

AGENDA

Audit and Governance Committee

Date: **Thursday 10 November 2011**

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:

Pete Martens, Committee Manager

Tel: 01432 260248

Email: pmartens@herefordshire.gov.uk

If you would like help to understand this document, or would like it in another format, please call Pete Martens, Committee Manager on 01432 260248 or e-mail pmartens@herefordshire.gov.uk in advance of the meeting.

Agenda for the Meeting of the Audit and Governance Committee

Membership

Chairman

Councillor J Stone

Vice-Chairman

Councillor JW Millar

Councillor CNH Attwood

Councillor EMK Chave

Councillor KS Guthrie

Councillor Brig P Jones CBE

Councillor PJ McCaull

GUIDANCE ON DECLARING PERSONAL AND PREJUDICIAL INTERESTS AT MEETINGS

What is a personal interest?

You have a personal interest in a matter if that matter affects the well-being or financial position of you, your relatives or people with whom you have a close personal association more than it would affect the majority of other people in the ward(s) to which the matter relates.

A personal interest can affect you, your relatives or people with whom you have a close personal association positively or negatively. If you or they would stand to lose by the decision, you should also declare it.

You also have a personal interest in a matter if it relates to any interests, which you must register.

What do I need to do if I have a personal interest?

You must declare it when you get to the item on the agenda headed "Declarations of Interest" or as soon as it becomes apparent to you. You may still speak and vote unless it is a prejudicial interest.

If a matter affects a body to which you have been appointed by the authority, or a body exercising functions of a public nature, you only need declare the interest if you are going to speak on the matter.

What is a prejudicial interest?

You have a prejudicial interest in a matter if;

- a) a member of the public, who knows the relevant facts, would reasonably think your personal interest is so significant that it is likely to prejudice your judgment of the public interest; and
- b) the matter affects your financial interests or relates to a licensing or regulatory matter; and
- c) the interest does not fall within one of the exempt categories at paragraph 10(2)(c) of the Code of Conduct.

What do I need to do if I have a prejudicial interest?

If you have a prejudicial interest you must withdraw from the meeting. However, under paragraph 12(2) of the Code of Conduct, if members of the public are allowed to make representations, give evidence or answer questions about that matter, you may also make representations as if you were a member of the public. However, you must withdraw from the meeting once you have made your representations and before any debate starts.

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 29 th September, 2011.	1 - 4
5. ANUAL AUDIT LETTER 2010/2011 To note the Audit Commission's Annual Audit Letter for 2010/11 and consider the response to each of the action points raised.	5 - 26
6. INTERNAL AUDIT PROGRESS 2011/12 To receive a verbal update about Internal Audit Progress 2011/12.	
7. FORTHCOMING MEETINGS 27 th January 2012 9 th March 2012	

Your Rights to Information and Attendance at Meetings

YOU HAVE A RIGHT TO:-

- Attend all Council, Cabinet, Committee and Sub-Committee meetings unless the business to be transacted would disclose 'confidential' or 'exempt information'.
- Inspect agenda and public reports at least three clear days before the date of the meeting.
- Inspect minutes of the Council and all Committees and Sub-Committees and written statements of decisions taken by the Cabinet or individual Cabinet Members for up to six years following a meeting.
- Inspect background papers used in the preparation of public reports for a period of up to four years from the date of the meeting. A list of the background papers to a report is given at the end of each report. A background paper is a document on which the officer has relied in writing the report and which otherwise is not available to the public.
- Access to a public register stating the names, addresses and wards of all Councillors with details of the membership of Cabinet and all Committees and Sub-Committees.
- Have a reasonable number of copies of agenda and reports (relating to items to be considered in public) made available to the public attending meetings of the Council, Cabinet, Committees and Sub-Committees.
- Have access to a list specifying those powers on which the Council have delegated decision making to their officers identifying the officers concerned by title.
- Copy any of the documents mentioned above to which you have a right of access, subject to a reasonable charge.
- Access to this summary of your rights as members of the public to attend meetings of the Council, Cabinet, Committees and Sub-Committees and to inspect and copy documents.

Please Note:

Agenda and individual reports can be made available in large print. Please contact the officer named on the front cover of this agenda **in advance** of the meeting who will be pleased to deal with your request.

The meeting venue is accessible for visitors in wheelchairs.

A public telephone is available in the reception area.

Public Transport Links

- Public transport access can be gained to Brockington via bus route 75.
- The service runs every half hour from the 'Hopper' bus station at the Tesco store in Bewell Street (next to the roundabout junction of Blueschool Street / Victoria Street / Edgar Street).
- The nearest bus-stop to Brockington is located in Old Eign Hill near to its junction with Hafod Road. The return journey can be made from the same bus stop.

If you have any questions about this agenda, how the Council works or would like more information or wish to exercise your rights to access the information described above, you may do so either by telephoning officer named on the front cover of this agenda or by visiting in person during office hours (8.45 a.m. - 5.00 p.m. Monday - Thursday and 8.45 a.m. - 4.45 p.m. Friday) at the Council Offices, Brockington, 35 Hafod Road, Hereford.

COUNTY OF HEREFORDSHIRE DISTRICT COUNCIL

BROCKINGTON, 35 HAFOD ROAD, HEREFORD.

FIRE AND EMERGENCY EVACUATION PROCEDURE

In the event of a fire or emergency the alarm bell will ring continuously.

You should vacate the building in an orderly manner through the nearest available fire exit.

You should then proceed to Assembly Point J which is located at the southern entrance to the car park. A check will be undertaken to ensure that those recorded as present have vacated the building following which further instructions will be given.

Please do not allow any items of clothing, etc. to obstruct any of the exits.

Do not delay your vacation of the building by stopping or returning to collect coats or other personal belongings.

HEREFORDSHIRE COUNCIL

MINUTES of the meeting of Audit and Governance Committee held at The Council Chamber, Brockington, 35 Hafod Road, Hereford, HR1 1SH on Thursday 29 September 2011 at 2.00 pm

Present: Councillor J Stone (Chairman)
Councillor JW Millar (Vice Chairman)

Councillors: CNH Attwood, EMK Chave, KS Guthrie, Brig P Jones CBE and PJ McCaull

72. APOLOGIES FOR ABSENCE

Apologies for absence were received from Dr Phillip Ashurst, Non-Executive Director NHS Herefordshire.

73. NAMED SUBSTITUTES (IF ANY)

There were no named substitutes.

74. DECLARATIONS OF INTEREST

There were no declarations of interest made.

75. MINUTES

RESOLVED: That the minutes of the meeting held on 23 August 2011 be approved as a correct record and signed by the Chairman, subject to the amendment of the time the meeting finished being 11.50 am and not 12.50 pm.

76. ANNUAL GOVERNANCE REPORT 2010/11

The Chairman welcomed the District Auditor, Liz Cave, and the Auditor, Terry Tobin, to the meeting. The District Auditor presented the Annual Governance Report to the Committee and the following points were made:

- The Annual Governance Report was a key document giving a formal opinion on the Council's financial statement and the provision of value for money.
- It was noted that there were no important weaknesses in internal control.
- This is the first year the accounts have been prepared under the International Financial Reporting Standards (IFRS), which created substantial additional work along with new ledger requirements.
- Contracts containing leases were substantively tested and found to be compliant with IAS17.
- The ACADEMY cash receipting system was tested with controls operating satisfactorily.
- In referring to errors in the financial statements, the Committee was advised that the overall net impact of the corrections made was to decrease total comprehensive income and expenditure by approximately £73k, reduce net assets by £592k and reserves by £322k. There was no impact on the General Fund balance. The Committee was advised that the figures were not hugely significant when compared against the allowed tolerance levels and would not cause a fundamental error.

- The Committee's attention was drawn to the Comprehensive Income and Expenditure Statement and some overheads of the Deputy Chief Executive's Directorate, which were not recharged to BVACOP headings. Members noted the District Auditor's comments.
- The Committee went on to discuss pension fund liabilities, redundancy and early retirement payments. In addition the Committee reviewed the bad debt fund and accounting practises in general.

The Committee agreed:

- That regular reconciliations between the ISIS system and the general ledger should be carried out.
- That in future years if any significant early retirement costs arose the actuary is asked to value those liabilities in the year they arise so that they may be reflected in the accounts in that year.
- That the Authority should establish a basis for calculating a bad debt provision relating to general fund debtors.
- That in future years consideration is given to whether any items included in provisions should be more accurately shown as creditors.

The District Auditor went on to state that there was a requirement to assess the Authority's value for money and the arrangements to secure economy, efficiency and effectiveness in the use of resources and financial resilience. The District Auditor issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.

The Committee thanked the District Auditor for the report and the explanation of the points raised. The Committee believed it was a satisfactory report and confirmed that the overspend in the Adult Social Care budget would continue to be monitored.

RESOLVED

THAT:

- a) the Committee discussed the content of the Annual Governance Report (AGR) for 2010/11 and approved the proposed action plan;**
- b) the Committee approved the draft Letter of Representation for signature by the Chairman of the Committee and the Chief Officer; and**
- c) the Committee agreed not to adjust the error in the Financial Statements relating to the recharge of overheads.**

77. STATEMENT OF ACCOUNTS 2010/11

The Head of Corporate Finance presented the Statement of Accounts to the Committee reminding Members of the requirement to produce a statement of accounts which has been certified by the Chief Officer and approved by the Committee by 30 September. The following points were made:

- Members received a seminar on the statement of accounts on 23 September.
- International Financial Reporting Standards were included in the accounts for the first time.
- The Council delivered a balanced budget for 2010/11 through the use of reserves and savings made in corporate functions.
- £70m was spent on the capital programme, with the two significant items being the Hereford Academy and the Local Transport Plan.

- The pension fund for Herefordshire has reduced significantly due to changes in the inflation rate uplift.
- In referring to increased payments to Amey Wye Valley Ltd, the Committee was advised this was due to extra funding from government for the roads due to the bad winter weather, the transfer of staff and a number of large projects underway.

The Committee agreed that it would be appropriate for the Highways Network Manager, responsible for client contracts, to attend the next Committee meeting to discuss client contracts. The Committee went on to discuss council borrowing, business rates, capital grants relating to building funds for schools, PFI contracts, cash flow and the collection of funds for the Fire authority and West Mercia Police through council tax precepts. A question was raised relating to officer remuneration. The Committee was reminded by the Auditor that the authority had gone beyond normal requirements in providing the figures for officer salaries, as not all authorities did so. The Committee requested that a diagrammatical structure of the authority is provided by directorate and by post for each salary band.

The Committee asked that their thanks be passed on to all officers involved in producing the Statement of Accounts.

RESOLVED: That the Statement of Accounts 2010/11 be approved.

78. INTERNAL AUDIT PROGRESS 2011/12

The Interim Chief Internal Auditor advised the Committee of the following points:

- Three reviews on anti-money laundering, gifts and hospitality and Director Assurance Statements had been carried out with no significant issues raised. Members were advised that any issues only related to staff training and the reviews were graded as satisfactory.
- Audit reviews were currently progressing in a number of areas including Member and officer allowances.
- Additional audit input has been provided with regard to the collation of a creditors and debtors report on The Chestnuts (Ross-on-Wye Housing Association Ltd).
- In response to a question Members were reminded that should there be any internal audits that were not acceptable, they would be referred to the Chairman of the Committee and then on to the Committee.
- The Committee agreed to request the officer in charge of risk management to attend a future committee meeting to review the risk register.

RESOLVED: That the report be noted.

79. DATE OF NEXT MEETING

RESOLVED: That the next meeting of the Committee be moved in order to accommodate Members attending Remembrance Day services.

The meeting ended at 3.40 pm

CHAIRMAN

MEETING:	AUDIT AND GOVERNANCE COMMITTEE
DATE:	10 NOVEMBER 2011
TITLE OF REPORT:	ANNUAL AUDIT LETTER 2010/11
PORTFOLIO AREA:	CORPORATE SERVICES AND EDUCATION

CLASSIFICATION: Open

Wards Affected

County-wide

Purpose

To note the Audit Commission's Annual Audit Letter for 2010/11 and approve the response to each of the action points raised.

Recommendation

THAT:

The Annual Audit Letter is noted.

Key Points Summary

- An unqualified opinion on the Council's financial statements.
- An unqualified opinion on the Council's arrangements to secure value for money.
- The Council managed the implementation of International Financial Reporting Standards (IFRS) very well.
- An action plan will be developed and shared and agreed with HPS Leadership Team.

Considerations

1. The audit comprises two elements; the audit of financial statements and the auditor's assessment of arrangements to achieve value for money in the use of resources. In both cases the Council received an unqualified opinion.

Responses to the main challenges

2. The major challenges facing the Council result from increasing demand for its services at the same time as a significant decrease in the available funding
3. The Council continues to manage its finances well but is all too aware that the current and future pressures, such as an ageing local population and reductions in

central government funding, will increase the pressure on finances. The Council continues to manage its finances well but is all too aware that the current and future pressures, such as an ageing local population and reductions in central government funding, will increase the pressure on finances.

4. Demand for the services that support older people in Herefordshire is increasing and the Annual Audit Letter notes the progress made on last year's recommendations
5. The Council, along with Worcestershire County Council, has been exploring the options for waste disposal in the context of the Councils' current contract with Mercia Waste. The Council is taking the necessary and appropriate advice and is planning to undertake the required work to ensure the eventual decisions are taken in accordance with the law and provide value for money
6. There has been a change of focus from the regeneration of the Edgar Street Grid site to the wider regeneration of Hereford. Last year the review confirmed that the Council had sound management arrangements for the Edgar Street Grid project. Since then the Council has made good progress in addressing the recommendations made.

Financial Statements and Annual Governance Statement

7. The audit of the Council's financial statements was completed efficiently with the help of a range of working papers produced by Officers.
8. The Council did well to comply with the requirements of International Financial Reporting Standards (IFRS), adopted for the first time in the 2010 CIPFA Code of Accounting Practice (the Code). The Code introduced numerous new requirements, the most significant of which related to accounting for leases, property, plant and equipment, grants and contributions. The project to implement IFRS was very well managed and included regular progress reports to the Audit & Governance Committee.

Value for Money

9. The Council has generally good financial management arrangements. In particular it has well established medium term financial planning and budgeting to support the delivery of corporate and community plans. The economic downturn and the Government's spending review mean that strong financial management and resilience will be more important than ever. The Council has adequate reserves and balances, but these are likely to come under increasing pressure.
10. The 2010-11 outturn expenditure saw an overall balance after allowing for under spending in treasury management and reducing the Authority's contribution into reserves. The main pressure point was again in the area of adult social care services described below
11. The Council set a comprehensive and balanced budget for 2011-12 which resulted from the Medium Term Financial Strategy (MTFS). The MTFS reflects the financial consequences of the economic downturn and funding cuts. The strategy aims to mitigate the impact of grant income reductions on front line services by savings from the shared services strategy and surplus asset disposals.

12. The Council has good budget monitoring and internal financial reporting arrangements. However, the increasing pressure on finances will increase the risk that budgets are not delivered.
13. The Audit Commission indicate that to improve transparency of the MTFs, the Council should clearly label and set out separately the planned appropriations to and from reserves. The appropriations should be set out "below the line" in such a way that they are not incorporated in the following year's base budget. These changes would allow the budgeted and actual use of reserves to be compared more easily
14. The Council has made good progress against the recommendations in last year's letter around Adult Social Care. It is now piloting electronic monitoring and is introducing a fairer pricing tool focussing on learning disabilities and physical disabilities. It has clearer objectives for the service with lead officers and timescales over a two year timescale for all areas including the cost improvement plans. Work on a more comprehensive re-ablement service is due to start shortly although this may depend on funding being received.
15. The Council's governance arrangements are viewed as effective and continue to be strengthened. Improvements are noted in risk management, decision making and scrutiny. Good proactive fraud work, particularly in the benefits service, has identified savings.
16. The governance arrangements for delivering the savings needed to balance the 2011-12 budget are clear. Responsibility for delivering the savings is clearly defined and savings plans are subject to review and challenge. The Council has separate, well thought out and detailed arrangements for monitoring the delivery of the £10.3m of savings. During the course of the audit, arrangements were further strengthened by profiling the timing of the delivery of savings.
17. The Audit Commission's review of progress within the Shared Services programme is included in the letter. The letter confirms the project is a key part of the Council's plan to transform the way its services are delivered.
18. The regeneration audit covered the Edgar Street Grid (ESG) project and the work focussed on managing finances, governing the business and managing resources. The ESG (now Hereford Futures) Board was viewed as being properly constituted and the governance arrangements were noted as being satisfactory. .

Legal Implications

19. The Annual Audit letter is required to be agreed by the Council.

Communication

The contents of the letter will be the subject of a briefing to the Chair and Vice Chair of the Audit and Governance Committee.

Appendices

None

Annual Audit Letter

Herefordshire Council

Audit 2010/11



Contents

Key messages	3
Audit opinion and financial statements	3
Value for money	3
Response to the main challenges	4
Financial statements and annual governance statement	6
Overall conclusion from the audit	6
Internal control	6
Value for money	7
Risk-based performance reviews	11
Closing remarks	14
Appendix 1 - Fees	15
Appendix 2 - Glossary	16

Traffic light explanation

Red ■ Amber ◆ Green ●

Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two elements:

- **the audit of your financial statements; and**
- **my assessment of your arrangements to achieve value for money in your use of resources.**

I have included only significant recommendations in this report. The Council has accepted these recommendations.

Key audit risk	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

Audit opinion and financial statements

I gave an unqualified opinion on your financial statements on 30 September 2011.

- There were no material adjustments to the accounts as a result of the audit.
- The Council managed the implementation of International Financial Reporting Standards (IFRS) very well.

Value for money

I gave an unqualified opinion on your arrangements to secure value for money on 30 September 2011.

- The Council is tackling the issue of continuing overspending in Adult Social Care but will need to monitor this significant risk closely.
- The Council's medium term financial planning is good. It has generally good budget setting and monitoring which has provided a balanced financial position for several years.
- The Council's transformation programme is starting to identify and deliver improvements in economy, efficiency and effectiveness.

Response to the main challenges

The major challenges facing the Council result from increasing demand for its services at the same time as a significant decrease in the available funding. I have summarised below the main challenges and my view of the Council's response.

Pressure on the public sector finances in Herefordshire

The Council continues to manage its finances well but is all too aware that the current and future pressures, such as an ageing local population and reductions in central government funding, will increase the pressure on finances. The Council needs to save over £10 million to deliver its 2011/12 budget and has sought to mitigate the impact of these savings on services.

The Council has put in good governance arrangements to deliver these savings and reports that they are on track. There is some scope to further enhance these arrangements as described later in this letter.

Support for Older People in Herefordshire

Demand for the services that support older people in Herefordshire is increasing. The Council predicts a 55 per cent increase in the number of older people needing help with essential activities by the year 2020. Adult Social Care Services continue to overspend each year. In 2010/11 they overspent significantly and are forecast to overspend again in 2011/12. The Council and Primary Care Trust (PCT) recognise the challenge of meeting the increase in potential demand which will require the best use of resources. Work has been going on for some time to address this and I noted that progress has been made on our previous year recommendations. Spending on Adult Social Care warrants continued close attention and monitoring by Members.

Waste Disposal and the proposed waste to energy plant

Herefordshire Council and its partners have been exploring future options for waste disposal. The contract signed in 1998 anticipated a waste to energy plant in Kidderminster. Planning consent on this site was not obtained and since then the Councils have looked at other options. They are currently considering a proposal to construct a waste to energy plant at Hartlebury in Worcestershire.

Worcestershire County Council has resolved to grant planning permission for this plant but the Secretary of State has decided that there should be a public inquiry which is scheduled for November 2011.

There are complex issues for the Councils to consider including the need to demonstrate value for money and lawfulness. I am satisfied that the Councils are taking the necessary and appropriate advice and are planning to undertake the required work to ensure the eventual decisions are taken in accordance with the law and provide value for money.

The Shared Service Partnership

The Council is aiming to transform the way services are delivered to significantly reduce costs and to make them more accessible and responsive to customers. This transformation programme includes innovative joint working with the PCT and sharing services with NHS partners.

I found that the transformation programme had been redefined to make it more realistic. The shared services programme has been delayed by legal issues but NHS staff are due to transfer into the Partnership in November. The recent appointment of a Managing Director provides a new focus for change.

Hereford regeneration

There has been a change of focus from the regeneration of the Edgar Street Grid site to the wider regeneration of Hereford. This major regeneration scheme has been re-named as the Hereford Futures project. Last year, my review confirmed that the Council had sound management arrangements for the Edgar Street Grid project. Since then the Council has made good progress in addressing the recommendations I made. The project looks to be on track to deliver its objectives of regenerating the centre of Hereford as major retailers have confirmed their intention to locate to this development.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds.

Overall conclusion from the audit

The audit of your financial statements was completed efficiently with the help of a range of working papers produced by Officers and a good response to my requests for additional information. I reported my findings to the Audit and Governance Committee on 29 September 2011 and gave an unqualified opinion on these accounts the following day. During the audit, management agreed to make a number of adjustments to the statement of accounts but none were material. Some errors, such as those relating to falling property values, were a symptom of the complexity of the existing fixed asset register. Management are confident that the implementation of the new asset register will reduce the scope for error significantly. I made recommendations in my Annual Governance Report to refine the way that future estimates are produced for pension liabilities and bad debt provisions. I have also provided management with a more detailed report which is designed to further improve the process next year. This includes recommendations to improve the process for producing Whole of Government Accounts.

The Council did well to comply with the requirements of International Financial Reporting Standards (IFRS) adopted for the first time in the 2010 CIPFA Code of Accounting Practice (the Code). The Code introduced numerous new requirements, the most significant of which related to accounting for leases, property, plant and equipment, grants and contributions. The project to implement IFRS was very well managed and included regular progress reports to the Audit & Governance Committee.

Internal control

I did not identify any significant weaknesses in your internal control arrangements. However I did recommend that the Authority carries out a reconciliation between payments made to nursing homes through the ISIS system and those recorded in the ledger.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below, along with my main findings and some areas for improvement.

Value for money criteria and key messages

Criterion	Key messages
1. Financial resilience The organisation has proper arrangements in place to secure financial resilience. Focus for 2010/11: The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	The Council has sound overall arrangements in place to secure financial resilience and is developing more effective measures to address the main risk of adult social care spending. Medium Term Financial Management The Council has generally good financial management arrangements. In particular it has well established medium term financial planning and budgeting to support the delivery of corporate and community plans. The economic downturn and the Government's spending review mean that strong financial management and resilience will be more important than ever. The Council has adequate reserves and balances, but these are likely to come under increasing pressure.

The 2010/11 outturn expenditure of directorates was £2.6 million above budget but the impact on the General Fund balance was neutralised by under spending in treasury management and reducing the Authority's contribution into reserves. The main pressure point was again in the area of adult social care services described below

The Council set a comprehensive and balanced budget for 2011/12 which resulted from the Medium Term Financial Strategy (MTFS). The MTFS reflects the financial consequences of the economic downturn and funding cuts. The strategy aims to mitigate the impact of grant income reductions on front line services by savings from the shared services strategy and surplus asset disposals.

The Council has good budget monitoring and internal financial reporting arrangements. However, the increasing pressure on finances will increase the risk that budgets are not delivered. In 2010, I recommended that the Council would be better placed to manage this risk if financial reporting to Cabinet was to follow the best practice in other organisations which present up to date information every month rather than quarterly. I understand that Cabinet will soon receive monthly financial reports.

The Council should also take this opportunity to review the content of these reports against the best practices reported in the Audit Commission report, 'World Class Financial Management.' Reports on the delivery of 'Cost Improvements' built into base budgets could be provided to Scrutiny and/or Cabinet alongside the current forecasts of the overall revenue budget position. Reports could show the progress against the profiled savings target and the best, worst and most likely outcome scenarios.

To improve transparency of the MTFS, the Council should clearly label and set out separately the planned appropriations to and from reserves. The appropriations should be set out 'below the line' in such a way that they are not incorporated in the following year's base budget. These changes would allow the budgeted and actual use of reserves to be compared more easily.

Adult Social Care

The Council predicts that the number of older people that need care services will increase significantly, year-on-year. Council Officers expect an extra 55 per cent of older people will need help by 2020.

The Integrated Commissioning Directorate overspent again in 2010/11. The overspend was £4.3 million (including a one-off accounting adjustment which increased expenditure by £651,000) and the Council is forecasting an overspend of £3 million in Adult Social Care in 2011/12 after delivering planned savings. My work found that many of the mechanisms which helped reduce the level of overspend in 2010/11 were non-recurrent in nature. However I am encouraged to see that the savings plans in 2011/12 are based on making changes to the way these services are provided. The Adult Social Care 2011/12 recovery plan shows a mixture of demand management, diversion and reduction initiatives.

The Council has made good progress against the recommendations in last year's letter. It is now piloting electronic monitoring and is introducing a fairer pricing tool focussing on learning disabilities and physical disabilities. It has clearer objectives for the service with lead officers and timescales over a two year timescale for all areas including the cost improvement plans. Work on a more comprehensive re-ablement service is due to start shortly although this may depend on funding being received.

In last year's Letter I referred to the implementation of the financial module of the Council Social Care system 'Framework 1' which includes commitment accounting. Full implementation has been delayed by the implementation of the Agresso ledger system. A task group has recently been appointed and it looks as though commitment accounting may now be up and running by 2012/13. This should give a clearer picture and an earlier indication of the extent to which budget and service pressures persist.

Continued pressures mean that the Council will need to monitor this area of spending very closely and if necessary additional savings will need to be found from other areas of the Council.

Criterion

2. Securing economy efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key messages

The Council has challenged its own economy, efficiency and effectiveness and has started to identify and deliver efficiencies from new ways of working.

Arrangements To Deliver Savings

The Council needs to deliver £10.3 million of savings to deliver the 2011/12 budget. The main savings planned are from shared services/back-office non-front line staffing costs, contract re-negotiation and service re-engineering. Some savings are from reduced services eg changing the times of travel concessions, ending the mobile library service, reducing grants to other service providers. Overall the emphasis appears to be to minimise the direct impact on front line services. Most savings and income generation measures identified are recurring.

The governance arrangements for delivering the savings needed to balance the 2011/12 budget are clear. Responsibility for delivering the savings is clearly defined and savings plans are subject to review and challenge. The Council has separate, well thought out and detailed arrangements for monitoring the delivery of the £10.3 million of savings. During the course of the audit, arrangements were further strengthened by profiling the timing of the delivery of savings.

'Benefits cards' are used to challenge the robustness of savings plans and to centrally monitor the delivery of the savings plan. My review of a sample of these cards demonstrated that there was scope to ensure clarity in how savings will be delivered and ensure that the savings were consistent with figures used in corporate monitoring reports.

The Shared Services Partnership

A significant element is the setting up of the Shared Services Partnership with NHS partners. The Partnership commenced on 1 April 2011 and Council staff moved over on that date. However, there has been a delay in NHS staff joining due mainly to legal uncertainties. NHS staff are now due to transfer over on 1 November and the Council is granting shares in the publicly owned company to its NHS partners at the same time. The Partnership recently appointed a Managing Director. This should act as an important impetus for change.

Risk-based performance reviews

To support my review of the value for money conclusion criteria in 2010/11 I undertook reviews of the Edgar Street Grid regeneration project and followed up my review of planning services carried out previously. I also continued my watching brief on waste disposal arrangements which has continued to be a source of great public interest.

Hereford regeneration

The large scale redevelopment of the Edgar Street Grid (ESG) area of Hereford is the biggest regeneration programme in the county. It is a long term project to develop a 100 acre site in the city centre for retail, business, housing, leisure, civic and other uses. Partly in response to concerns and questions raised with me by members of the public, I agreed to carry out a review of the Council's governance arrangements for the ESG project. My work was carried out as part of the 2010/11 audit plan and was reported in November 2010. The ESG regeneration company subsequently became Hereford Futures Limited. The Joint venture Company's focus has changed from the regeneration of the ESG site to the wider regeneration of Hereford.

My review of the Council's management arrangements for the development of the Edgar Street Grid (ESG) last year confirmed that they are sound overall. I identified that arrangements could be strengthened by improving communication with the public and being clear on how the Council would assess the value the scheme was adding. The Council has since made good overall progress in addressing the recommendations in the detailed action plan. Progress has included developing a process to gauge whether the Council's contribution to the Company is securing value for money by benchmarking against other relevant regeneration bodies. The greatest measure of success for this type of scheme is attracting private sector investment including quality retailers and entertainment facilities. A number of such businesses have now confirmed their intention to locate in Hereford, indicating their confidence in the project.

Planning Services Follow up

Over two years ago I completed and reported the results of my review of the Council's planning services. My report concluded that the roles of Officers and Members in planning decision making and processes were overly complicated and lacked transparency. Since then the Council has worked quickly, responding to the challenges set out in my review and to the recommendations made in the Council's own Environmental Scrutiny Review. I carried out a follow up review of progress as part of the 2010/11 audit. I reported my findings in a brief report to officers in January 2011.

I concluded In January that the Council has made substantial progress in addressing most of the recommendations agreed by the Cabinet. There are strong signs that the new committee arrangements introduced are having a positive impact on the quality of planning decision making and on the efficiency and effectiveness of the planning service.

The revised roles of Members and Officers have greater clarity and the impact is noticeable within the conduct of the Planning Committee meetings. Planning Committee Members and also non-committee Members coming to Committee in their capacity as local ward members have risen to the challenge of their new roles. Debate is enhanced and there is more transparency to decision making.

Good outcomes can be seen across the extensive set of recommendations arising from the Council's scrutiny review. In particular, the re-organisation of planning service resources has improved the focus on enforcement and forward planning. This has led to good progress in local plan making and increasing levels of stakeholder engagement. There is now a dedicated enforcement service with revised procedures. Arrangements for negotiating, monitoring and managing the delivery of Section 106 (Planning Obligation) agreements have been strengthened by the appointment of a dedicated S106 planning officer.

Since January, Planning Services has continued to make good progress. In particular the new system of electronic planning delivery through the Council's own website, which I mentioned in last year's Letter, is anticipated to be fully operational at the end of November. This will allow all application details and correspondence to be entered by applicants along with application forms and drawings. This should significantly improve customer access to planning applications and allow 'self service'.

Waste disposal

As I reported in last year's Annual Audit Letter, the Worcestershire and Herefordshire Waste Private Finance Initiative contract with Mercia Waste Management Ltd (Mercia Waste) was set up in December 1998. It was predominantly based around a waste to energy facility for which planning permission was subsequently not obtained. Since planning permission was refused alternative technologies and ways forward have been explored. The Councils are now 13 years into the contract but are still waiting for approval of their preferred solution. The contract includes an option to terminate on a "no fault basis" as at March 2002 for non approval of planning permission. This clause has been suspended whilst the Councils and contractor try to find an alternative solution and therefore the contract continues to operate as originally intended..

In 2010 Mercia Waste submitted a planning application to build a waste to energy plant in Hartlebury. Planning permission was recommended but the Secretary of State has decided that a public enquiry should be conducted. The Councils are awaiting the Secretary of State's decision before they consider how best to proceed. There are complex issues for the Councils to consider in relation to:

- Achieving overall value for money from the contract and potential variations to the contract, or any alternative waste disposal provision;
 - Considering, within this context, the impact of PFI credits and changes to the government policies on landfill (LATS penalties);
 - Taking into account, and balancing, the views and interests of taxpayers; and
 - Ensuring any variation is within the legal powers of the Councils.
- 1 From my ongoing work I am satisfied that the Councils are taking the necessary and appropriate advice and are planning to undertake the required work to ensure the eventual decisions are taken in accordance with the law and provide value for money.
 - 2 The issues are, however, extremely complex and there is the potential for decisions to be open to dispute and challenge from disaffected parties. I will continue to review the Councils' arrangements and decision-making processes and will issue any specific reports and make any recommendations over the coming months that I consider appropriate.

Closing remarks

I have discussed and agreed this letter with the Chief Executive and the Chief Officer (Finance and Commercial Services). I will present the letter at the Audit and Governance Committee on 11 November 2011 and will provide copies to all board members.

My detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Report	Date issued
Edgar Street Grid	November 2010
Planning Review Follow up	January 2011
Annual Governance Report	September 2011
Final accounts memorandum	October 2011

22

The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Elizabeth Cave
District Auditor

October 2011

Appendix 1 - Fees

	Actual	Proposed	Variance
Scale fee	305,191	305,191	0
Non-audit work	0	0	0
Total			

The Audit Commission is paying a rebate of £14,861 to you reducing the net amount payable to the Audit Commission to £290,330.

Appendix 2 - Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

24

- On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:
- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
 - whether they have been prepared properly, following the relevant accounting rules. .

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

© Audit Commission 2011.
Design and production by the Audit Commission Publishing Team.
Image copyright © Audit Commission.

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.



www.audit-commission.gov.uk

November 2011

