54 million in 2009/10 as compared to a restated deficit of £31.4 million in 2008/09. This figure does not take into account a number of items which are included or excluded from the final position on revenue (as explained in paragraph 2.10.3 below).

The Statement of Movement on the General Fund Balance

- 2.10.3 This statement reconciles the differences between the council's deficit of £29.54 million on the Income and Expenditure account and the transfer from General Fund balances of £1 million. In effect this statement shows how financial performance (Income and Expenditure Account) compares with all amounts required legally to be debited or credited to the General Fund. Paragraph 10.3 of the Statement of Accounts provides a detailed analysis.

The Statement of Total Recognised Gains and Losses

- 2.10.4 The statement brings together in one place all the gains and losses of the council for 2009/10 so that the aggregate position is shown. In 2009/10 there was an overall decrease (loss) of £15.06 million including three key areas:

- A £29.54 million deficit on the income and expenditure account.
- A £43.47 million surplus arising from the revaluation of fixed assets.
- A £28.99 million actuarial loss on pension fund assets and liabilities.

The 2009/10 position compares with a £7.04 million decrease in net worth for 2008/09 (after restating the balance sheet for PFI accounting arrangements).

- 2.10.5 The £43.47 million revaluation figure includes £37.4 million for smallholdings due to a change in the method of valuation. Previously the smallholdings were valued as an agricultural estate in perpetuity taking into account the tenanted interests and only valuing on the basis of open market value where a property was vacant and either ready to re-let or to sell. Now they are valued as open market properties with a discount for the tenanted land depending upon the type and length of tenancy.
- 2.10.6 The movement on the pension fund position reflects changes against the actuary's previous assumptions, amounting to £86.25 million on the schemes liabilities offset by £58.46 million on the schemes assets. In addition, £1.2 million was added to the liabilities in respect of former Hereford and Worcester teachers' pensions (as referred to in paragraph 2.7.3). Further details are set out in Note 10.29 to the accounts.

The Balance Sheet

- 2.10.7 The Balance Sheet summarises the council's assets, liabilities and other balances at the end of the financial year.
- 2.10.8 The value of fixed assets on the balance sheet has increased with PFI and similar contracts coming on-balance sheet. This has to be done retrospectively and therefore the 31st March 2009 comparative figures have been increased by £25.01 million. Further details can be found in Note 10.1.7 to the statements. The initial recognition of PFI assets in the balance sheet is matched by a liability to pay for these assets over the life of the contract.
- 2.10.9 The council's long-term assets increased from £427.94 million to £499.85 million during the year. Major additions in the year include the purchase of Plough lane Offices and the transfer of learning disability properties from the PCT. The council has a 5 year rolling programme of revaluation of properties which resulted in an increase in value fixed assets of £43.47 million, of which £37.4 million related to smallholdings (see paragraph 2.10.5 above). Note 10.10 to the statements details the movements to fixed assets in the year.

- 2.10.10 Current assets reduced from £61.27 million to £52.58 million. The main movement was a reduction in short-term investments by £13.65 million in line with the council's treasury management strategy (see paragraph 2.10.11). The current liability position increased only slightly from £59.32 million to £59.59 million.
- 2.10.11 The balance sheet also confirms the long-term borrowing of the council has increased to fund its capital programme. However, the council has delayed some external borrowing and used internal reserves due to the effect of the economic downturn on interest rates for investment income and the reduction in the number of safe counterparties. The council had £125.15 million loan debt at 31 March 2010 compared with £118.4 million at 31 March 2009.
- 2.10.12 Another significant movement on the balance sheet was the increase in the pension liability from £130.11 million to £164.59 million due to changes in actuarial assumptions. Further details are included on note 10.29 to the accounts.

Cash Flow Statement

- 2.10.13 This statement represents a summary of all cash flowing in and out of the council arising from transactions with third parties. All internal transactions between the various accounts maintained by the council are excluded.
- 2.10.14 In 2009/10 cash outflows totalled £405.11 million compared with cash inflows of £415.59 million on revenue activities, including payments for operational activities and income from central government grants. Our revenue (day to day activity) cash flow saw £10.48 million more cash received than we spent. Note 10.32 to the statements shows a reconciliation of the £10.48 million to the deficit of £29.54 million on the Income and Expenditure Account. The overall position including treasury management and capital transactions saw an increase in the net cash position of £1.08 million.

Notes to the Statements

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

The Collection Fund

- 2.10.16 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.
- 2.10.16 The Statement of Accounts, which take into account events up to 18th June 2010, was authorised for issue on 18th June 2010 by the Director of Resources.
- 2.10.17 Further information about the council's finances is available from the Director of Resources, Herefordshire Council, Brockington, 35, Hafod Road, Hereford, HR1 1SH.

**Director of Resources
18th June 2010**

3. STATEMENT OF ACCOUNTING POLICIES

3.1 General Principles

3.1.1 The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice. This Code is recognised by statute as representing proper accounting practice.

3.2 Accruals of Income and Expenditure

3.2.1 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 on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract. 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.

3.3 Reserves and Provisions

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

3.3.2 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.

3.3.3 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.

3.4 Grants

3.4.1 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 the depreciation on the assets to which the grant relates.

3.5 Pensions

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

- a. The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Children, Schools and Families (DCSF).

- b. The Local Government Pension Scheme administered by Worcestershire County Council.
- 3.5.2 Both schemes provide defined benefits to members, built up during the time employees work for the council.
- 3.5.3 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 the Teachers' Pensions Scheme in the year.
- 3.5.4 The Local Government Pension Scheme is accounted for as a defined benefits scheme as follows:
- a. The liabilities are included in the Balance Sheet on an actuarial basis using the projected unit method, that is, an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees.
 - b. Liabilities are discounted to their value at current prices
 - c. Assets are included in the Balance Sheet at their fair value
 - d. The change in the net pension's liability is analysed into seven components;
 - i. **Current service cost:** The increase in liabilities as a result of service earned in the year is allocated to the revenue account of the services for which the employee worked, within the Income and Expenditure Account.
 - ii. **Past service cost:** The increase in liabilities arising from current year decisions whose effect relates to service earned in earlier years is debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs.
 - iii. **Interest cost:** The expected increase in the present value of liabilities during the year as they move one year closer to being paid is debited to Net Operating Expenditure in the Income and Expenditure Account.
 - iv. **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, is credited to Net Operating Expenditure in the Income and Expenditure Account.
 - v. **Gains/losses on curtailments:** The results of actions to relieve the council of liabilities or events that reduce the expected future benefits of employees is included in the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs.
 - vi. **Actuarial gains and losses:** Changes in the net pension's liability that arise because events have not coincided with assumptions previously made by the actuaries is included in the Statement of Total Recognised Gains and Losses.
 - vii. **Contributions paid to the pension fund:** Cash paid as employer's contributions to the pension fund.

3.5.5 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.

3.5.6 Further information on accounting for the pension fund is set out in paragraph 10.29 to the Statements.

3.6 VAT

3.6.1 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.

3.7 Overheads and Support Services

3.7.1 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 2008. 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:

- a. **Corporate and Democratic Core:** The costs relating to the council's status as a multi-functional, democratic organisation.
- b. **Non Distributed Costs:** The cost of discretionary benefits awarded to employees retiring early and capital charges on non-operational assets.

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

3.8 Intangible Fixed Assets

3.8.1 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 financial year. The balance is amortised to the relevant service revenue account over the economic life of the investment to reflect the pattern of consumption of benefits.

3.9 Tangible Fixed Assets

3.9.1 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

3.9.2 Expenditure on the acquisition, creation or enhancement of tangible fixed asset is capitalised on an accruals basis, providing that it yields benefits to the council and the services that it provides for more than one financial year. Expenditure that secures but does not extend the previously assessed standard of performance of an asset (e.g. repairs and maintenance) is charged to revenue as it is incurred.

Measurement

3.9.3 Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the Balance Sheet using the following measurement bases:

- a. **Investment properties and assets surplus to requirements** - the lower of net current replacement cost or net realisable value.

- b. **Dwellings, other land and buildings, vehicles, plant and equipment** – the lower of net current replacement cost or net realisable value in existing use.
- c. **Infrastructure and community assets** - depreciated historical cost.

Net current replacement cost is assessed as:

- i. Non-specialised operational properties – existing use value
- ii. Specialised operational properties – depreciated replacement cost
- iii. Investment properties and surplus assets – market value.

3.9.4 During the year the council undertook a review of its operational and non-operational properties. As a result of this review the council's tenanted farms have now been reclassified as operational assets in accordance with CIPFA's capital accounting guidance. The farms were previously valued as agricultural estate in perpetuity but have now been valued on an open market basis. The change in basis resulted in an increase in value of £37.4 million.

3.9.5 Similarly, the council is holding a number of properties for the Edgar Street Grid development. In previous years all such buildings were treated as investment properties, even though one of the office buildings and part of a second are currently occupied whilst awaiting development. This year these latter properties (Blueschool House and part of Franklin House) have been transferred to operational properties. The value transferred was £1.3 million.

Revaluations

3.9.6 Assets included in the Balance Sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains may be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

3.9.7 The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

3.9.8 The values of each category of assets, and of material individual assets that are not being depreciated, are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for as follows:

- a. Where attributable to the clear consumption of economic benefits the loss is charged to the relevant service revenue account. If there are any accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.
- b. Otherwise the loss is written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess being charged to the service revenue account.

Disposals

3.9.9 When an asset is disposed of or decommissioned, 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. Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account. Receipts are appropriated to the Usable Capital Receipts Reserve from the Statement of Movement on the General Fund Balance.

3.9.10 The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the Statement of Movement on the General Fund Balance.

Depreciation

3.9.11 Depreciation is provided for on all fixed assets with a determinable finite useful life (except for investment properties). The council depreciates its fixed assets by allocating the value of the asset in the Balance Sheet on a straight-line basis over the periods expected to benefit from their use, but applying a maximum 50 year limit. The council's valuer makes an informed assessment of the economic life remaining based on the age, condition and suitability of the asset. For the purposes of depreciation a nil residual value is assumed for all building assets. 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 and no depreciation is charged in the year of disposal.

3.9.12 Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Grants and Contributions

3.9.13 Where grants and contributions are received that are identifiable to fixed assets with a finite useful life, the amounts are credited to the Government Grants Deferred Account. The balance is then written down to revenue to balance depreciation charges made for the related assets in the relevant service revenue account, in line with the depreciation policy applied to them.

3.10 Charges to Revenue for Fixed Assets

3.10.1 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;

- a. Depreciation attributable to the assets used by the relevant service (net of Government Grants Deferred).
- b. Impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off.
- c. Amortisation of intangible fixed assets attributable to the service.

3.10.2 The council is not required to raise council tax to cover depreciation, impairment losses or amortisations. However, it is required to make prudent provision from revenue towards debt repayment. For supported borrowing the council sets aside

4% per annum for debt repayment and for prudential borrowing the principal is repaid over the life of the asset. Depreciation, impairment losses and amortisations are therefore replaced by a revenue provision in the Statement of Movement on the General Fund Balance through an adjustment to the Capital Adjustment Account.

3.11 Revenue Expenditure Funded from Capital under Statute

3.11.1 Expenditure that may be capitalised under statutory provisions but does not result in the creation of a tangible asset has been charged to the relevant service revenue account in the year. A transfer to the Capital Adjustment Account from the Statement of Movement on the General Fund reverses this out so that there is no impact on council tax.

3.12 Leases

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

3.13 Financial Liabilities

3.13.1 Financial liabilities are initially measured at fair value and carried at amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective interest rate for the instrument. For most of the borrowings that the council has, the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement. However, the council has two stepped interest rate loans, where the effective interest rate differs from the loan agreement.

3.13.2 Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Income and Expenditure Account is spread over the life of the loan by an adjustment to the effective interest rate.

3.13.3 Where premiums and discounts have been charged to the Income and Expenditure Account, regulations allow the impact on the General Fund Balance to be spread over future years. The reconciliation of amounts charged to the Income and Expenditure Account to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

3.13.4 There are no premiums or discounts in the 2009/10 accounts

3.14 Financial Assets

3.14.1 All financial assets have been classified as 'loans and receivables'. These are assets that have fixed or determinable payments but are not quoted in an active market.

3.14.2 Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable is based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the council has made, this means that the amount presented in the Balance Sheet is the outstanding

principal receivable (plus accrued interest) and the interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

3.14.3 Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account.

3.14.4 Any gains or losses that arise on the de-recognition of the asset are credited or debited to the Income and Expenditure Account.

3.15 Stocks and Work-in-Progress

3.15.1 Stock has been included in the accounts at the lower of cost and net realisable value.

3.16 Private Finance Initiative

3.16.1 Up until 2009/10 PFI transactions were based on *Application Note F Private Finance Initiative and Similar Contracts* of *FRS5 Reporting the Substance of transactions*. From 2009/10 these contracts are accounted for under the principles of *IFRIC 12 Service Concession Arrangements*, a year ahead of the general switch to International Financial Reporting Standards (IFRS).

3.16.2 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. As the council is deemed to control the services that are provided under its PFI schemes and as ownership of the fixed assets will pass to the council at the end of the contracts for no additional charge, the council carries the fixed assets used under the contracts on the Balance Sheet.

3.16.3 The original recognition of these fixed assets is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets.

3.16.4 Fixed assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the council.

3.16.5 The amounts payable to the PFI contractors each year are analysed into five elements:

- a. Fair value of the services received during the year – debited to the relevant service in the Income and Expenditure Account.
- b. Finance cost – a percentage interest charge on the outstanding Balance Sheet liability, debited to interest payable and similar charges in the Income and Expenditure Account.
- c. Contingent rent – differences in the amount to be paid for the property arising during the contract, debited or credited to interest payable and similar charges in the Income and Expenditure Account.
- d. Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator.
- e. Lifecycle replacement costs – the annual payment implicit in the contract is funded and treated as a prepayment on the Balance Sheet and recognised as fixed assets when the contractor incurs the expenditure.

3.16.5 The council has two traditional PFI contracts, one in partnership with Worcestershire County Council for the provision of waste management services and the other for the provision of Whitecross secondary school. The council also has one contract that falls within the definition of a similar contract to a PFI, which is the Shaw Healthcare contract for the provision of residential care services.

3.17 Landfill Allowances Scheme

3.17.1 The Landfill Allowance Trading Scheme (LATS) is a 'cap and trade' scheme, which allocates tradable landfill allowances to each Waste Disposal Authority (WDA). The scheme gives rise to:

- a. An asset for allowances held.
- b. LATS grant income.
- c. A liability for actual landfill usage.

3.17.2 Landfill allowances, issued free by the Department for Environment, Food and Rural Affairs (DEFRA), are treated as a government grant in revenue and recognised as a current asset in the Balance Sheet. As landfill is used a liability is recognised by creating a provision, which is discharged by using allowances or paying a cash penalty to DEFRA. Allowances can be traded between WDAs. Paragraph 10.31 to the statements provides details of the 2009/10 usage.

3.18 Estimation Techniques

3.18.1 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.

3.18.2 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.

3.18.3 There are no estimates in the 2009/10 accounts which would materially affect the fair presentation of the accounts had a different estimation technique been applied.

4. STATEMENT OF RESPONSIBILITIES

4.1 The Council's Responsibilities

4.1.1 The council is required to:

- a. Make arrangements for the proper administration of its financial affairs and to ensure that an officer has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Resources.
- b. Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- c. Approve the statement of accounts.

4.2 The Director of Resources' Responsibilities

4.2.1 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 council's financial position as at 31st March 2010 and its income and expenditure for the financial year.

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

- a. Selected suitable accounting policies and then applied them consistently.
- b. Made judgements and estimates that were reasonable and prudent.
- c. Complied with the Code of Practice.

4.2.3 The Director of Resources has also:

- a. Kept proper accounting records which were up to date.
- b. Taken reasonable steps for the prevention and detection of fraud and other irregularities.

4.3 Certificate of the Director of Resources

4.3.1 I certify that the Statement of Accounts presents a true and fair view the financial position of Herefordshire Council at 31st March 2010 and its income and expenditure for that period.

Mr David Powell
Director of Resources
18th June 2010

5. INCOME AND EXPENDITURE ACCOUNT

5.1 This account reports the costs of all the functions for which the council is responsible and shows how they have 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.

5.2 The Income and Expenditure Account for 2009/10 is set out below:

2008/09 Net £000	Note	2009/10 Expenditure £000	2009/10 Income £000	2009/10 Net £000
Directorate				
50,995		69,461	21,487	47,974
36,357		164,697	122,885	41,812
44,623		53,521	12,889	40,632
19,393		28,111	11,623	16,488
2,684		5,912	1,703	4,209
4,214		6,048	760	5,288
4,417		58,055	56,092	1,963
162,683		385,805	227,439	158,366
(365)				4,495
2,547				2,579
0	10.2			(1,379)
7,081	10.18			7,288
21				16
6,729	10.29			9,902
(2,868)	10.18			(905)
175,828				180,362
Sources of Finance				
(346)				(87)
(334)				8
(80,903)				(84,820)
(15,346)	10.7			(20,928)
(46,793)				(44,994)
(143,722)				(150,821)
32,106				29,541
(Surplus) or Deficit for the year				

5.3 The net cost of services is shown above analysed by the council's management accounting structure, which is how the council's budgets are compiled and monitored. In 2009/10 the directorates were restructured and the comparative 2008/09 figures have been restated to reflect this. The directorate figures shown in paragraph 2.2.4 of the Foreword include some items which are required to be shown after the net cost of services in the Income and Expenditure account.

5.4 The Accounting Code of Practice requires that service expenditure analysis should be shown in accordance with the Best Value Accounting Code of Practice (BVACOP) for consistency and comparability among local authorities. The BVACOP analysis is set out below:

2008/09 Net £000		2009/10 Expenditure £000	2009/10 Income £000	2009/10 Net £000
	BVACOP Analysis of Services			
50,970	Adult Social Care	69,461	21,487	47,974
43,204	Cultural, Environmental, Regulatory and Planning	53,109	14,642	38,467
36,383	Children and Educational Services	165,404	123,592	41,812
17,204	Highways and Transport Services	23,061	7,749	15,312
7,781	Housing Services	48,869	43,695	5,174
3,727	Corporate and Democratic Core	6,381	760	5,621
950	Non-distributed Costs	933	0	933
2,391	Central Services	17,350	14,774	2,576
280	Court Services	337	0	337
(207)	Other Services	900	740	160
<u>162,683</u>	Net Cost of Services	<u>385,805</u>	<u>227,439</u>	<u>158,366</u>

5.5 In both versions of the Income and Expenditure account the net cost of services is shown after support services have been recharged, so that the recharged cost is reflected only in the accounts of the service receiving it. This is a requirement of BVACOP.

5.6 Under the BVACOP analysis of the Income and Expenditure Account:

- a. **Central Services** includes local tax collection, registration of births, deaths and marriages, elections, emergency planning, and local land charges.
- b. **Corporate and Democratic Core** includes two categories of expenditure, Democratic Representation and Management (DRM) and Corporate Management Costs. DRM includes all aspects of members' activities and Corporate Management includes activities that provide the infrastructure that allows services to be provided e.g. the Chief Executive, external audit, corporate level financing and treasury management.
- c. **Non-distributed costs** include costs relating to retirement benefits and capital charges for non-operational assets.

5.7 For 2009/10 the council's industrial estates, retail units and markets are shown below the net cost of services as trading accounts. In previous years they have been included in the net cost of services with a note to the accounts detailing the expenditure and turnover. This change was an audit recommendation in the 2008/09 accounts audit.

6. STATEMENT OF MOVEMENT ON GENERAL FUND BALANCE

6.1 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.

6.2 The main differences are:

- a. Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- b. 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.
- c. Retirement benefits are charged as amounts become payable to pension funds rather than as future benefits are earned.
- d. The movement on the General Fund balance also takes into account movements to and from earmarked reserves.

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

2008/09 £000	2009/10 £000
32,106 (Surplus)/Deficit on the Income and Expenditure Account	29,541
(31,768) Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(28,541)
338 Decrease /(Increase) in General Fund Balance for the Year	1,000
(6,728) General Fund Balance brought forward	(6,390)
<u>(6,390)</u> General Fund Balance carried forward	<u>(5,390)</u>

6.4 Paragraph 10.3 in the notes to the accounts provides a detailed analysis of the differences between the Income and Expenditure Account and the movement on the General Fund balance.

7. STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

7.1 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.

7.2 The Statement of Total Recognised Gains and Losses in 2009/10 is set out below.

2008/09	2009/10
£000	£000
32,106 (Surplus)/Deficit for the year on the Income and Expenditure Account	29,541
(12,153) Surplus arising on revaluation of fixed assets	(43,470)
377 Adjustment to Opening Balance on Pensions Reserve	0
(50) Prior year adjustment for Collection Fund	0
(4,220) Prior year adjustment for PFIs	0
(9,022) Actuarial (gains)/losses on pension fund assets and liabilities	28,987
7,038	15,058

7.3 The 2008/09 adjustment in relation to the pension reserve reflects a change in the valuation method for assets. Details of the 2009/10 movement on the pension fund assets and liabilities are set out in Note 10.29 in the statements.

7.4 The 2008/09 adjustment for the Collection Fund reflects a change of accounting policy, as described in Note 10.1 to the accounts.

7.5 The 2008/09 adjustment relating to PFIs reflects the retrospective adjustment to the balance sheet required by the introduction of IFRS accounting for PFIs and similar contracts. Further details are included in Note 10.1 to the statements.

8. BALANCE SHEET AS AT 31ST MARCH 2010

31.3.09 £000		Note	31.3.10 £000	31.3.10 £000
	Fixed Assets	10.10,10.13		
3,492	Intangible Fixed Assets	10.11	4,955	
	Operational Assets			
251,447	- Land and buildings		305,041	
11,720	- Vehicles, plant, furniture and equipment		11,516	
107,520	- Infrastructure assets		118,842	
2,944	- Community Assets		2,565	
50,821	Non-operational Assets		56,930	
427,944				499,849
1,240	Long-term debtors			1,333
4	Long-term investments	10.18		4
429,188	Total Long-term Assets			501,186
	Current Assets			
102	Stocks and work-in-progress		128	
31,135	Debtors	10.26	35,074	
26,595	Short-term Investments	10.18	12,947	
4	Landfill Allowance	10.31	703	
3,438	Cash and bank		3,731	
61,274				52,583
	Current Liabilities			
37,916	Creditors	10.25	40,034	
15,757	Short term borrowing	10.18	14,704	
5,646	Cash overdrawn		4,855	
59,319				59,593
431,143	Total Assets less Current Liabilities			494,176
104,068	Long-term borrowing	10.18	111,880	
62,833	Capital contributions deferred - applied		90,672	
7,327	Capital contributions deferred - unapplied		13,466	
4	Debt liability		3	
28,530	Finance lease liability	10.4	29,711	
130,114	Pensions liability	10.29	164,594	
2,029	Provisions	10.19	2,668	
334,905				412,994
96,238	Total Assets less Liabilities			81,182
	Financed by;			
163,703	Capital adjustment account	10.14		147,948
23,116	Revaluation reserve	10.15		65,322
(498)	Financial instruments adjustment account	10.20		(494)
(130,114)	Pensions reserve	10.20,10.29		(164,594)
17,558	Usable capital receipts	10.20		13,296
228	Deferred credits			195
(209)	Collection Fund adjustment account			(117)
16,064	Earmarked reserves	10.20		14,236
6,390	Revenue balances	10.20		5,390
96,238	Total net worth			81,182

9. CASH FLOW STATEMENT

2008/09 £000		2009/10 £000	2009/10 £000
	Revenue Activities		
	Cash outflows		
137,397	Cash paid to and on behalf of employees	138,738	
177,086	Other operating cash payments	224,306	
32,958	Housing Benefit paid out	39,673	
23	Payments to the Capital Receipts Pool	4	
2,393	Precepts paid	2,389	
349,857			405,110
	Cash inflows		
(72,846)	Council Tax income	(75,757)	
(46,793)	National non-domestic rate receipts from national pool	(44,994)	
(6,514)	Revenue Support Grant	(10,385)	
(32,760)	DWP grants for benefits	(38,185)	
(145,862)	Other government grants	(156,731)	
(44,821)	Other operating cash receipts	(89,536)	
(349,596)			(415,588)
261	Revenue Activities Cash Flow		(10,478)
	Servicing of Finance		
	Cash outflows		
4,906	Interest paid	5,165	
2,117	Interest element of finance lease payments	2,109	
	Cash inflows		
(2,724)	Interest/discount received	(393)	
4,299			6,881
	Capital Activities		
	Cash outflows		
41,857	Purchase of fixed assets	55,910	
251	Other capital cash payments	256	
42,108			56,166
	Cash inflows		
(5,854)	Sale of fixed assets	(474)	
(15,781)	Capital grants received	(32,956)	
(3,516)	Other capital cash receipts	(5,448)	
(25,151)			(38,878)
21,517	Net cash (inflow)/outflow before financing		13,691
	Management of Liquid Resources		
(14,700)	Net decrease in short term investments		(13,510)
3,117	Net increase in other liquid resources		4,527
	Financing		
	Cash outflows		
486	Repayments of amounts borrowed		18,055
628	Capital element of finance lease payments		953
	Cash inflows		
(13,000)	New loans raised		(24,800)
(1,952)	Net decrease/(increase) in cash		(1,084)

- 9.1 The 2008/09 comparative figures have been amended to exclude Trust Fund cash (see note 10.1.9)
- 9.2 Further information can be found in paragraph 10.32 to the Statements. The comparatives for 2008/09 have been amended due to a change in accounting policy in accounting for Council Tax, NNDR and PFI schemes.

10. NOTES TO THE CORE STATEMENTS

10.1 Prior Period Adjustments

10.1.1 The Balance Sheet figures for 31 March 2009 have been adjusted for 2 changes in accounting requirements in respect of the Collection Fund and Private Finance Initiative (PFI) accounting.

Collection Fund

10.1.2 Under the SORP 2009 the accounting treatment for the transactions between the Collection Fund and the General Fund have been revised. Under the new accounting arrangements Herefordshire Council (the billing authority) acts as an agent collecting council tax on behalf of the West Mercia Police Authority and the Hereford and Worcester Fire Authority (major preceptors) and itself. Consequently council tax transactions and balances are therefore allocated between the billing authority and major preceptors. The SORP 2009 also confirms that the collection of National Non-Domestic Rates (NNDR) is carried out by authorities as an agent activity on behalf of central government and any balances should be shown as payable or receivable from central government.

10.1.3 The changes to the 31 March 2009 Balance Sheet for Collection Fund were;

	31.3.09	Council Tax	NNDR	Adjusted
	£000	£000	£000	31.3.09
				£000
Debtors	31,883	(99)	(649)	31,135
Creditors	(38,706)	141	649	(37,916)
Collection Fund	251	(251)	0	0
Collection Fund Adjustment Account	0	209	0	209

These changes reflect;

- Any balances on the balance sheet relating to NNDR collection have now been consolidated to create just one overall debtor with central government.
- The balances on the Balance Sheet relating to council tax collection now only represent the council's share. A debtor has been created to represent the other major preceptor's share of the money due to the collection fund.

10.1.4 The changes to the 2008/09 Income and Expenditure Account and Statement of Movement in General Fund Balance for Collection Fund were;

	2008/09	Council Tax	Adjusted
	£000	£000	2008/09
			£000
Deficit for Year	21,926	(39)	21,887
Statutory Adjustments	(21,588)	39	(21,549)

The adjustment of £39,000 represents the council's share of the movement on the collection fund deficit in 2008/09 which is now required to be brought into the I & E Account.

PFI and Similar Contracts

10.1.5 The accounting requirements for PFI and similar contracts are no longer based on UK accounting standards but on International Reporting Standards (IFRS). The requirements apply to contracts existing at 31 March 2009 and prior period adjustments are required.

10.1.6 The council has 3 contracts which fall under this definition, Whitecross school PFI contract with Stepnell Ltd, Waste management PFI with Mercia Waste Management Ltd and the Shaw Healthcare contract for the provision of residential and ancillary services.

10.1.7 The changes to the 31 March 2009 Balance Sheet for PFI and similar contracts were;

	31.3.09 £000	Whitecross School £000	Mercia Waste £000	Shaw Healthcare £000	Adjusted 31.3.09 £000
Fixed Assets	402,929	18,908	518	5,589	427,944
Long-term debtors	1,173	145	(97)	19	1,240
Long-term liability	0	(16,552)	(3,118)	(8,860)	(28,530)
Revaluation reserve	(20,587)	(2,382)	558	(705)	(23,116)
Capital Adjustment Account	(169,680)	(119)	2,139	3,957	(163,703)

These changes reflect;

- the initial recognition of the assets used in the contract on the council's balance sheet based on the contract and matched by a long-term liability to pay the contractor.
- subsequent revaluation and depreciation of the assets, with opposite entries through the revaluation reserve and capital adjustment account.
- reversal of previous entries relating to the recognition of the residual value of the assets as long-term debtors.
- recognition of prepayment for life-cycle replacement costs.

10.1.8 The changes to the 2008/09 Income and Expenditure Account and Statement of Movement in General Fund Balance for PFI and similar contracts were;

	Adjusted 2008/09 £000	Whitecross School £000	Mercia Waste £000	Shaw Healthcare £000	Adjusted 2008/09 £000
Net cost of services	154,581	(999)	5,160	3,941	162,683
Net operating expenditure	165,609	259	5,298	4,662	175,828
Deficit for the year	21,887	259	5,298	4,662	32,106
Statutory adjustments	(21,549)	(259)	(5,298)	(4,662)	(31,768)

These changes reflect the requirement to split contract payments between service costs, financing costs and payments towards the balance sheet liability. Also included are depreciation and impairment charges on the assets.

Trust funds

- 10.1.9 In previous accounts trust fund balances invested with the council have been included in the cash balance in the balance sheet with an equivalent amount in the council's short-term borrowing. Following an Audit Commission recommendation these balances are no longer shown in the accounts. This amounted to £1.04 million in 2008/09 and £1.21 million in 2009/10.

10.2 Trading Operations

- 10.2.1 The council has a number of trading units where the service manager is required to operate in a commercial environment and generate income from external customers. In previous years these were accounted for in the net cost of services, but for 2009/10 are included in the net operating expenditure section of the Income and Expenditure account

- 10.2.2 Significant trading accounts are summarised as follows:

		2009/10 £000	2009/10 £000
Markets The council owns and manages open and closed markets, generating income from letting of premises and market stalls. The deficit in 2008/09 was £1.684 million, including impairment charges arising from the fall in property values during the economic down-turn.	Turnover	(732)	
	Expenditure	521	
	Surplus		(211)
Industrial Estates The council owns and manages a number of industrial estates in the county. The deficit in 2008/09 was £68,000, including impairment charges arising from the fall in property values during the economic down-turn	Turnover	(1,350)	
	Expenditure	559	
	Surplus		(791)
Retail Properties The council owns retail premises in Hereford City centre from which it receives commercial rents. The surplus in 2008/09 was £501,000.	Turnover	(673)	
	Expenditure	296	
	Surplus		(377)

10.3 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

- 10.3.1 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 calculated on a different basis with additional items charged or credited to the General Fund as follows:

2008/09 £000	2009/10 £000
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	
(735) Amortisation of intangible fixed assets	(913)
(30,736) Depreciation and impairment of fixed assets	(25,090)
2,718 Government Grants deferred amortisation	3,589
(7,357) Revenue Expenditure Funded from Capital under Statute	(10,873)
2,392 Grant Supporting Revenue Expenditure Funded from Capital under Statute	7,627
4 Effective Interest Rate adjustment	4
39 Collection fund adjustment account	91
496 Surplus or loss on the sale of fixed assets (non-revenue)	(4,495)
<u>(16,225)</u> Net charges made for retirement benefits in accordance with FRS17	<u>(16,474)</u>
(49,404)	(46,534)
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	
7,443 Statutory provision for repayment of debt	8,308
378 Capital expenditure charged to the General Fund Balance	548
(21) Transfer of usable capital receipts to meet payments to the Housing Capital Receipts Pool	(16)
10,344 Employer's contributions payable to the pension fund and retirement benefits payable direct to pensioners	10,981
<u>18,144</u>	<u>19,821</u>
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	
(508) Net transfer to/(from) earmarked reserves	(1,828)
<u>(31,768)</u>	<u>(28,541)</u>

10.4 Private Finance Initiative (PFI) and Similar Contracts

10.4.1 From 2009/10 PFIs and similar contracts are no longer accounted for under UK accounting standards but on International Financial Reporting Standards (IFRS).

10.4.2 The council has 2 formal PFIs, Whitecross School and Waste disposal (in partnership with Worcestershire County Council) and one other contract identified as falling under IFRIC 12, the Shaw Healthcare Contract. Further details of these arrangements are set out in Note 10.16.

10.4.3 The value of assets held under PFI and similar contracts at the balance sheet date is as follows;

	£000
Net book value 31.3.09	26,806
Additions	2,255
Revaluations and impairments	(1,520)
Depreciation	(1,256)
Net book value 31.3.10	<u>26,285</u>

10.4.4 The value of liabilities arising from PFI and similar contracts at the balance sheet date is as follows;

	£000
Liabilities at 31.3.09	(28,531)
Additions	(2,133)
Write-down of liability in the year	953
Liabilities at 31.3.10	<u>(29,711)</u>

10.4.5 The table below shows an estimate of the payments to be made under PFI and similar contracts.

	Service Charges £000	Lifecycle Costs £000	Finance liability £000	Interest & similar £000	Total £000
Within one year	10,961	309	823	2,263	14,356
Within two to five years	46,187	1,299	4,091	9,123	60,700
Within six to ten years	64,218	1,776	6,819	11,072	83,885
Within eleven to twenty years	76,570	4,147	15,910	16,166	112,793
Within twenty-one to twenty-five years	19,346	731	4,321	4,600	28,998

10.5 Financial Relationships with Companies

- 10.5.1 The council has some interests in companies, but no material interests that would require group accounts to be prepared.
- 10.5.1 The council holds 1.05% of shares in West Midlands Transport Information Services. The council does not have the benefits of future economic benefits or exposure to the risks inherent in the benefits, nor can it control decision making. Therefore the relationship does not require group accounts.
- 10.5.2 The council has a 20% non-voting shareholding in Amey Wye Valley for the provision of a number of services, the largest being highways maintenance. The council does not have control over decision making or exercise dominant influence. Therefore there is no group relationship requiring group accounts. This is conducted as a contractual arrangement with the transactions included in the Income and Expenditure account and capital accounts
- 10.5.3 The council is also represented by its elected members on the West Mercia Supplies Joint Committee. West Mercia Supplies (WMS) is a purchasing consortium that was established in 1987. Herefordshire Council has a 25% holding in WMS and is one of four participating authorities, the other three councils being Worcestershire County Council, Shropshire County Council and the Borough of Telford and Wrekin. WMS exists in order to provide joint procurement services to the four constituent authorities. Having regard to the SORP and the requirements of FRS 9 WMS is a Joint Arrangement that is not a Joint Entity with the financial advantage of bulk purchasing arrangements reflected in the Income and Expenditure Account. The council's share of the joint arrangement, including assets, liabilities, income, expenditure and cash flow is not considered material to the accounts.
- 10.5.4 The council has an interest in the Edgar Street Grid company, whose role is to steer the Edgar Street redevelopment. Edgar Street Grid is a company limited by guarantee and the council is a member. However, this relationship does not require group accounts as the company provides an independent role in the redevelopment. Contracts with third parties are entered into by the council and the financial transactions relating to these are included in the council's accounts.
- 10.5.5 The council has 33% voting rights with Herefordshire Housing. However, the council is not exposed to the direct risk of any loss through transactions or collapse, and therefore there is no requirement to complete group accounts.

10.6 Partnership Schemes Under Section 75 of the Health Act 2006

- 10.6.1 There are six Section 75 agreements between the council and Primary Care Trust (PCT).
- 10.6.2 Three are hosted by the PCT:
- a. Mental Health.
 - b. Hillside Intermediate Care.
 - c. Blanchworth Contract, Kington.
- 10.6.3 The three agreements hosted by the council are:
- a. Learning Disabilities.
 - b. Integrated Community Equipment Store (ICES).
 - c. Joint Agency Management for Out of County Placements.

Mental Health

10.6.4 This Section 75 agreement is the integrated mental health and social care service. This service is available to all residents within the county of Herefordshire.

10.6.5 The main partners in this pooled budget and their contributions were:

- a. Herefordshire Primary Care Trust - £21.7 million.
- b. Herefordshire Council - £7.3 million.

10.6.6 Gross income and expenditure for the year is summarised below:

2008/09		2009/10
£000		£000
(25,263)	Gross Income	(28,977)
26,488	Gross Expenditure	31,576
<u>1,225</u>	Net over / (under) spend	<u>2,599</u>

10.6.7 The council's element of the overspend on mental health is £178,000, which was due to high numbers of residential and nursing packages and domiciliary care partially offset by savings in mental health intermediate care.

Hillside Intermediate Care

10.6.8 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.

10.6.9 The main partners in this pooled budget and their contributions were:

- a. Herefordshire Primary Care Trust - £919,000
- b. Herefordshire Council - £378,000

10.6.10 Gross income and expenditure for the year is summarised below:

2008/09		2009/10
£000		£000
(1,276)	Gross Income	(1,297)
1,283	Gross Expenditure	1,404
<u>7</u>	Net over / (under) spend	<u>107</u>

10.6.11 The council's gross overspend for Hillside intermediate care is £31,000.

Blanchworth Contract, Kington

10.6.12 Blanchworth Care is a contract monitored by the PCT to provide beds at Kington Court, predominantly for older people, of which the council has access to a proportion of the beds.

10.6.13 The main partners in this pooled budget and their contributions were:

- a. Herefordshire Primary Care Trust - £597,000
- b. Herefordshire Council - £363,000

10.6.14 Gross income and expenditure for the year is summarised below:

2008/09		2009/10	
£000		£000	
(871)	Gross Income	(960)	
871	Gross Expenditure	960	
<u>0</u>	Net over / (under) spend	<u>0</u>	

Learning Disabilities

10.6.14 This Section 75 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.

10.6.15 The main partners in this pooled budget and their contributions were:

- a. Herefordshire Primary Care Trust - £3.5 million
- b. Herefordshire Council - £11.8 million

10.6.16 Gross income and expenditure for the year is summarised below:

2008/09		2009/10	
£000		£000	
(13,696)	Gross Income	(15,312)	
14,397	Gross Expenditure	16,727	
<u>701</u>	Net over / (under) spend	<u>1,415</u>	

10.6.17 The council's gross over spend for integrated Learning Disabilities service was £1,415,000. The main areas of overspend relate to the increased number of expensive nursing and residential packages, along with increased number of clients requiring domiciliary care, supported accommodation and personal budgets.

Integrated Community Equipment Service

10.6.18 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.

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

- a. Herefordshire Primary Care Trust - £271,000
- b. Herefordshire Council - £271,000

10.6.20 Gross income and expenditure for the year is summarised below:

2008/09		2009/10	
£000		£000	
(534)	Gross Income	(543)	
534	Gross Expenditure	560	
<u>0</u>	Net over / (under) spend	<u>17</u>	

JAM Out of County Placements

10.6.21 Herefordshire Council and the PCT have signed a Section 75 agreement for the 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.

10.6.22 Gross income and expenditure for the year is summarised below:

2008/09		2009/10
£000		£000
	Gross Funding	
(206)	Herefordshire PCT	(264)
(619)	Herefordshire Council (DSG)	(791)
(619)	Herefordshire Council	(791)
<u>(1,444)</u>	Total Funding	<u>(1,846)</u>
1,444	Total Expenditure	1,846
<u>0</u>	Net over / (under)spend	<u>0</u>

10.7 General Government Grants

10.7.1 The General Government Grants of £20.9 million within the Income and Expenditure Account (paragraph 5.2) is made up of £10.4 million Revenue Support Grant (£6.5 million 2008/09), £10.3 million for the Area Based Grant (ABG) (£8.8 million 2008/09) and £0.2 million Housing and Planning Grant.

10.8 Members Allowances

10.8.1 Allowances are paid to members under the Local Authority [Members Allowances] [England] Regulations 2003. In 2009/10 members were paid a total of £701,528 under these regulations (£664,336 in 2008/09). This was made up of £424,241 basic allowances, £229,878 special responsibility allowances and £47,409 for travelling and subsistence.

10.9 Employees remuneration

10.9.1 The Accounts and Audit Regulations set out the requirements for publishing information about employee remuneration disclosures in the statement of accounts. These regulations have been amended for the 2009/10 accounts to introduce a new legal requirement to publish information about senior officers' remuneration.

10.9.2 Remuneration is defined as 'all amounts paid to or receivable by a person, and includes sums due by way of expenses allowances (so far as those sums are chargeable to UK income tax), and the estimated money value of any other benefits received by an employee other than in cash' (e.g. benefits in kind).

10.9.3 In previous years the note to the accounts showed numbers of employees with remuneration over £50,000 in pay bands in multiples of £10,000. This has been changed to bands of £5,000. For the banding note remuneration excludes employer's pension contributions.

10.9.4 The 2009/10 banding information is set out below. Where no employees fell within a particular band, this band is not shown in the table;

From	To	<u>No of employees</u>		<u>2009-10</u>		<u>2008-09</u>	
		<u>2009-10</u>	<u>2008-9</u>	<u>Non School</u>	<u>School</u>	<u>Non School</u>	<u>School</u>
£50,000	£55,000	50	42	18	32	13	29
£55,000	£60,000	18	17	1	17	1	16
£60,000	£65,000	9	7	3	6	3	4
£65,000	£70,000	8	9	2	6	3	6
£70,000	£75,000	13	11	10	3	8	3
£75,000	£80,000	6	4	4	2	1	3
£80,000	£85,000	4	3	2	2	3	0
£85,000	£90,000	1	2	0	1	1	1
£90,000	£95,000	1	0	0	1	0	0
£95,000	£100,000	2	0	2	0	0	0
£100,000	£105,000	0	1	0	0	1	0
£105,000	£110,000	3	2	3	0	2	0
£115,000	£120,000	0	2	0	0	2	0
£120,000	£125,000	1	1	1	0	1	0
£180,000	£185,000	1	1	1	0	1	0
		117	102	47	70	40	62

10.9.5 The amended regulations introduce an additional requirement to disclose details for senior employees whose salary is £50,000 or more. For senior employees whose full-time equivalent salary is between £50,000 and £150,000 the disclosure is by way of job title and for those whose salary is £150,000 or more they are identified by name.

10.9.6 For the purposes of the regulations a 'senior employee' is defined as an employee whose remuneration is at least £50,000 and who is:

- a) The designated head of paid service or chief officer; or
- b) Any person having responsibility for the management of the relevant body to the extent that the person has power to direct or control the major activities of the body, in particular activities involving the expenditure of money, whether solely or collectively with other persons.

10.9.7 The disclosure for the council for 2009/10 is set out below. The employees included are Directors and staff who report to Directors who are employed on Head of Service pay grades. These staff are also included in the table at 10.9.4. For this note employer's pension contributions are included.

Post holder information	Notes	Salary (inc. fees and allowances) £	Benefits in kind £	Total remuneration excluding pension contributions 2009-10 £	Pension contributions £	Total remuneration including pension contributions 2009-10 £
Employees with salaries £150,000 or more						
Chief Executive - C Bull	45% recharged to the PCT	183,724	0	183,724	36,010	219,734
		183,724	0	183,724	36,010	219,734
Employees with salaries between £50,000 and £150,000						
Director of Children's Services		122,940	0	122,940	24,096	147,036
Director of Regeneration		109,212	167	109,379	21,405	130,784
Director of Resources		106,193	0	106,193	20,813	127,006
Director of Environment	left 19/3/10	105,689	0	105,689	20,715	126,404
Associate Director of Integrated Commissioning		83,032	0	83,032	16,274	99,306
Assistant Director, Planning Performance & Development		80,602	0	80,602	15,798	96,400
Head of Community Operations		78,355	0	78,355	15,357	93,712
Head of Inclusion & Improvement		78,332	0	78,332	15,353	93,685

Post holder information	Notes	Salary (inc. fees and allowances) £	Benefits in kind £	Total remuneration excluding pension contributions 2009-10 £	Pension contributions £	Total remuneration including pension contributions 2009-10 £
Head of Service - Adult Services		75,520	0	75,520	14,801	90,321
Assistant Director Environment & Culture		72,414	0	72,414	14,193	86,607
Head of Asset Management		72,414	0	72,414	14,193	86,607
Head of Benefit & Exchequer		72,414	0	72,414	14,193	86,607
Head of Communications		72,414	0	72,414	14,193	86,607
Head of Planning Services		72,414	0	72,414	14,193	86,607
Head of Policy & Research		72,414	0	72,414	14,193	86,607
Head of Strategic Housing		72,414	0	72,414	14,193	86,607
Head of Economic & Community Services		71,442	0	71,442	14,193	85,635
Assistant Director Environment & Culture		70,481	0	70,481	13,814	84,295
Assistant Director Environment & Culture		70,477	0	70,477	13,813	84,290
Acting Head of Policy & Performance	Acting HoS 1/1/10 to 31/3/10. Left 31/3/10.	69,949	0	69,949	13,066	83,015
Regulatory Services Manager	Acting HoS 11/5/09 to 31/3/10	65,753	212	65,965	12,887	78,852
Technical Accounting Manager	Acting HoS 1/4/09 to 30/9/09	64,014	0	64,014	12,546	76,560

Post holder information	Notes	Salary (inc. fees and allowances) £	Benefits in kind £	Total remuneration excluding pension contributions 2009-10 £	Pension contributions £	Total remuneration including pension contributions 2009-10 £
Head of Safeguarding & Vulnerable Children Corporate Programmes & Shared Services Lead	Started 8/6/09 - Annualised salary was £74,173	60,368	742	61,110	11,832	72,942
Officer	Acting HoS 1/4/09 to 31/5/09	54,700	0	54,700	10,728	65,428
Head of Customer Services	Acting HoS 1/7/09 to 31/3/10	53,136	0	53,136	10,785	63,921
Head of Financial Services	Started 1/10/09 - Annualised salary was £74,173	37,086	0	37,086	7,268	44,354
Assistant Chief Executive - Legal & Democratic	10% recharged to the PCT. Left 26/6/09	20,558	0	20,558	4,029	24,587
		1,984,737	1,121	1,985,858	388,924	2,374,782

In addition to the employees above the council contributed towards some senior staff employed by the PCT as follows;

Director of Public Health	30%
Director of Clinical Health and Quality	30%
Assistant Chief Executive - HR	50%
Joint Director of ICT	33%

10.10 Summary of Capital Expenditure and Fixed Asset disposals

10.10.1 The following tables summarise the movements on fixed assets, capital expenditure and capital financing in the year.

Movement on Fixed Assets

	<i>Operational assets</i>				<i>Non-operational assets</i>			<i>Intangible assets</i>	<i>Total assets</i>
	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
Cost or Valuation									
At 1 st April 2009	258,312	15,832	116,777	2,944	35,719	12,030	3,073	6,403	451,090
Additions	18,995	3,132	17,123	247	196	18,575	445	2,376	61,089
Disposals/deletions	(5,772)	(30)	-	-	(2)	(1,039)	-	-	(6,843)
Revaluations*	2,240	-	-	-	37,744	-	425	-	40,409
Impairments*	(9,331)	(287)	-	(546)	(192)	-	-	-	(10,356)
Reclassifications	50,123	-	-	(80)	(44,791)	(5,343)	91	-	-
At 31st March 2010	314,567	18,647	133,900	2,565	28,674	24,223	4,034	8,779	535,389
Depreciation and Impairments									
At 1 st April 2009	(6,865)	(4,112)	(9,257)	-	-	-	(1)	(2,911)	(23,146)
Charge for 2009/10	(5,895)	(3,038)	(5,801)	-	-	-	-	(913)	(15,647)
Disposals	173	19	-	-	-	-	-	-	192
Reclassifications	-	-	-	-	-	-	-	-	-
Revaluations	3,061	-	-	-	-	-	-	-	3,061
At 31st March 2010	(9,526)	(7,131)	(15,058)	-	-	-	(1)	(3,824)	(35,540)
Balance Sheet amount at 31st March 2009	251,447	11,720	107,520	2,944	35,719	12,030	3,072	3,492	427,944
Balance Sheet amount at 31st March 2010	305,041	11,516	118,842	2,565	28,674	24,223	4,033	4,955	499,849
Nature of asset holding:									
Owned	282,547	7,725	118,842	2,565	28,674	24,223	4,033	4,955	473,564
PFI Finance lease	22,494	3,791	-	-	-	-	-	-	26,285
	305,041	11,516	118,842	2,565	28,674	24,223	4,033	4,955	499,849

*Revaluations: This relates to increased valuations and also reduced valuations where there is a previous revaluation reserve to cover (for the specific property concerned).

*Impairments: This relates to a reduced valuation, where there is no revaluation reserve available to cover it (so that the loss is charged to the Income and Expenditure Account).

10.10.2 Due to a change in accounting requirements the cost or valuation brought forward at 1st April 2009 represents the net book value of fixed assets as at 1 April 2007 plus adjustments for capital movements (expenditure, disposals and revaluations) in the two years to 31 March 2009. Similarly, the depreciation provision brought forward relates only to depreciation charged in the two years since 1 April 2007.

Significant changes during the year

10.10.3 Opening balances

The net book values brought forward for land and buildings and also for vehicles plant and equipment are higher than those reported in last years accounts by £25 million. This is because of accounting adjustments made, in accordance with recommended practice, to include PFI schemes. Further detail is provided in note 10.1.7.

10.10.4 Additions

Of the total additions of £61.09 million, the largest amounts were spent on the construction of Minster School (£11.67 million) and Wyebridge Academy (£5.79 million), the purchase of the council's Plough Lane offices (£4.31 million) and amounts spent on highways maintenance (9.64 million) and other schemes under the council's Transport Strategy (£2.67 million).

10.10.5 Disposals

Barrs Court School in Hereford, Wigmore High School and Wigmore Primary School all achieved Foundation Status during the year. As a result of the schools no longer being controlled by the council, the schools have been removed from the council's balance sheet. The net book values written off were £2.3 million for Barrs Court School, £3.3 million for Wigmore High School and £1.0 million for Wigmore Primary School.

10.10.6 Revaluations

Smallholdings were previously valued as agricultural estates in perpetuity but have now been valued on an open market basis (adjusting for the tenants interests). The change in valuation resulted in an increase in value from £4.4 million last year to £41.8 million this year.

10.10.7 Reclassifications

Smallholdings were previously classified as investment properties but were reclassified this year as operational properties in accordance with recommended accounting practice. Following the revaluation of the smallholdings noted above, this led to £41.8 million being reclassified

Capital Expenditure and Financing

10.10.8 The following table shows capital expenditure in the year and how it was financed, including a reconciliation to the council's capital financing requirement.

2008/09 £000	Capital Expenditure & Financing	2009/10 £000
136,270	Opening capital financing requirement	150,375
	Opening adjustment for PFI and Service Concessions	28,530
		<u>178,905</u>
	<u>Capital Investment</u>	
32,907	Operational assets	36,995
5,965	Non-operational assets	19,463
2,190	Intangible assets	2,376
162	PFI asset prepayment	256
7,357	Revenue expenditure funded from capital under statute	10,873
	PFI finance liabilities	2,133
	<u>Sources of finance</u>	
(21,153)	Grants and Contributions	(40,566)
(6,217)	Capital Receipts	(4,914)
(7,106)	Sums set aside from revenue	(8,856)
<u>150,375</u>	Closing capital financing requirement	<u>196,665</u>
	<u>Explanation of movements in year</u>	
12,750	Borrowing – Supported Capital Expenditure (Revenue)	13,567
8,170	- Prudential Borrowing	10,368
	Finance lease liability	2,133
(6,815)	Minimum revenue provision	(8,308)
<u>14,105</u>		<u>17,760</u>

10.11 Intangible Assets

10.11.1 Movement in Intangible Fixed Assets in the year were:

	Purchased software licences £000
Original cost	6,403
Amortisation to 1 April 2009	(2,911)
Balance at 1 April 2009	<u>3,492</u>
Expenditure in year	2,376
Amortisation for year	(913)
Balance at 31 March 2010	<u>4,955</u>

10.11.2 All intangible assets relate to software which is being written off over its estimated useful life of either 3 years or 5 years.

10.12 Significant Commitments Under Capital Contracts

10.12.1 The significant commitments in respect of capital contracts due to be met in 2010/11 and 2011/12 are as follows:

Scheme	2010/11 £000	20011/12 £000
Minster Replacement School (August 2010)	3,292	0
Herefordshire Connects (December 2011)	684	0
Hereford Academy (December 2011)	12,463	4,552
	16,439	4,552

10.13 Fixed Assets

10.13.1 The major fixed assets held by the council as at 31st March 2010 includes:

31.03.10

Children and Young People's Services

Primary Schools	71
Secondary Schools	13
Special Schools	4
Pupil Referral Units	2
Other Educational Establishments	3
Children and Family Centres	7
Youth Centres	8

Adult and Community Services

Homes for Older People	6
Other Social Care Homes	10
Day Centres	5
Other Social Services Establishments	7
Libraries	6
Heritage, Museums & Galleries	5
Leisure Centres	6
Swimming Pools	4
Other Leisure/Community Facilities	5

Environment

Principal County roads	380km
Distributor/Access roads	2918km
Cemeteries	4
Crematorium	1
Public Conveniences	29
Travellers Sites	6
Bus Stations	2
Car Parks	42
Open Markets	2
Household Waste Sites	5

Other

Smallholdings (non-operational assets)	58
General Buildings and Offices	29
Operational Depots	5
Registrars offices	2
Industrial Estates – Units	245
Commons, Parks and Other Open Spaces	76
Other Non-operational Assets	337

Valuations

10.13.2 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 Asset Management and Property Services. The basis for valuation is set out in the Statement of Accounting Policies.

10.13.3 The council's assets are revalued on a 5 year rolling programme. The following table shows the fixed assets by the year they were valued.

	Land & Buildings – Operational £'000	Other Operational £'000	Non- Operational £'000	Intangible Assets £'000	Total £'000
Valued at historical cost	0	155,112	24,223	8,779	188,114
Valued at current value in:					
2005/06	43,197	0	3,974	0	47,171
2006/07	31,205	0	1,557	0	32,762
2007/08	13,278	0	583	0	13,861
2008/09	31,140	0	533	0	31,673
2009/10	195,747	0	26,061	0	221,808
Cost or valuation at 31 st March 2010	314,567	155,112	56,931	8,779	535,389

10.13.4 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.

Depreciation

10.13.5 The depreciation methods used are set out in the Accounting Policies (paragraph 3.9.10). In 2009/10 the total depreciation on fixed assets was £14.7 million, plus amortisation of intangible assets of £913,000.

10.14 Capital Adjustment Account

10.14.1 The Capital Adjustment Account provides a balancing mechanism between the different rates at which assets are depreciated under the SORP and are financed through the capital controls system. It is matched by fixed assets within the balance sheet and does not represent resources available to spend.

10.14.2 Below is a breakdown of the movement on the Capital Adjustment Account:

	£000
Restated Balance as at 1st April 2009	(163,703)
Reversal of;	
Depreciation charges	14,734
Amortisation of intangible assets	913
Amortisation of grants supporting assets	(3,589)
Impairment charges	10,356
Revenue charged to capital under statute	10,873
Grant supporting Revenue charged to capital under statute	(7,627)
Minimum revenue provision	(8,308)
Net book value of assets disposed in year	6,651
Write-off of grants on disposed assets	(1,510)
Transfers to revaluation reserve	
For depreciation of assets	(478)
For disposal of assets	(786)
Revenue contribution to capital	(548)
Capital receipts applied	(4,914)
Credit arrangements and debt written off	(12)
Balance as at 31st March 2010	<u>(147,948)</u>

10.15 Revaluation Reserve

10.15.1 The Revaluation reserve records unrealised revaluations arising from holding fixed assets from 1 April 2007, when it was introduced. Below is a breakdown of the movement on the Revaluation Reserve:

	£000
Balance as at 1st April 2009	(23,116)
2009/10 Revaluations	(43,470)
Transfers to capital adjustment account	
For depreciation of assets	478
For disposal of assets	786
Balance as at 31st March 2010	<u>(65,322)</u>

10.16 Undischarged obligations arising from long-term contracts

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

a. 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 of the contract over its full life is in excess of £500 million, of which around 25% relates to Herefordshire Council. The original life of the contract was 25 years with the option to extend this by 5 years and there is an “in principle” agreement to exercise this agreement. As at 31st March 2010, 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. The failure of the contractor to secure planning permission for an Energy from Waste Plant at Kidderminster has meant that the two authorities would be unable to meet current government targets for recycling and the diversion of bio-degradable waste from landfill. Negotiations continue to vary the current contract to secure longer-term waste treatment facilities within the two counties to enable targets to be met as well as securing shorter-term waste treatment capacity to ensure the Landfill Allowance Trading Scheme (LATS) targets are met. To secure LATS compliance Mercia Waste have submitted a planning application for an Energy from Waste Plant for 200,000 tonnes per annum at Hartlebury in Worcestershire to deal with waste from the two counties.

b. 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.

c. Amey Wye Valley Limited

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 (HJS) with the transfer of Herefordshire Commercial services staff to the new company. On 31st August 2007 Amey Wye Valley Limited took over this contract from HJS.

d. Owen Williams

On 1st 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. During 2008/09 the company was taken over by Amey and is now called Amey OW Limited.

e. Amey Herefordshire Managing Agent Contract (MAC)

During 2009 elements of the two contracts above (c and d) with Amey were re-negotiated to form a ‘Managing Agent Contract’ (MAC) through which Amey Herefordshire deliver an ‘end to end’ highways, parks and public right of way service for the council and the people of Herefordshire. Through this partnership Amey also deliver a range of ancillary support services to the council, including printing, catering, courier and fleet maintenance. The above contracts remain in place for the delivery of all ‘Non-MAC’ services.

Under these arrangements which commenced on 1st September 2009, council staff from highways, parks, and public rights of way services transferred to Amey Herefordshire. The estimated annual value of the works and services delivered through MAC is £20 million and the arrangements guarantee a minimum saving of £1 million each year and link the reward of contract extension to continuous improvement in service delivery and value for money for the people of Herefordshire.

f. Shaw Homes

The council has a contract with Shaw Healthcare for the development and provision of residential homes and day care centres previously operated directly by the council. The contract expires in 2033/34 for all homes. The level of payments are dependant on the volume and nature of service elements and Shaw Healthcare's performance in providing services. The payments for 2009/10 totalled £5 million.

10.17 Operating leases

10.17.1 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. These amounts are as follows:

2008/09		2009/10
£000		£000
	The amount of lease rentals paid to lessors	
908	Other Land & Buildings	731
314	Vehicle, Plant & Equipment	261
	Rental received in the year for operating leases	
2,555	Other Land & Buildings	2,635

10.17.2 The council was committed at 31st March 2010 to making payments of £823,000 under operating leases in 2010/11, comprising the following elements:

	Other Land & Buildings	Vehicles, Plant & Equipment
	£000	£000
Leases expiring in 2010/11	50	107
Leases expiring between 2011/12 and 2015/16	179	24
Leases expiring after 2015/16	463	0

10.17.3 With regards to the council's activity as a lessor, the gross value of assets held for use in operating leases was £148.29 million as valued at 1st April 2009 and subject to £1.95 million depreciation to 31st March 2010.

10.18 Financial Instruments Balances

Investments

10.18.1 The investments disclosed in the Balance Sheet are classified as follows:

	Current		Long-Term	
	2008/09	2009/10	2008/09	2009/10
	£000	£000	£000	£000
Loans and receivables	26,595	12,947	4	4

10.18.2 Current investments consist of deposits with banks and building societies. The long-term investments consist mainly of UK government stocks held.

Borrowing

10.18.3 The borrowings disclosed in the Balance Sheet are classified as follows:

	Current		Long-Term	
	2008/09 £000	2009/10 £000	2008/09 £000	2009/10 £000
Financial liabilities at amortised cost:				
Loans from the Public				
Works Loan Board	258	2,210	104,068	111,880
Bank Loans	12,498	12,494	0	0
Other Loans	3,001	0	0	0
Total borrowings	15,757	14,704	104,068	111,880

10.18.4 In accordance with recommended accounting practice, the above figures for both investments and borrowing include the year end accruals for interest receivable and payable.

10.18.5 No assets have been pledged as collateral for any of the council's liabilities and the council does not hold any collateral in support of amounts due to the council.

Financial Instruments Gains and Losses

10.18.6 The gains and losses recognised in the Income and Expenditure Account in relation to financial instruments are made up as follows:

	Financial Liabilities Measured at amortised cost £000		Financial Assets Loans and receivables £000	
	2008/09	2009/10	2008/09	2009/10
Interest and similar charges:				
Loan interest payable	4,964	5,178		
PFI interest	2,117	2,110		
Interest and investment income			(2,225)	(254)
Loss/(Gain) for the year on financial instruments	7,081	7,288	(2,225)	(254)
West Mercia Supplies surplus redistribution			(643)	(651)
Total per Income and Expenditure Account	7,081	7,288	(2,868)	(905)

Fair Value of Assets and Liabilities carried at amortised cost

10.18.7 Financial liabilities and financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. Where the fair value differs from the carrying amount these items are shown below.

	31 March 2009		31 March 2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial Liabilities	119,825	122,232	126,584	129,549
Short term loans and receivables	26,595	26,632	12,947	12,916

10.18.8 The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms-length transaction. At the point at which the asset or liability was initially recognised the fair value would have been the same as cost, but subsequent interest rate changes result in the fair value of fixed-rate financial instruments changing. For example, a fall in interest rates will cause the fair value of fixed-rate borrowing to increase and the fair value of fixed-rate investments to fall.

10.18.9 The fair values above have been assessed by Arlingclose, the council's treasury management advisors. The largest part of the above balances consists of the council's loans with the Public Works Loan Board (PWLB). The fair values of the PWLB loans have been calculated using the premature repayment rates for these loans. The fair values of the bank loans have been assessed using the market cost of equivalent loans with the same remaining periods to maturity.

10.18.10 The fair value of the financial liabilities is higher than the carrying amount because the authority's portfolio of loans are all fixed rate and the interest payable on these loans is slightly higher than the relatively low rates prevailing at the Balance Sheet date. The commitment to pay interest rates at above current market rates increases the redemption premium that the council would have to pay if the lender agreed to early repayment of the loans.

10.18.11 The fair value of the council's investments was assessed using market rates but, because all are short-term, there is little difference between the carrying amount and the fair value.

Nature and Extent of Risks Arising from Financial Instruments and How the Council Manages Those Risks

10.18.12 The council's activities expose it to a variety of financial risks:

- a. **Credit risk:** The possibility that other parties might fail to pay amounts to the council.
- b. **Liquidity risk:** The possibility that the council might not have funds available to meet its commitments associated with financial instruments.
- c. **Market risk:** The possibility that the council may suffer financial loss as a result of economic changes such as interest rate fluctuations.

10.18.13 The council has adopted CIPFA's Treasury Management in the Public Services Code of Practice in setting out a Treasury Management Policy and strategies to control risks to financial instruments.

10.18.14 The council's exposure to the three types of risk is no greater than the previous year and the council's approach to risk management is fundamentally unchanged.

The council regards the effective management and control of risk as the prime objective of its treasury management activities. In the current economic climate, market risk continues to be the most significant risk as the interest rate payable on the council borrowings continues to be significantly higher than the interest rate earned on investments.

Credit Risk

- 10.18.15 Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the council's customers. Deposits are not made with banks and financial institutions unless they are rated by independent agencies, such as Fitch and Moodys with the following minimum ratings: Moodys (Long-term: A, Short-term: P-1) Fitch (Long-term: A, Short-term: F1).
- 10.18.16 From 1 April 2010 the council changed its treasury advisors from Sector to Arlingclose. One of the main reasons was that Arlingclose have an excellent reputation for their market research enabling them to provide timely and sound financial advice concerning eligible counterparties. For example, they were the only public sector advisor to have issued warnings to their clients well in advance of the Icelandic crisis with the result that none of their clients had funds invested in Icelandic banks at the time of the banks collapse. In addition to monitoring credit ratings, the counterparties recommended by Arlingclose are selected after considering other available market information such as share prices and the strength and stability of the country concerned.
- 10.18.17 During the year ended 31st March 2010 new investments have only been placed with the larger of the UK banks, AAA-rated Money Market Funds and the government's Debt Management Office.
- 10.18.18 Credit risk has also been minimised by running down the council's investments in preference to taking out external borrowing.
- 10.18.19 At the year end the council's investments consisted of a £5 million one year term deposit with the Bank of Scotland (maturing January 2011); £5 million invested in an instant access account with National Westminster Bank and £2.92 million invested in an instant access account with Clydesdale Bank. (The figure in the balance sheet for short-term investments includes an additional £27,000 of accrued interest receivable)
- 10.18.20 The following analysis summarises the council's potential maximum exposure to credit risk, based on default and uncollectability over the last five financial years, adjusted to reflect current market conditions.

	Amount at 31st March 2010	Historical experience of default	Historical experience adjusted for market conditions at 31st March 2010	Estimated maximum exposure to default and uncollectability
	£000	%	%	£000
Deposits with banks and financial institutions	12,947	Nil	Nil	Nil
Council debtors per Debtors System (note 10.26)	10,843	0.40%	0.45%	49

10.18.21 The amount outstanding for council debtors as at 31st March can be analysed by age as follows:

	£000
Less than 3 months	9,949
3 to 6 months	268
6 months to 1 year	229
More than 1 year	397
	<u>10,843</u>

Liquidity Risk

10.18.22 The council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the council has ready access to borrowings from the money markets and the PWLB. There is no significant risk that it will be unable to raise finance to meet its commitments. Instead the risk is that the council will need to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The strategy is to spread the maturity of the council's loans so that a significant proportion does not require repayment or refinancing at the same time.

10.18.23 The maturity analysis of the loan debt is as follows:

	£000	Upper Limit Allowed by Prudential Indicators
		%
Less than 1 year	13,268	50
Between 1 and 2 years	3,781	50
Between 2 and 5 years	3,875	100
More than 5 years	104,223	100
	<u>125,147</u>	

10.18.24 All trade and other payables are due to be paid in less than 1 year.

Interest rate risk

10.18.25 The council is exposed to significant risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates could have a significant impact on the council. For instance, a fall in interest rates would have the following effects:

- a. Borrowings at variable rates - the interest expense charged to the Income and Expenditure Account would fall
- b. Borrowings at fixed rates – the fair value of borrowings will rise
- c. Investments at variable rates - the interest income credited to the Income and Expenditure Account would fall
- d. Investments at fixed rates – the fair value of the assets will rise

10.18.26 Because of the differential between the interest rates payable on the council's borrowing and the interest rates receivable on its investments (and also because of the limited number of good quality counterparties), the council postponed taking out new external borrowing for as long as possible and reduced the level of its investments.

- 10.18.27 Debt rescheduling (replacing existing loans with new ones at lower interest rates) was investigated but was postponed until the new financial year. This was due to an impending change in the regime for setting interest rates at the PWLB (which took effect from the end of April 2010) which was anticipated would reduce the cost of loan redemption.
- 10.18.28 Borrowings and investments are not carried at fair value in the Balance Sheet and so nominal gains and losses on fixed rate financial instruments would have no impact in the Income and Expenditure Account. The impact is made by changes in interest payable and receivable.
- 10.18.29 The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and is considered at quarterly strategy meetings with the council's treasury advisors. The council sets an annual Treasury Management Strategy including analysing future economic interest rate forecasts. This analysis will advise whether new borrowing taken out is fixed or variable and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses.

Sensitivity analysis of interest rates

- 10.18.30 Movement in interest rates would have had the following impact on the council's borrowings and investments in 2009/10.

	1% Increase in Interest Rates £000	1% Fall in Interest Rates £000
Interest payable on new borrowing	7	(7)
Interest receivable on average investment balances	508	(172)

- 10.18.31 The impact on new borrowing is fairly small as the only new borrowing in the year was taken out in March 2010.
- 10.18.32 For investments, as the bank base rate has been 0.50% throughout 2009/10, a 1% fall has been assumed to take the bank base rate to 0% and take the average annual rate earned on the council's investments from 0.74% to 0.24%. With a bank base rate at 1% or higher a 1% fall would have the same effect as a 1% increase but with the movement being reversed.

10.19 Provisions

- 10.19.1 The provisions at 31.3.10 are listed below:

2008/09 £000	2009/10 £000
51 Former Hereford and Worcester liabilities	0
1,759 Insurance	1,463
63 Redundancies	469
152 Pay provision	0
0 PC Replacement	33
4 Landfill Allowances liability	703
<u>2,029</u>	<u>2,668</u>

10.19.2 In order for the council to ensure that it holds sufficient funds to pay insurance claims that fall within policy excesses an external review of the insurance provision was carried out by the council's insurance brokers Marsh UK Ltd in February 2010. The review assessed the outstanding liability to the end of 2009/10 to be £1.46m. In addition a reserve of £544,000 has been set up for potential claims in 2010/11.

10.20 Details of Movement on Reserves

10.20.1 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.

10.20.2 The following table details the movements on reserves in 2009/10:

Reserve	1 April 2009 £000	Net (Decrease) Increase £000	1 April 2010 £000	Purpose of Reserve
Capital Adjustment Account	163,703	(15,755)	147,948	Store of capital resources set aside to meet past expenditure
Revaluation Reserve	23,116	42,206	65,322	Store of gains on revaluation of fixed assets not yet realised through sales
Financial Instruments Reserve	(498)	4	(494)	Balancing account to allow differences in statutory requirements and proper accounting practices for borrowings and investments
Collection Fund adjustment account	(209)	92	(117)	The council's share of the Collection Fund deficit.
Usable Capital Receipts	17,558	(4,262)	13,296	Proceeds of fixed asset sales available to meet future capital investment
Pensions Reserve	(130,114)	(34,480)	(164,594)	Balancing account to Pensions Liability in the Balance Sheet
General Fund	6,390	(1,000)	5,390	Resources available to meet future costs
Earmarked Reserves	16,064	(1,828)	14,236	Set aside for specific purposes
TOTAL	96,010	(15,023)	80,987	

10.20.3 The council held the following earmarked reserves of £14.2 million at 31st March 2010.

Reserve	31.03.09	Transfer	31.3.10
	£000	(to)/from	£000
		revenue	
		£000	
Commuted sums	78	0	78
Schools balances in hand	5,476	21	5,497
Industrial Estates - maintenance	333	39	372
Support Services & Equipment renewals	80	(80)	0
Schools Balance of Risk	85	88	173
Winter maintenance	500	(500)	0
Planning	24	0	24
College Hill Community Centre	180	0	180
Waste Disposal	2,774	0	2,774
LSC	32	(32)	0
Wye Valley AONB	104	(10)	94
Invest to Save	1,079	252	1,331
Contingent liabilities	300		300
Social care contingency	926	(772)	154
Modernisation plans	454	(454)	0
Edgar Street Grid	150	541	691
Whitecross school PFI	202	79	281
LPSA 2 reward grant	1,482	(1,258)	224
Carbon Reserve	30	(10)	20
Schools Redundancies	294	(284)	10
Service Delivery Review	112	(112)	0
Schools Rates Reserve	869		869
Economic Development	346	(80)	266
Herefordshire Safeguarding Children Board	21		21
Accommodation	133	(133)	0
Insurance reserve	0	544	544
Pool car reserve	0	10	10
Local development framework	0	270	270
Area based grant	0	53	53
	16,064	(1,828)	14,236

10.21 Schools Balances – Local Management of Schools

10.21.1 A sum of £5,497,000 is shown in reserves in respect of school revenue 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.

10.21.2 The council has introduced a balance claw-back mechanism, where the amount of revenue balance a school is permitted to hold is capped, in order to reduce schools' balances in accordance with national government requirements.

10.21.3 The school balances can be split between Primary schools (£2,882,000), High schools (£1,853,000), Special schools (£179,000) and Pupil Referral Units (£120,000). Additionally a sum of (£463,000) is held for extended school activities for all schools.

10.21.4 Schools capital balances are accounted for as deferred capital grant.

10.22 Disclosure of deployment of Dedicated Schools Grant

10.22.1 The council's expenditure on schools is funded by the Dedicated Schools Grant (DSG) provided by the Department for Children, Schools and Families. DSG is a ring-fenced grant 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 a council-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each school. Over and under spends on the two elements are required to be accounted for separately.

10.22.2 Details of the deployment of DSG receivable for 2009/10 are as follows:

Total 2008/09 £000	Central Expenditure 2009/10 £000	Individual Schools Budget 2009/10 £000	Total 2009/10 £000
(83,612) Final DSG allocation			(84,526)
(1,199) Brought forward from previous year			(1,343)
(84,811) Agreed budgeted distribution in year	(8,536)	(77,333)	(85,869)
8,021 Actual central expenditure	8,407	0	8,407
75,447 Actual Individual School Budget deployed to schools	0	76,734	76,734
(1,343) Carry forward	(129)	(599)	(728)

During 2008/09 rates rebates of £1,054,205 were received and these will be distributed to schools over the three year period from April 2010. An amount of £868,537 is included in reserves and the remaining £185,668 is included within the £598,703 under spend on the ISB. The remaining £413,035 is the balance of the 2008/09 under spend which Schools Forum agreed to allocate to schools and will be distributed over the two year period from April 2010 according to individual school choices.

10.23 Contingent Liabilities

10.23.1 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 HM Revenues and Customs 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.

10.23.2 As part of the arrangements for the transfer of services to Amey, Midland Heart 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 a specified level of contribution based on that operating on the date of transfer, but only in respect of staff transferring on this date.

- 10.23.3 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 it. The actual liability faced by the council is believed to be very significantly less than the claim submitted.
- 10.23.4 There is a potential problem regarding safety issues at an old landfill site at Stretton Sugwas
- 10.23.5 The council has a potential legal issue arising from the termination of a software contract.
- 10.23.6 Compulsory Purchase order/Compensation payments are outstanding on 9 plots relating to the Rotherwas Access Road. The amount payable is under negotiation and will be funded from the capital programme when settled.

10.24 Related Party Transactions

- 10.24.1 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.
- 10.24.2 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 paragraph 10.32 relating to the Cash Flow Statement.
- 10.24.3 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 2009/10 are not material. In addition, one member was the owner of a residential care home, to which the council made payments in the year £62,000 and another the partner in a company with which the council made payments of £39,000 in relation to provision of a car park.
- 10.24.4 A number of senior officers are members of professional bodies and are involved in local organisations and partnerships, such as the Chamber of Commerce, Herefordshire College of Technology, Herefordshire College of Arts, Connexions Board, ESG Herefordshire and the Hereford City Centre Partnership. One of the senior officers is related to the owner of a local production company to which the council has made payments of £11,000.
- 10.24.5 During the year the council paid £14.5 million to the Local Government Pension scheme administered by Worcestershire County Council and £10.3 million to the Teachers Pension Scheme. These figures include employee and employer contributions.
- Other Public Bodies**
- 10.24.6 During the year the council made payments of £24 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 75 pooling arrangements. Payments to the PCT in 2009/10 totalled £15 million and invoices raised to the PCT were £17 million.

Significant Partners

10.24.7 The council paid £22.1 million to Amey Wye Valley under the long-term contract for the provision of services, the largest of which related to highways. Under the contract with Amey OW Ltd for the provision of technical services the council paid £3.2 million in 2009/10. Payments of £5 million were made to Shaw Healthcare for the provision of care in residential homes and for day centres in 2009/10.

Other organisations

10.24.8 The council pays a management fee to Halo Leisure Trust for the provision of leisure facilities, including swimming pools and leisure centres. In 2009/10 the council paid £2.5 million to Halo Leisure Trust. In 2009/10 the council paid £462,000 to the Courtyard Trust. The council has a commissioning agreement with the Trust based on agreed outcomes.

During the year the council made payments totalling £1.4 million to Herefordshire Housing Ltd including a final payment of £176,000 towards the costs of subsidence on properties previously transferred from the council and £646,000 of Supporting People Grant.

Payments were made to Edgar Street Grid towards their office running costs amounting to £700,000, of which £516,063 was funding from Advantage West Midlands.

10.25 Creditors

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

	2008/09	2009/10
	£000	£000
Directorate Service Areas	12,018	12,426
Receipts in Advance	10,254	9,801
Joint Funding	42	57
Capital	2,651	3,336
Section 106 Monies	2,106	3,019
Creditors System	9,103	8,174
Treasury Management	136	136
Collection Fund	702	718
Purchase Ordering System Accruals	528	2,117
Other	376	250
	<u>37,916</u>	<u>40,034</u>

10.26 Debtors

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

	2008/09	2009/10
	£000	£000
Directorate Service Areas	7,123	4,747
Payments in advance	3,223	4,028
Joint Funding	523	384
Capital	4,015	6,760
VAT	3,013	3,545
Treasury management	11	11
Leased Cars	65	66
Debtors System	8,936	10,843
Housing benefit overpayments	1,045	1,157
Fairer Charging	225	273
Collection Fund	3,848	4,347
Other	<u>2</u>	<u>1</u>
	32,029	36,162
Provision for Bad Debts	<u>(894)</u>	<u>(1,088)</u>
	<u>31,135</u>	<u>35,074</u>

The 2008/09 have been adjusted to reflect the restated collection fund balances in the 2008/09 restated Balance Sheet.

10.27 External Audit Fees

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

	2008/09	2009/10
	£000	£000
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	284	255
Fees payable to the Audit Commission in respect of statutory inspection	23	0
Fees payable to the Audit Commission for the certification of grants claims and returns	56	61

10.28 Amounts due to or from related parties

10.28.1 As at 31st March 2010 significant amounts due to and from related parties were as follows:

Related Party	Due to £000	Due from £000
Department for Communities and Local Government	3,013	2,057
Department for Works and Pensions	6	2,677
Department for Children, Schools and Families	3,164	5,637
Department for Food, Agriculture & Rural Affairs	0	38
Learning & Skills Council	637	33
Advantage West Midlands	226	1,386
Department of Transport	25	118
Government Office For West Midlands	313	4
Home Office	26	80
Lottery	4	15
Arts Council	9	0
Teachers Development Agency	76	0
Teachers Pension	874	14
Worcestershire County Council	3,725	82
Herefordshire Primary Care Trust	1,542	7,770
Courtyard Trust	2	0
Amey Wye Valley	3,326	98
Shaw Healthcare	49	24
Halo	301	19
West Mercia Supplies	370	16
Amey OW Ltd	29	0
Edgar Street Grid	15	1
Herefordshire Housing Ltd	286	385
Connexions	15	31
North Somerset County Council	0	94
West Mercia Police	32	178
Hereford and Worcester Fire Authority	0	175
The Hereford Academy	0	326
Hereford Hospital Trust	0	24
HM Revenue and Customs	2752	543
Worcestershire PCT	0	63
Ministry of Justice	0	100
Environment Agency	20	0
Audit Commission	25	0
Sport England	199	0
Powys CC	0	116
Monmouth CC	14	105
Wychavon DC	120	0
Tameside MBC	85	0
Hereford City Council	0	27
Birmingham City Council	96	49
English Heritage	58	19
Natural England	40	42

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

10.28.3 In addition, there were capital grants of £13.3 million from government departments held in the Capital Grants Deferred Unapplied Account not yet applied to capital spend.

10.29 Pensions

10.29.1 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

10.29.2 This 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 council 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, that is, actual costs are included in the revenue accounts, with no assets and liabilities in the balance sheet.

10.29.3 However, in addition to the current scheme the council is contributing to former Hereford and Worcester teachers' unfunded added years' benefits. The actuary has valued the ongoing liability as £1.2 million, which has been added to the pension fund liability in the balance sheet in 2009/10.

10.29.4 In 2009/10 the council paid employer contributions of £6.8 million in respect of teachers' pension costs, which represented 14.1% 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 2009/10 these amounted to £114,912 representing 0.24% of pensionable pay. At the year-end there were contributions of £874,436 remaining payable, which related to the March 2010 contributions paid to the scheme in April 2010.

Local Government Pension Scheme

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

10.29.6 Although the benefits will not actually be payable until employees retire, the council 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.

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

	2008/09 £000	2009/10 £000
Income and Expenditure Account		
Net Cost of services		
Current Service cost	8,673	5,815
Past service cost/(gain)	24	457
Curtailment cost	799	300
Net Operating Expenditure		
Interest cost	19,745	19,523
Expected return on assets in the scheme	(13,016)	(9,621)
Net charge to Income and Expenditure Account	16,225	16,474
Statement of Movement in General Fund Balance		
Reversal of net charges under FRS 17	(16,225)	(16,474)
Employer's contribution payable to the scheme	10,344	10,981
Net charge to Statement of Movement in General Fund Balance	(5,881)	(5,493)

10.29.8 In addition to the recognised gains and losses included in the Income and Expenditure Account, actuarial gains and losses of £27.787 million (£9.022 million in 2008/09) were included in the Statement of Total Recognised Gains and Losses.

10.29.9 For 2009/10 the current service costs have reduced substantially compared to those for 2008/09. This is a result of a large change in financial assumptions by the actuary, resulting in an increase of the discount rate used from 6.1% to 7.1% and a reduction in inflation expectations.

Assets and Liabilities

10.29.10 The following tables set out the movements on the pension scheme assets and liabilities;

Reconciliation of present value of the scheme liabilities:

	2008/09 £000	2009/10 £000
1 st April	323,459	276,935
Current Service Cost	8,673	5,815
Interest Cost	19,745	19,523
Contributions by scheme participants	3,211	3,315
Actuarial (gains)/losses	(67,540)	86,254
Curtailments	799	300
Benefits Paid	(11,436)	(13,055)
Past Service Costs	24	457
31 st March	276,935	379,544

Reconciliation of fair value of the scheme assets:

	2008/09	2009/10
	£000	£000
1 st April	190,204	146,821
Expected rate of return	13,016	9,621
Actuarial gains/(losses)	(58,518)	58,467
Employer contributions	10,344	10,981
Contributions by scheme participants	3,211	3,315
Benefits Paid	(11,436)	(13,055)
31 st March	146,821	216,150

- 10.29.11 The scheme liabilities have increased by around 37% and this is due to the financial assumptions by the actuary being more conservative at 31st March 2010 than 31st March 2009, driven by yields on corporate bonds falling substantially. The asset returns for 2009/10 has been exceptionally good with the council achieving an investment return of 27% of assets. The actual return on scheme assets in the year was £68.1 million (£45.5 million in 2008/09).

Scheme History

	2005/06	2006/07	2007/08	2008/09	2009/10
	£m	£m	£m	£m	£m
Present value of liabilities	(292.3)	(293.9)	(323.5)	(276.9)	(379.5)
Value of Scheme assets	191.7	205.1	190.2	146.8	216.1
Surplus/(Deficit) in scheme	(100.6)	(88.8)	(133.3)	(130.1)	(163.4)

Actuarial assumptions

- 10.29.12 The main assumptions used in the calculations are:

	Beginning of year	End of year
Rate of inflation	3.3%	3.3%
Rate of increase in salaries	4.8%	4.8%
Rate of increase in pensions	3.3%	3.3%
Discount rate	7.1%	5.6%
Longevity at 65 for current pensioners	21.2 years	21.2 years
Longevity at 65 for future pensioners	22.2 years	22.2 years

Pension Scheme assets

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

	31 March 2009		31 March 2010	
	£000	%	£000	%
Equities	125,679	85.6	199,506	92.3
Government Bonds	12,333	8.4	6,052	2.8
Other Bonds	4,698	3.2	8,430	3.9
Cash/Liquidity	4,111	2.8	2,162	1.0
	146,821		216,150	

10.29.14 The expected rate of return on these assets was:

	Beginning of year	End of year
Equities	7.5%	7.5%
Government Bonds	4.0%	4.5%
Other Bonds	6.0%	5.2%
Cash/Liquidity	0.5%	0.5%

History of experience (gains) and losses

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

	2005/06	2006/07	2007/08	2008/09	2009/10
	%	%	%	%	%
Differences between the expected and actual return on assets	15	0.2	(16.2)	(39.9)	27.0
Experience gains and losses on liabilities	1.9	0	2	0	0

10.30 Trust Funds

10.30.1 The council acts as trustee for a number of Trust Funds, which have been established for the benefit of different sections of the community, including several schools. The following summarises the movement on Trust Funds during the year:

	Balance at 1/04/09	Revenue Transactions		New funds, Investment Sales and Revaluations	Balance at 31/03/10
	£	£	£	£	£
Education (small funds)	23,394	146	(17,857)	517	6,200
Sylvia Short Trust	998,403	22,417	(58,997)	130,059	1,091,882
Buchanan Trust	2,102,626	76,345	(161,554)	68,107	2,085,524
Other Funds	61,242	1,178			62,420
	<u>3,185,665</u>	<u>100,086</u>	<u>(238,408)</u>	<u>198,683</u>	<u>3,246,026</u>

10.30.2 The Sylvia Short Educational Charity was established to provide children with learning experience outside the curriculum. In 2009/10 the administration of the fund was transferred to an independent investment manager.

10.30.3 The Buchanan Trust is invested in agricultural land around Bosbury for the benefit of tenant farmers. The 1/4/09 balance has been adjusted from the amount on the last published accounts as the valuation of properties were changed following the audit of the 2008/09 accounts.

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

10.30.5 Assets and liabilities on the funds at 31st March were:

	2008/09	2009/10
	£000	£000
Fixed Assets	1,250	942
Investments	891	1,095
Cash temporarily invested with Herefordshire Council	1,045	1,209
	<u>3,186</u>	<u>3,246</u>
Represented by Trust Funds	<u>3,186</u>	<u>3,246</u>

10.31 Accounting for LATS

10.31.1 The council's estimated landfill usage for the year is 42,421 tonnes. The council received allowances of 35,508 tonnes for 2009/10 from DEFRA and has utilised allowances of 6,913 tonnes transferred from Worcestershire County Council at nil cost. DEFRA has advised that the average traded value for 2009/10 was £16.57 per tonne and therefore the balance sheet shows assets and liabilities of £702,916 at 31st March 2010.

10.32 Notes to the Cash Flow Statement

10.32.1 The reconciliation of the net deficit on the Income and Expenditure Account to the revenue activities in the Cash Flow Statement is set out below:

2008/09	2009/10	
£000	£000	£000
32,106 (Surplus)deficit on the Income & Expenditure Account		29,541
(4,299) Interest/discount		(6,881)
Non-cash Transactions		
412 Contributions from/(to) provisions		(639)
(28,753) Capital charges		(22,414)
(5,881) FRS 17 pension adjustments		(5,493)
496 Surplus on sale of assets (non-revenue)		(4,495)
(234) LATS adjustment		699
6 Other		(16)
<u>(33,954)</u>		<u>(32,358)</u>
Items on an Accruals basis		
(104) Increase/(Decrease) in stocks and WIP		26
3,566 Increase/(Decrease) in revenue debtors		(1,925)
2,946 (Increase)/Decrease in revenue creditors		1,119
<u>6,408</u>		<u>(780)</u>
261 Net cash flow from revenue activities		<u>(10,478)</u>

The 2008/09 comparative figures have been amended for accounting changes relating to the Collection Fund and PFI contracts.

10.32.2 The reconciliation of net cash flow to movement in net debt in the year is summarised as follows:

2008/09	2009/10	
£000	£000	£000
1,952 Increase/(decrease) in cash in the period	1,084	
(12,515) (Increase)/decrease in debt financing	(5,820)	
(14,700) Increase/(decrease) in liquid resources	(13,510)	
<u>(463) Non-cash movements</u>	<u>(1,077)</u>	
(25,726)		(19,323)
<u>(69,712) Net debt at 1st April</u>		<u>(95,438)</u>
<u>(95,438) Net debt at 31st March</u>		<u>(114,761)</u>

10.32.3 Liquid resources have been defined as the short-term investments on the balance sheet. Accruals of interest on borrowing are added to short-term loans in the balance sheet from 2009/10.

10.32.4 The following is an analysis of net debt for the year:

	1.4.09	Cash flow	Non cash	31.3.10
	£000	£000	£000	£000
Cash in hand and at bank	(2,208)	1,084		(1,124)
Debt due within 1 year	(15,757)	3,259	(2,206)	(14,704)
Debt due after 1 year	(104,068)	(9,079)	1,267	(111,880)
Short term investments	26,595	(13,510)	(138)	12,947
	<u>(95,438)</u>	<u>(18,246)</u>	<u>(1,077)</u>	<u>(114,761)</u>

10.32.5 The following is an analysis of Government Grants in the Cash Flow Statement for the year:

2008/09	2009/10	
Total	Revenue	Capital
£000	£000	£000
29,171 CLG	33,068	2,406
45,173 Department for Works and Pensions	52,081	0
109,586 Department for Children, Schools and Families	108,455	27,932
970 Department of Health	1,109	0
456 Home Office	94	0
5,430 Department for Environment, Food & Rural Affairs	709	440
318 Lottery	151	932
3,667 Advantage West Midlands	3,016	618
588 Government Office for West Midlands	278	139
1,202 Department for Transport	1,871	489
3,907 Learning and Skills Council	3,716	0
17 Arts Council	13	0
173 Sport England	270	0
38 European Regional Development Fund	0	0
4 Department for Constitutional Affairs	203	0
217 Teachers development agency	267	0
<u>200,917</u>	<u>205,301</u>	<u>32,956</u>

11. THE COLLECTION FUND

11.1 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 in the Balance Sheet.

11.2 The Collection Fund for 2009/10 is summarised below:

2008/09 £000	Note	2009/10 £000 £000	
Income			
Council Tax:			
86,166	Income from council taxpayers	1	89,730
<u>10,993</u>	Council Tax benefits		<u>12,298</u>
97,159			102,028
<u>40,316</u>	Income from business ratepayers	2	<u>41,918</u>
<u>137,475</u>	Total Income		<u>143,946</u>
Expenditure			
11,478	West Mercia Police Authority Precept		12,164
4,732	Hereford & Worcester Fire Authority		5,014
80,864	Herefordshire Council Precept		84,729
121	Bad debt write offs - Council Tax		90
(83)	Provision for bad debts - Council Tax (decrease)		(79)
Non Domestic Rates			
40,020	Contribution to national pool	2	41,616
<u>296</u>	Cost of collection allowance		<u>302</u>
<u>137,428</u>	Total Expenditure		<u>143,836</u>
(47)	(Surplus)/Deficit for the year	3	(110)
298	Balance brought forward	3	251
0	Surplus Distribution	3	0
251	Balance carried forward	3	141

11.3 The Herefordshire Council precept figure includes £2.389 million in respect of parish and town council precepts.

Note 1 - Council Tax Income

11.4 Council tax income is derived from charges raised according to the value of residential properties, which have been classified into eight valuation bands. Estimated values at 1st April 1991 are used for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the collection fund by the council, West Mercia Police Authority and Hereford & Worcester Fire Authority, and dividing this by the council tax base (the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts etc.). The amount of council tax for a Band D property is multiplied by the proportion specified for the particular band to give an individual amount due. The average council tax for a Band D property in 2009/10 was £1,454.53 with a range between £1,420.43 to £1,518.64. The council tax base used for setting the council tax in 2009/10 was £70,061.66.

11.5 The key facts and figures for 2009/10 are summarised below:

Band	Valuation Range	Charge Factor	Band D Equivalent
A	Up to £40,000	6/9	6,498.60
B	£40,001 to £52,000	7/9	12,727.20
C	£52,001 to £68,000	8/9	12,600.20
D	£68,001 to £88,000	9/9	11,476.50
E	£88,001 to £120,000	11/9	12,211.20
F	£120,001 to £160,000	13/9	8,467.70
G	£160,001 to £320,000	15/9	5,183.80
H	Over £320,000	18/9	300.0
Crown			224.90
			<hr/> 69,690.10
	Other adjustments		371.56
	Council Tax Base		<hr/> <hr/> 70,061.66

Council Taxpayer Income	£000	£000
Council Tax debit at 1 st April		113,633
Add:		
Redebits	85,166	
Banding Change	343	
Additional – Second Homes	490	
Additional – Empty Properties	474	86,473
	<hr/>	
Less:		
Discounts	9,534	
Exemptions	3,561	
Benefits – Statutory	12,297	
Disablement Relief	133	
Transitional Relief	(3)	
Void Assessments	44	
Empty Assessments	84,810	110,376
	<hr/>	
		<hr/> 89,730

Note 2 - Non-domestic rates

- 11.6 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. The relevant figures for 2009/10 are as follows:

	£000
NNDR Contribution to the Pool	41,616
Cost of Collection Allowance	<u>302</u>
Income from Business Ratepayers	<u>41,918</u>

- 11.7 The contribution due to the NNDR pool for 2009/10 paid by Herefordshire Council to central government was £41,616,070. 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 an NNDR entitlement of £44,993,662 which is its redistributed share. This figure is calculated on a per head of population basis. The key facts and figures for 2009/10 are summarised below:

Business rateable value as at 31 st March 2010	£105,107,337	
Business rate multiplier	48.5p	
Non-domestic Ratepayers Income	£000	£000
Non-domestic debit at 1 st April		49,430
Add:		
Transitional Premium		(144)
Less:		
Empty Allowances	2,487	
Transitional Relief	(272)	
Discretionary Relief	272	
Mandatory Relief	4,534	
Write-offs	287	
Interest on Refunds	60	7,368
Income due from non-domestic ratepayers		<u>41,918</u>

Note 3 - Collection Fund Surplus/Deficit

- 11.8 The following summarises the movements on the Collection Fund deficit in the year:

Council Tax	£000	£000
Deficit at 31.3.09		251
Less: Payments		
Hereford & Worcester Fire Brigade	0	
West Mercia Police Authority	0	
Herefordshire Council	<u>0</u>	
		251
Surplus financial year 2009/10		(110)
Deficit at 31.3.10		141

11.9 The following shows the share of the Collection Fund deficit as at 31st March 2010:

	%	£'000
Herefordshire Council	83.10	117
West Mercia Police Authority	11.97	17
Hereford & Worcester Fire Authority	4.93	7
	100	141

The deficit has been apportioned on the basis of the 2010/11 demands on the fund.

12. GLOSSARY OF TERMS

Accrual

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

Actuarial Gains and Losses

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because;

- (a) events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses), or
- (b) the actuarial assumptions have changed.

Actuary

An expert on pension scheme assets and liabilities.

Amortised Cost

A method of determining the Balance Sheet carrying amount and periodic charges or credits to the Income and Expenditure Account of a financial instrument from the expected cash flows.

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.

Contingent Liability

A contingent liability is either;

- (a) a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain events not wholly within the authority's control, or
- (b) a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

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.

Depreciation

The measure of the cost or revalued amount of the benefits of the fixed asset that been consumed during the period.

Effective Interest Rate

The rate of interest that will discount all the cash flows that will take place throughout the expected life of a financial instrument down to the fair value of the asset calculated at initial measurement.

Fair Value

The amount for which an asset could be exchanged, or a liability settled in an arm's length transaction.

Financial Instruments

Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another, such as trade payables and receivables, borrowings, bank deposits and investments.

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.

Money Market Funds

A fund managed by an experienced investment house investing in a wide range of high quality sterling money market instruments, enabling the council to spread risk through diversification. Such money market instruments include certificates of deposit, gilts and other bonds. The structure of the fund minimises capital fluctuations due to restrictions laid down by the credit rating agencies.

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.

Private Finance Initiative

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

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.

Remuneration

All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by the employer are excluded.

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.

MEETING:	AUDIT AND GOVERNANCE COMMITTEE
DATE:	29 JUNE 2010
TITLE OF REPORT:	RISK MANAGEMENT REVIEW
OFFICER:	DEPUTY CHIEF EXECUTIVE

CLASSIFICATION: Open

Wards Affected

County-wide

Purpose

To present the Audit and Governance Committee with an update on the process the Council follows for risk management and the way the risk register is used and updated as a positive aid to management.

Key Decision

This is not a Key Decision.

Recommendation

- THAT** (a) Audit and Governance Committee to note progress being made and compliance/(non) with risk management process;
- (b) Audit and Governance Committee to note areas for further improvements (see *Appendix A*); and
- (c) Audit and Governance Committee receives a report in September 2010 outlining risk areas and mitigation.

Introduction and Background

1. The Committee at its 19th June 2009 meeting requested a report be submitted on the process the Council follows for risk management, a report was submitted by the Corporate Risk Manager on 29th January 2010; this report is a further update on progress to date.
2. In April 2009 a review of the existing risk management strategy, policy and toolkit was undertaken which led to revision of the said documents which were approved by the Council in November 2009.
3. The Risk Management Strategy states: 'The Cabinet and Board recognise that risk management is an integral part of good management practice and to be most effective must

Further information on the subject of this report is available from
Gilbert George, Risk Consultant (interim) on (01432) 383055

become part of the culture of both organisations. The Cabinet and Board are therefore committed to ensuring that risk management forms an integral part of their philosophy, practices and business plans rather than being viewed or practised as a separate programme, and that responsibility for implementation is accepted at all levels within both organisations’.

4. The Deputy Chief Executive is delegated with the responsibility of co-ordinating and sustaining the Council’s risk management strategy, and monitoring its compliance and effectiveness.
5. Directors and Heads of Service are responsible for effective risk management within their areas.
6. Risk management is integral to the corporate governance framework. Effective risk management increases the probability of success and reduces both the probability of failure and the uncertainty of achieving aims and objectives. It must be integrated into the culture of the Council with an effective Risk Management Strategy, championed by the Cabinet.
7. Effective risk management includes amongst others:
 - having risk registers at appropriate levels within the Council
 - producing a balanced portfolio of risk exposure
 - is based on clearly articulated policy and approach
 - requires regular monitoring and review, giving raise to action where appropriate
 - needs to be managed by identified individuals and demonstrate commitment by the Cabinet, Directors and Senior Managers
 - is integrated into normal business processes and aligned to the strategic objectives of the Council

Key Considerations

8. It was agreed by the Council and PCT, to facilitate the reporting of strategic risks of both the Council and PCT and to further embed Herefordshire Public Service arrangements, that the Assurance Framework (AF) format prescribed in the Herefordshire Public Services Risk Management and Assurance Policy would be used for reporting strategic risks.
9. The Council has in place nationally recognised procedures for the identification, management and recording of risks coupled with effective risk management at all levels.
10. There is a clear pathway for the escalation of risks so that the Corporate Risk Register is populated with the most significant risks faced by the Council.
11. A fundamental risk management system review was undertaken in July 2009 by Internal Audit with a number of recommendations (see **Appendix A** for update on progress).
12. The overall assessment is that policies and procedures to effectively implement risk management. Further work on embedding risk management as a day to day management tool is a next step in continuing to deliver risk management.

Progress Findings

13. Assurance Framework

Background	The Assurance Framework is an extension of the corporate risk register which allows for further analysis of any extreme risks (rated 15-25), which includes, amongst others, assurance on controls, gaps in controls and gaps in assurance. The Assurance Framework format and process to be followed is laid out in the Herefordshire Public Services Risk Management and Assurance Policy.
Non compliant	Due to capacity issues slow progress has been made in implementing the Assurance Framework as the tool for reporting extreme risks to the Cabinet, PCT Board and the HPS Steering group.
Way forward	<i>To provide a consistent basis for reporting strategic risks across the Herefordshire Public Services, implementing the Assurance Framework by September 2010 is essential.</i>

14. Corporate Risk Register

Background	<p>The Corporate Risk Register is administered by the Corporate Risk Manager, all extreme directorate risks (15-25) that are considered by Directors to have the potential to inhibit the fulfilment of Council strategic objectives are considered for escalation to the Corporate Risk Register along with action plans to mitigate.</p> <p>The Corporate Risk Register is reviewed as part of the quarterly ICPR report to JMT and Cabinet. Directors, prior to the report being compiled, update those risks that they are responsible for and to add new ones as appropriate.</p>
Compliant	The Corporate Risk Register is maintained effectively by the Corporate Risk Manager and procedures for maintenance as outlined in the Herefordshire Public Services Risk Management and Assurance Policy is adhered too.
Improvements	Expediency of reporting escalated risks to the Corporate Risk Register needs to be improved, Chief Executive to remind all Directors of the importance of keeping the Council's Corporate Risk Register up to date.
Way forward	<i>All future training programmes to include an element of how to performance monitor and risk manage partners.</i>

15. Directorate Risk Registers

Background	Directors review their directorate risk registers on a monthly basis at team meetings and follow the process of escalating risks to the Corporate Risk Register as prescribed in the Herefordshire Public Services Risk Management and Assurance Policy. In reviewing risk
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registers Directors take the lead in identifying new risks and reviewing action plans.

Compliant Directors are compliant with the Herefordshire Public Services Risk Management and Assurance Policy.

Concerns Directors have raised their concerns about their ability to performance manage partners and seek assurance on partners risk management methodology in areas of work where they or the Directorate have not historically delivered or implemented services.

16. Heads of Services Risk Registers

Background All Heads of Services have risk registers, registers are reviewed by the majority on a monthly basis.

A number of Heads of Services have not availed themselves to risk management training and development overseen by the Corporate Risk Manager.

Non compliant Some Heads of Services were unsure of the risk escalation process and a few registers were still not in full compliance with the Herefordshire Public Services Risk Management and Assurance Policy format.

Concerns Some Heads of Services are not fully engaged with risk management and risk management is not seen by some as a dynamic management tool.

Way forward Training on risk management to be mandatory for all Heads of Services, simple flowcharts to be designed on risk escalation, a two page simple electronic guide to be developed, risk management to be given a higher profile by Directors reviewing Head of Services risk registers periodically.

Risk Embeddedness

17. The Council has in place nationally recognised procedures for the identification, management and recording of risks. Whilst Corporate, Directorate and Heads of Service Risk Registers are functioning and follow, in the main, the Herefordshire Public Services Risk Management and Assurance Policy, there are areas of concerns. Below Director level full engagement of risk management has become an arms length function and is not seen and used as a dynamic management tool by some Heads of Services.
18. Reengagement of Heads of Services is essential; mentoring must come from Directors and assistance provided by the Corporate Risk Manager.
19. Risk Management is well established in major projects; there is clear guidance provided by the corporate programmes team and often the Corporate Risk Manager is a member of the project board thus instilling best practice.

Community Impact

20. None.

Financial Implications

21. Training and development costs.

Legal Implications

22. None.

Risk Management

23. To better inform decision making and cope with the changes the economic climate will bring, increased emphasis must be given to further embedding risk management in the culture of the Council.

Consultees

24. Internal Audit, Directors, Heads of Services and other staff.

Areas for further improvements

No	Recommendation	Rank	Action to date
1	<p><u>Heads of Service: re-engagement.</u></p> <p>Heads of Service should be re-engaged as to their specific responsibilities under the risk management policy and the detailed requirements of the policy.</p> <p>To this end, all Heads of Service should be provided with, and complete, appropriate training and guidance by August 2009.</p>	1	<p>Heads of Service along with their management teams offered risk management training in January 2010, linking this with their service plan preparation. (12 in attendance)</p> <p>Further action to be taken:</p> <p>Risk management training to be made mandatory for all Heads of Services.</p>
2	<p><u>Risk officer: service area appointment.</u></p> <p>Every service area should nominate one senior officer, directly responsible to the Head of Service, to facilitate and administer the service area's risk management process, including the annual risk assessment and the regular updating of the risk register and corresponding Action Plan.</p>	1	<p>Some action taken</p> <p>Further action to be taken:</p> <p>Directors to issue strongly worded directive to all Heads of Service (updating risk registers and action plans on regular basis) and monitor actions by way of one-to-one meetings.</p>
3	<p><u>Risk registers: compliance with policy.</u></p> <p>Heads of Service should implement, as a matter of urgency, a risk register in the prescribed format either in substitution for, or in addition to, their existing risk register where the latter does not conform to the prescribed format.</p>	1	<p>Most Heads of Services have adopted prescribed risk register format</p> <p>Further action to be taken:</p> <p>Heads of Services not yet complaint, to be supported in becoming compliant by end of July.</p>
4	<p><u>Business plan guidance: alignment with risk policy</u></p> <p>The annual guidance for the preparation of business plans should be amended to align with the Council's risk</p>	1	<p>Incorporated in the service plan guidance document issued by policy and performance for the</p>

	management policy specifically to promote the use of a risk register template that is in the prescribed format.		2010/2013 plans. No further action required.
5	<u>Business plan guidance: overlap with risk policy.</u> The annual guidance should be expanded to include those components of the risk management policy that focus on the 'how to' of risk assessment, scoring, and escalation. In addition, the guidance should re-emphasise the need for readers to be familiar with the details of the risk management policy and toolkit.	1	Incorporated in the service plan guidance document issued by policy and performance for the 2010/2013 plans. No further action required.
6	<u>Business plans: linkage to strategic objectives.</u> All annual business plans, both at directorate and service area level, should include the Council's current strategic objectives. Directorates' plans should link the directorate's objectives to those Council's strategic objectives. Service area plans should link the service area's objectives to those of its directorate's objectives that are directly relevant.	1	Most business plans now linked to strategic objectives Further action to be taken: Directors to ensure full compliance by reviewing all business plans of Heads of Services in their directorate.
7	<u>Risk assessment: linkage to strategic objectives.</u> Heads of Service should ensure that their assessed risks are linked to their directorate's service objectives that are directly relevant, and that this linkage is evidenced in the service area's risk register.	2	Most Heads of Service risks now linked to directorate service objectives Further action to be taken: Directors to ensure full compliance by reviewing all Heads of Service risk assessments
8	<u>Quality of risk assessment.</u> A review should be carried to identify areas of poor quality risk assessment with a view to providing training and guidance to ensure risk assessment is in accordance with the risk management policy and its objectives. It is recommended that this training and guidance should be completed by September 2009.	1	No action taken yet due resources Further action to be taken: Internal Audit to identify areas of poor risk assessment and feed though to Corporate Risk Manager for training to programme to be drawn-up to skill individuals lacking in risk assessment.

9	<p><u>Training; comprehensive programme.</u></p> <p>There should be a formal and comprehensive training programme that fulfils the requirements of the Council's risk management policy.</p> <p>It is recommended that this programme should be reviewed and approved annually.</p>	1	<p>No action taken yet due resources and no agreed budget for Corporate Risk Management for 2010/11</p> <p>Further action to be taken:</p> <p>Urgent discussion to be had at JMT to discuss formal risk management training programme and resourcing.</p>
10	<p><u>Risk Management Support: management structure.</u></p> <p>Management of the day-to-day risk management support to business units should be consolidated under one Manager.</p>	1	<p>Currently undertaken by Corporate Risk Management (1/4 of time allocated to risk management)</p> <p>Further action to be taken:</p> <p>Review by Deputy Chief Executive of Corporate Risk Management capacity to adequately support all business units.</p>



MEETING:	AUDIT AND GOVERNANCE COMMITTEE
DATE:	29 JUNE 2010
TITLE OF REPORT:	CREDITOR PAYMENT AUTHORISATION
OFFICER:	HEAD OF BENEFIT AND EXCHEQUER SERVICES

Wards Affected

None

Purpose

To report on progress to ensure the Council requirements for Creditor Payment Authorisations are being carried out in accordance with the Council's Constitution.

Recommendation

THAT the Audit and Governance Committee notes the information on invoices rejected.

Introduction and Background

1. Audit and Governance Committee received a report in March detailing the requirements of the Financial Procedure Rules for Officers responsible for authorising creditor payments. This advised Members that:
 - a) The list of authorised signatories with their individual financial limits is agreed and maintained by Financial Services on behalf of the Director of Resources. The authorisations are reviewed and updated regularly.
 - b) Directors are required to ensure that the list of signatories within their service areas is reviewed at intervals and any changes to the list are reported promptly.
 - c) The Benefit & Exchequer Service has responsibility for processing payment requests, which includes ensuring that payment vouchers are correctly completed and properly authorised.
 - d) A number of communications have been sent to Officers shown on the authorised signatories list reminding them of the need to ensure that all payment requests are correctly authorised.
2. The Committee has asked for a quarterly update showing the number of payment requests returned for each directorate because they were not properly authorised.

Further information on the subject of this report is available from
Mike Toney, Head of Benefit & Exchequer Services on (01432) 260399

Key Considerations

3. The main reasons identified for vouchers being returned are:
 - a) They have not been fully completed, for example cost codes are incorrect or missing.
 - b) The latest version of the payment voucher has not been used.
 - c) The person signing them does not have the necessary level of authorisation.
4. The Council has a target for making payments and this is 20 days from the date the invoice is received. Current financial year performance up to the end of May is 85.44% of invoices paid within 20 days of receipt and an average payment time of 13.32 days, with 55.32% of these being paid within 10 days.
5. A table showing the number of invoices rejected for the three month period March to May is attached as an appendix to this report.

This table shows a continuing reduction in the number of items returned to the originating departments for correction and reflects the steps taken to make sure authorised signatories are aware of the action required to ensure vouchers are correctly completed and authorised.

Community Impact

None

Financial Implications

None

Legal Implications

None

Risk Management

6. Failure to complete payment vouchers correctly can affect the speed with which payment is made and will have an impact upon the creditor and our performance, as well as the level of resources needed for the payment process.

In addition to the regular monitoring, as a fundamental system Creditors is subject to an annual audit which provides an independent check on risk compliance.

Appendices

7. Breakdown of Returned Payment Vouchers by Directorate

Background Papers

8. Financial Procedure Rules

APPENDIX

BREAKDOWN OF RETURNED PAYMENT VOUCHERS BY DIRECTORATE

<u>Directorate</u>	March 10	April10	May 10
Clinical Leadership & Quality	0	0	0
CYPD	20	6	2
Deputy C.E.	8	4	0
Environment & Culture	5	1	0
Integrated Commissioning	0	0	0
Provider Services	2	5	6
Regeneration	16	1	3
Resources	1	2	0
Chief Executive	0	0	0
Total	<hr/> 52	<hr/> 19	<hr/> 11

MEETING:	AUDIT AND GOVERNANCE COMMITTEE
DATE:	29 JUNE 2010
TITLE OF REPORT:	WORK PROGRAMME
OFFICER:	DEMOCRATIC SERVICES OFFICER

CLASSIFICATION: Open

Wards Affected

County-wide

Purpose

To consider the work programme of Audit and Governance Committee.

Recommendation(s)

THAT the current work programme be approved as a basis for future agenda items.

Introduction and Background

1. The Council appoints the Committee to ensure the effective and fully compliant governance of the Council and in particular to ensure that all aspects of the financial affairs of the Council are properly and efficiently conducted.
2. A report on the work programme of the Committee will be made to this Committee at each scheduled meeting. A copy of the current work programme is attached at Appendix 1.
3. The work programme may be modified by the Chairman following consultation with the Vice-Chairman and the Director of Resources in response to changing circumstances.
4. Should any urgent, prominent or high profile issues arise, the Chairman may consider that issue.
5. Should Members become aware of any issues they consider may be added to the work programme they should contact the Chairman or Democratic Services to log the issue so that it can be taken into consideration when planning future agendas or when revising the work programme.
6. The Audit and Governance Committee has received reports on the Use of Resources assessment and this is included in the work programme. However, recent indications are that it will be abolished as part of the new Government's review and rationalisation of inspections.

Further information on the subject of this report is available from
Paul Rogers, Democratic Services Officer on (01432) 383408

Appendices

7. Current Work Programme.

Background Papers

- None.

Audit and Governance Committee – Work Programme 2010/11

29 June 2010 2.00pm Brockington	
Officer Reports	<ul style="list-style-type: none"> • Interim Audit Services Assurance Report 2009/10 (Standard Item) • Annual Governance Statement 2009/10 • Internal Audit Annual Plan 2010/11 • Statement on Major Projects (Standard Item) • Data Quality Update (Six monthly report) • Annual Accounts 2009/10 • Creditor Payment Authorisations (Three monthly report) • Audit Opinion Plan 2009/10 (Audit Commission) • Audit Fee Letter 2010/11 (Audit Commission) • International Financial Reporting Standards
17 September 2010 10.00am Brockington	
	<ul style="list-style-type: none"> • Interim Audit Services Assurance Report 2009/10 (Standard Item) • Annual Governance Framework Review and Update

	<ul style="list-style-type: none"> • Statement on Major Projects (Standard Item) • Creditor Payment Authorisations (Three monthly report) • Annual Governance Report (Audit Commission)
12 November 2010 2.00pm Brockington	
	<ul style="list-style-type: none"> • Interim Audit Services Assurance Report 2009/10 (Standard Item) • Statement on Major Projects (Standard Item) • Data Quality Update (Six monthly report) • Waste Disposal (Audit Commission) • International Financial Reporting Standards
17 January 2011 10.00am Brockington	
	<ul style="list-style-type: none"> • Interim Audit Services Assurance Report 2009/10 (Standard Item) • Annual Governance Statement 2010/11 Update • Statement on Major Projects (Standard Item)

	<ul style="list-style-type: none"> • Creditor Payment Authorisations (Three monthly report) • Use of Resources (Audit Commission)
18 March 2011 2.00pm Brockington	
Officer Reports	<ul style="list-style-type: none"> • Interim Audit Services Assurance Report 2009/10 (Standard Item) • Internal Audit Annual Plan 2011/12 • Internal Audit Strategy 2011/12 • Statement on Major Projects (Standard Item) • Data Quality Update (Six monthly report) • Annual Audit Letter (Audit Commission) • International Financial Reporting Standards

