

AGENDA

Audit and Governance Committee

Date: **Friday 15 March 2013**

Time: **10.00 am**

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

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

Members are reminded that there will be an opportunity to meet with the auditors informally following the meeting, as part of established best practice.

For any further information please contact:

Ben Baugh, Governance Services

Tel: 01432 261882

Email: bbaugh@herefordshire.gov.uk

If you would like help to understand this document, or would like it in another format or language, please call Ben Baugh, Governance Services on 01432 261882 or e-mail bbaugh@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 PGH Cutter

Councillor AJ Hempton-Smith

Councillor TM James

Councillor Brig P Jones CBE

Councillor PJ McCaull

[Note: At the time of publication, there is one vacancy on the Committee]

AGENDA

	Pages
1. APOLOGIES FOR ABSENCE	
To receive apologies for absence.	
2. NAMED SUBSTITUTES (IF ANY)	
To receive details of any Members nominated to attend the meeting in place of a Member of the Committee.	
3. DECLARATIONS OF INTEREST	
To receive any declarations of interest by Members in respect of items on the agenda.	
4. MINUTES	1 - 10
To approve and sign the minutes of the meeting held on 19 February 2013.	
5. BUDGET MONITORING REPORT 2012/13	11 - 36
To update the Audit and Governance Committee on the financial position to 31 January 2013. The Treasury Management position is also included. As part of the Committee's work programme it receives six monthly updates on the financial position.	
6. AUDIT PLAN 2012/13	37 - 56
To inform the Audit and Governance Committee of the work to be undertaken by Grant Thornton over coming months for the year ended 31 March 2013.	
7. CHANGES TO THE CONSTITUTION	57 - 60
To consider changes to the Constitution.	
8. DATE OF NEXT MEETING	
The next scheduled meeting is Tuesday 16 April 2013 at 10.00am.	
[Please note that the meeting scheduled for Friday 6 September 2013 has been moved to Friday 13 September 2013 to assist with the presentation of the accounts.]	

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 Tuesday 19 February 2013 at 10.00 am

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

Councillors: CNH Attwood, EMK Chave, PGH Cutter, TM James, Brig P Jones CBE, PJ McCaull and C Nicholls

In attendance: J Bharier and DR Stevens MBE, Independent Persons

43. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor AJ Hempton-Smith. Apologies had also been received from Councillor A Seldon, Chairman of General Overview and Scrutiny Committee.

44. NAMED SUBSTITUTES (IF ANY)

In accordance with paragraph 4.1.23 of the Council's Constitution, Councillors C Nicholls attended the meeting as a substitute member for Councillor AJ Hempton-Smith.

The Chairman welcomed the following to the meeting, alongside the expected Councillors and officers: Phil Jones and Terry Tobin (external audit, Grant Thornton) in respect of agenda items 5 and 6 (minutes 47 and 48 below), Mukhtar Khangura (internal audit, KPMG) for item 7 (minute 49), and Jake Bharier and David Stevens MBE (Independent Persons) for item 8 (minute 50 below).

45. DECLARATIONS OF INTEREST

No declarations of interest were made.

46. MINUTES

The Head of Governance / Monitoring Officer drew attention to minute 41 (Standards Panel Report - 22 November 2012) and, to reflect the intention of the Committee to report the outcome to Council, recommended the following amendments to the resolution:

- 'That:
- (a) The report of the Standards Panel meeting on 22 November 2012 be ~~approved~~ *noted*; and
 - (b) The *following* recommendations of the Independent Person be approved:
 - 1) *the Audit and Governance Committee present a report on the consideration of the investigation of the complaint to Council*; and
 - 2) the Monitoring Officer be requested to arrange training for the subject member, to be undertaken by the subject member within three months of the date of this meeting.'

RESOLVED: That subject to the above amendments, the minutes of the meeting held on 5 December 2012 be approved as a correct record and signed by the Chairman.

47. ANNUAL AUDIT FEE LETTER

The Chief Officer Finance and Commercial confirmed that Grant Thornton had been appointed as the external auditors to the Council. The representatives from Grant Thornton were invited to present the report and comment on the Annual Audit Fee Letter. The key considerations were identified as follows:

- i. The scale fee for the Council for 2012/13 was £164,803 which compared to the audit fee of £274,672 for 2011/12, a reduction of 40%. It was emphasised that the reduced fee would not diminish the quality of the audit work.
- ii. Attention was drawn to the outline audit timetable which included the timing of the final accounts audit and value for money conclusion.
- iii. In view of the demanding financial context, the authority would need robust policies to cope with the scale of the savings required.

In response to a question about reference to 'a composite indicative fee', Mr. Jones of Grant Thornton explained that this related specifically to the certification of grant claims and returns. He added that the composite indicative fee had been adjusted to reflect a reduction in the number of schemes and, at £10,600, was a small proportion of the total audit fee.

Committee Members welcomed the reduction in the audit fees but further clarification was sought about arrangements for additional work. It was reported that each additional piece of work would be separately agreed and a detailed project specification and fee agreed with the Council. Committee Members suggested that consideration be given to the associated financial implications and risks. In response to a question, Mr. Tobin of Grant Thornton confirmed that the £274,672 was the actual figure for 2011/12.

The Chairman drew attention to paragraph 15.2 of the report which stated that 'Certain assumptions are included such as Hoople providing appropriate access and working papers of the required standard'. Mr. Tobin said that the position was within the control of the Council and he was encouraged by the improvements discussed with Hoople.

A Committee Member commented that any contract could appear to be good value superficially and it was critical that the auditors had the means to identify flaws and waste. Mr. Jones said that auditors could not look at every contract and relied on a systematic approach which focused on the main risks. Previewing the following agenda item, he said that Grant Thornton would be seeking assurances from the Council that appropriate systems were in place.

RESOLVED: That

- (a) Audit and Governance Committee notes the content of Grant Thornton's Annual Fee letter; and**
- (b) Audit and Governance Committee note the planned outputs.**

48. COMMUNICATION WITH THE AUDIT AND GOVERNANCE COMMITTEE

The Committee received a report which outlined the process to ensure that there is effective two-way communication between the Audit and Governance Committee and the external auditor.

Mr. Tobin advised that the external auditor was required to ask 'those charged with governance' (the Audit and Governance Committee, supported by the Council's officers)

how responsibilities were discharged in the following areas: fraud; laws and regulations; going concern; related party transactions; and accounting for estimates. Attention was drawn to the 'Auditing Standards - Communication with the Audit Committee' document appended to the report which set out a series of questions from the external auditor and the corresponding management responses. It was noted that the questions also related to important aspects of the Terms of Reference of the Committee.

A Committee Member said that the document was logical and provided context to the role of the Committee. In response to a question, Mr. Tobin advised that the process conformed to International Standards on Auditing at a high level but it also sought to identify what happens specifically at this Council. It was noted that the document would be updated in due course to reflect experiences gained by Grant Thornton in working with other authorities.

The Vice-Chairman said that the Committee should not lose sight of the document and Mr. Tobin advised that the content would be revisited alongside the Letter of Representation. He added that any significant changes in the interim would be notified to the Committee through the normal reporting mechanism.

The Chairman suggested that Members review the document again in advance of the informal meeting with the auditors following the Committee meeting on 15 March 2013.

Referring to the 'Hereford Futures Governance Update' received by the General Overview and Scrutiny Committee (minute 27 of 14 January 2013 refers), a Committee Member commented that the Audit and Governance Committee should receive reports about related parties. The Chief Officer Finance and Commercial noted that the membership details of partner organisations had been circulated to Committee Members previously and said that this could be refreshed. Committee Members expressed a wish to receive reports at future meetings.

A Committee Member suggested that the report title be reviewed and a dating method utilised to enable comparison with previous years in the future.

RESOLVED: That the Audit and Governance Committee notes the content of Grant Thornton's report as attached as Appendix A to the report.

49. INTERNAL AUDIT PROGRESS 2012/13

The Committee received an update on the progress of internal audit work and internal control issues arising from work recently completed. The principal points covered by Mr. Khangura included:

1. To date, seven audit reviews had been finalised and nine reviews were being completed by Audit Services, with draft reports issued in four areas.
2. Two areas had been graded as providing 'limited assurance', these being Income Collection - Industrial Lets and Public Health - Food Licensing. These areas would be reviewed as part of the 2013/14 audit work to ensure that recommendations had been implemented.
3. In respect of Industrial Lets, it was reported that the Council needed to establish a clear framework of control, undertake reconciliation, and tighten processes. Furthermore, Audit Services had identified incorrect commercial lets which meant that some income had not been received in 2012/13 but this was being rectified.

4. In terms of Food Licensing, the Council needed to develop the function's controls in a number of areas, including documentation associated with food hygiene inspections, follow up inspection visits, and staff training.
5. Two areas had been graded as providing 'Substantial Assurance', these being Treasury Management and Council Tax/National Non-Domestic Rates.
6. A number of reviews were currently being completed by Audit Services and any significant issues arising from these areas would be reported to future meetings of the Committee.
7. Audit Services had received very positive feedback to date in response to an audit satisfaction questionnaire circulated to key service managers involved in the audit process so far.

A Committee Member commented that the contamination of beef products with horsemeat was entirely unrelated to the audit review of Food Licensing, nevertheless the authority needed to be aware of the implications and potential reputational risks associated with recent international developments.

The Chairman proposed that an update on the implementation of recommendations in respect of Food Licensing be made at the next, or a subsequent, Committee meeting. A Committee Member noted the statement that 'reporting to the Regulatory Committee required further development' and said that clarity was needed about the appropriate route to progress this element and for a level of assurance to be provided regarding the effectiveness of the process. Another Committee Member commented on potential consumer confusion about the award of 'stars' for food hygiene inspections.

With reference to the audit review of IT systems, it was requested that information be shared with both the General Overview and Scrutiny Committee and the Health and Social Care Overview and Scrutiny Committee to assist imminent work in relation to IT.

A Committee Member, using the example of the Yazor Brook flood alleviation scheme, commented on the need for assurance that appropriate systems were in place in respect of procurement and the monitoring of contracts. Mr. Khangura outlined the approach for the audit review of procurement, including the sampling of some contracts. In response to comments by Committee Members, the Chief Officer Finance and Commercial explained that an allocation had been made in the budget in respect of remedial works associated with the Yazor Brook flood alleviation scheme but actual costs would depend on the solution and liability determinations. The Vice-Chairman noted that the focus of the Committee should be on outcomes rather than on the details of specific contracts.

Committee Members were concerned about the position with Industrial Lets, particularly given the potential impact of accumulated arrears on business finances. The Chief Officer Finance and Commercial commented on the need to keep industrial assets fully occupied, particularly given the implications of the business rates retention scheme that commences in April 2013, and said that the authority would continue to look carefully at particular circumstances with individual businesses. A Committee Member said that Herefordshire needed to be 'open for business', the county could not afford to lose employers, and the regular collection of rental charges assisted with financial management.

In response to a question from a Committee Member, Mr. Khangura explained that Audit Services, rather than Council managers, selected samples and he briefly outlined audit sampling methodology.

Concerns were expressed about the management of licences and tenancy issues at Hereford Butter Market and the Chief Officer Finance and Commercial said that he would refer the matter to the Director for Places and Communities.

Committee Members commented on the challenging economic conditions for local businesses and the wider economy. The Chief Officer Finance and Commercial said that the Council did all it could to support businesses, such as small business rate relief, but trading conditions had the biggest influence on commercial viability.

A Committee Member said that income collection was a fundamental task and was alarmed at the situation with Industrial Lets. The Chief Officer Finance and Commercial concurred and said that the situation had arisen against a backdrop of organisational change, with the loss of corporate knowledge and the fragmentation of responsibilities between the Council and Hoople. It was noted that the matters were being resolved, alongside a broader review of collection procedures. It was re-iterated that the audit opinion of 'Substantial Assurance' had been given in terms of Council Tax/National Non-Domestic Rates.

A Committee Member said that, in light of the findings of the Robert Francis Inquiry report into Mid-Staffordshire NHS Foundation Trust and the financial challenges identified in the Council's Budget 2013/14 and Medium Term Financial Strategy, the authority would need to be mindful of accountabilities and the deliverability of objectives when considering workforce capacity going forward.

The Chairman noted the wide range of audit activity being undertaken and thanked Audit Services for the report.

RESOLVED: That the report be noted.

50. POWERS AND RESPONSIBILITIES IN RELATION TO STANDARDS COMPLAINTS

The Head of Governance / Monitoring Officer submitted a report which explained the powers and responsibilities of the Audit and Governance Committee and other bodies in relation to standards complaints against Councillors.

The Committee was advised that, in view of the comments made during the discussion at the Committee on 12 November 2012 and at Council on 4 January 2013 in respect of the report 'Breach of the Members' Code of Conduct by Councillor Mark Hubbard', this report sought to clarify the process adopted by Council in relation to standards matters within a single document.

It was noted that the Localism Act 2011 had removed the standards regime which had been in place since 2001, thereby requiring local authorities to introduce local processes to handle standards complaints. Consequently, Council approved a new Code of Conduct and a system to implement the provisions of the Act at its meeting on 20 July 2012 (minute 31). The report set out the related functions of the Audit and Governance Committee, Council, the Monitoring Officer, Independent Persons, and the Standards Panel.

In relation to the complaints about Councillor Hubbard, a Committee Member said that new material had been brought to the attention of Council which had not been available to the Committee when making its decision on the case. Another Committee Member commented that a Councillor had obtained this information through a Freedom of Information request. The Head of Governance / Monitoring Officer said that he had not been the Monitoring Officer when the complaints were considered by the Standards Panel and by the Committee and he was not aware of the advice provided at that time. He noted that the complaints had commenced under the previous standards regime and

he outlined the new process for dealing with complaints. The Committee was advised that the new system focused on improving standards and this was reflected in the limited scope of the sanctions: the Council could not fine, suspend or disqualify a member from membership of the authority.

The Head of Governance / Monitoring Officer said that the Independent Person, in consultation with the Standards Panel, considered substantial amounts of material to inform the recommendations but the Committee could request further detail if required.

Councillor EMK Chave asked that her comments to be recorded, these included: it was difficult to assess the effectiveness of the new system at this stage given the few cases to date but the process should be monitored carefully; if the intention was a 'light touch approach', the treatment of the Councillor Hubbard case at Council had been disproportionate, with some comments perhaps appearing slightly malicious; clarity was sought about the time taken to deal with the recent cases and whether any complaints about other Councillors were still outstanding; and the value of apologies sought from subject members was queried.

The Head of Governance / Monitoring Officer advised that the handling of the complaints involving Councillor GA Powell and Councillor MAF Hubbard had been subject to delays, in part resulting from the transition to the new arrangements.

A Committee Member said that very serious complaints had been made and Councillor Hubbard did not dispute the facts. It was commented that, in view of the information had come to light, the extent of the sanctions available did not seem sufficient.

Another Committee Member suggested that, to avoid unwarranted criticism, Council should be reminded about the limitations of the new standards system, the status of the Independent Person and the expectations of the role of the Committee, and the constraints in terms of sanctions. Nevertheless, it was critical that the Committee received adequate briefing about the cases before it, particularly if anyone could access full papers through Freedom of Information requests.

Referring to Appendix A to the report 'Audit and Governance Committee - Procedure to be followed when considering standards complaints', it was suggested that the following amendment be made 'The Chairman states that the general ~~attitude~~ *premise* of the Committee is to accept the findings of the Independent Person...'.
~~attitude~~ *premise*

Other Members spoke in support of continuing with the system in its present form and, through experience, improve upon it. However, it was also recognised that further consideration would need to be given to achieving the right balance in terms of the level of detail provided to the Committee.

A Committee Member commented that the satisfactory resolution of complaints was important to the integrity of the Council. It was also commented that the sanctions recommended to the Committee needed to be clear; for example, to specify who would provide training and what it would be about.

The Vice-Chairman said that the Independent Person, in consultation with the Standards Panel, had been appointed to consider all the information relating to complaints and the Committee should not second-guess their findings. It was the duty of the Committee, prior to making a decision, to gain assurance that due process had been followed, consider any new evidence, and receive representations on the sanctions proposed. Referring to the examples of possible action in Appendix B, 'How the Council deals with complaints about member conduct', the Vice-Chairman expressed concern about the gap between lighter touch and heavier sanctions and felt that the examples given might appear to be too simplistic. He suggested the inclusion of a paragraph (h) to the effect

that 'further or alternative actions may be considered subject to Monitoring Officer advice'.

The Chairman invited the Independent Persons present to address the Committee. Some of the key points raised by the Independent Persons are summarised below.

David Stevens MBE

- i. The former Standards Committee had been empowered to deal with complaints and had the respect of Councillors. Whereas the Localism Act only required that an Independent Person's 'views are to be sought, and taken into account'.
- ii. The new system was principally about improving governance, not implementing punishments for misconduct.
- iii. The transition had inevitably extended the time taken to deal with some complaints, compounded by delays in receiving external investigation reports in certain cases.
- iv. Both Mr. Bharier and Mr. Stevens had accrued significant experience of the complaints process but, as former independent members of the Standards Committee, would be required to stand down before 1 July 2013; Mr. Rob Cook would remain as an Independent Person and additional appointments would be made in coming months.
- v. The value of independent perspectives on Councillors' conduct was emphasised.

Jake Bharier

1. Faced with a difficult piece of legislation in the Localism Act, a new standards system had been produced for Herefordshire, involving not just Herefordshire Council but also town/parish councils. It was acknowledged that the details of the system would need to be improved as experience was gained of managing the system.
2. Although the former Standards Committee had a more formal status within the Council, the Standards Panel provided a useful forum for the Independent Person to consider wider perspectives, as it involved both an advisor from the Council and an advisor from the town/parish councils.
3. In law, the Council must have arrangements for investigating allegations against Councillors and making decisions about allegations. However, there had been early recognition that it would not be appropriate to debate complaints on the floor of full Council. Consequently, these arrangements had been delegated to the Monitoring Officer and the Audit and Governance Committee, informed by the views of the Independent Person, assisted by the Standards Panel.
4. The Standards Panel provided an opportunity to explore good governance, in line with the 'Nolan principles', and to coax full disclosure from all parties involved in complaints.
5. On the whole, the process had worked well so far, with a number of complaints dealt with over the past seven months and referred to the relevant decision maker.
6. In terms of the amount of information presented to Councillors, the Committee was advised that the complaint against Councillor GA Powell (minute 41 of 5 December 2012 refers) involved three large boxes of paperwork and it was

suggested that it might not be an efficient use of time or resources to circulate all the material in every case. The level of detail provided was a matter of judgement but Councillors should be assured that the Independent Person would carefully consider all available information and representations.

7. It was commented that the fundamentals in the Councillor Hubbard case had been included in the Independent Person's report provided to the Audit and Governance Committee (minute 34 of 12 November 2012 refers).
8. The powers available to the authority in terms of sanctions were limited; it was the duty of the police to investigate any potential criminal activity reported to it.
9. Experience had shown that it was sometimes difficult to extract meaningful apologies, as a sanction, to the satisfaction of all parties.
10. It had been considered that the recent cases were sufficiently serious to warrant notification to Council for information. It was recommended by the Independent Persons that a statement should be provided in such cases to indicate to Council what action they were permitted to take in such cases.
11. A typographical error was noted in Appendix B, with the following amendment suggested 'cannot ... ~~suspect~~ suspend' in respect town/parish councils.
12. The Independent Person was detached from the political arena and provided independent assurance that complaints were being dealt with properly.
13. There had been three cases unresolved from the previous standards regime which had required consideration under the new system, and these had all been concluded.

Some Committee Members maintained that the full nature of the allegations about Councillor Hubbard's conduct had not been brought to the attention of the Committee when it considered the complaints. It was acknowledged that the Committee should not examine the minutiae of cases but the full facts of the breaches should be disclosed prior to making a decision on possible actions.

The Head of Governance / Monitoring Officer made a number of comments arising from the discussion on this item, including:

- i. He welcomed the comments from Members that the new system should be allowed to bed down.
- ii. An overview was provided of the role of the police in dealing with any allegations of criminal activity.
- iii. The length of time taken to receive the report about Councillor Hubbard at Council was unfortunate; it was initially delayed because of time constraints at Council and subsequently by the introduction at the meeting by a member of material, a report by an independent investigator, that had been considered fully by the Standards Panel but which had not been made available to all members.
- iv. A commitment was provided that level of detail reported to the Committee would be reviewed.
- v. Certain cases were notified to Council as a form of sanction, to give a degree of publicity to instances of misconduct, or to impose certain sanctions but it should not be the function of Council to deal with the cases again.

A Committee Member commented that Councillors would need all the relevant documentary evidence if the outcomes were to be determined by Council. If it was agreed that Council was not an appropriate forum for a quasi-disciplinary process, however, then clarity was needed about the procedure and the rules of debate at Council.

The Head of Governance / Monitoring Officer confirmed that there was no appeal mechanism within the new system, although procedural irregularity could be challenged through the courts. He also provided further details about the process undertaken by the Monitoring Officer, in consultation with the Independent Person, following the receipt of a complaint.

The complaints against Councillor Hubbard were further discussed in the context of the information received by the Committee. It was re-iterated that all pertinent material needed to be considered by the Committee to enable it to make reasoned decisions. It was commented that confidence in the system could be undermined if serious misconduct received the same level of sanction as relatively minor incidents.

A Committee Member questioned whether a breach of confidentiality could be established where material should have entered the public domain or if it was clearly in the wider public interest.

The Head of Governance / Monitoring Officer said that, informed by the comments of the Committee, the report be provided to Group Leaders, for subsequent circulation to all Councillors.

RESOLVED: That

- (a) the report be noted;**
- (b) subject to the matters raised above, the Committee endorses its procedures for dealing with Standards complaints at meetings, and within the Council's adopted process; and**
- (c) a report be provided to Group Leaders, for subsequent circulation to all Councillors.**

51. DISPENSATIONS

The Committee received a report which noted the grant of dispensations to all Members of the Council to enable them to take part in meetings of the Council that would consider the Budget for 2013/14 and set Council Tax for the same period.

RESOLVED: That the report be noted.

52. DATE OF NEXT MEETING

The next scheduled meeting was to be held on Friday 15 March 2013, this would be followed by an informal meeting for Committee Members with the internal and external auditors.

It was recommended that the meeting scheduled for Friday 6 September 2013 be moved to Friday 13 September 2013 to ensure sufficient preparation time for the accounts.

The meeting ended at 12.35 pm

CHAIRMAN

MEETING:	AUDIT AND GOVERNANCE COMMITTEE
DATE:	15 MARCH 2013
TITLE OF REPORT:	BUDGET MONITORING REPORT 2012/13
REPORT BY:	CHIEF OFFICER: FINANCE AND COMMERCIAL

1. Classification

1.1 Open.

2. Key Decision

2.1 This is not a key decision.

3. Wards Affected

3.1 County-wide.

4. Purpose

4.1 To update the Audit and Governance Committee on the financial position to 31 January 2013. The Treasury Management position is also included. As part of the Committee's work programme it receives six monthly updates on the financial position.

5. Recommendation(s)

THAT the Audit and Governance Committee notes the report and the forecast position.

6. Key Points Summary

- The report covers the position to be presented to Cabinet on 14 March 2013.
- As at 31 January 2013 the overall revenue budget position showed a projected overspend of £3.9m by the end of the financial year, as shown in Appendix A. This is approximately 2.7% of the Council's £143.4m revenue budget. Details of spending and actions taken by Directorates are included in Appendix A.
- The general fund reserve balance as at 31st March 2012 was £6.1m. Any overspend on the revenue account at the year-end would have to be met largely from this reserve.
- At 1 April 2012 the Council held £13.5m of earmarked reserves, which are detailed in Appendix A. The specific nature of those reserves means that some are not available for reclassification as general reserves, for example the balance held for schools. However,

the requirement for other reserves is being reviewed as part of the recovery plan.

- Under the current medium term financial plan, any use of reserves would need to be 'paid back' as part of the 2013/14 budget.
- In addition to the revenue overview the forecast outturn spend on capital schemes is £41.9m compared to the original budget of £44m. Further details are attached in Appendix B.
- The overall position is mitigated by projected savings on borrowing and investments (£780k net).

7. Alternative Options

7.1 There are no alternative options as this report is for information purposes.

8. Reasons for Recommendations

8.1 To inform the Audit and Governance Committee about the projected revenue and capital outturn position for 2012/13 including Treasury Management activities.

9. Introduction and Background

9.1 The Audit and Governance Committee receive financial position updates as part of its work programme. These enable the Committee to be aware of the overall financial position.

10. Key Considerations

10.1 The projected overspend is £3.9m by the end of the financial year 2012/13. This is approximately 2.7% of the Council's £143.4m revenue budget.

10.2 The main movements from the December projected spend of £3.8m are shown in the table below;

	£000
Projected out-turn as at December	(3,819)
Emergency works in relation to flood damage from September, November and December 2012 (15% Bellwin grant claim)	(356)
Adult social care – increase in backdated packages for residential and nursing placements.	(354)
Adult social care – increase in learning disability packages	(243)
Adult social care – reduction in other packages (mental health and physical disabilities)	91
Adult social care – contract and other savings	117
Children's commissioning – vacancy savings and use of grants	82

Reduction in discretionary spend within children's services	47
Schools severance costs	(23)
Other changes within children's services	66
Children's safeguarding, including looked after children residential placements	(215)
Reduced commitment towards Public Health consultants	26
Additional capitalised interest	50
Improvement on investment income	20
Transferring revenue funded capital to borrowing	320
West Mercia Energy – estimated distribution notified	230
Other centrally held budgets	28
Projected out-turn as at January 2013	(3,933)

- 10.3 The 2012/13 budget agreed by Council in February 2012 reflects the overall savings of £10.8m required to meet the reduced funding levels from central government and budget pressures, particularly on Adult Social Care budgets.
- 10.4 The Treasury Management projected out-turn is an underspend of £850k on borrowing costs largely achieved through delaying taking out PWLB loans by utilising internal reserves and short-term borrowing from other local authorities. It also includes estimated capitalised interest on schemes over 12 months' duration. Investment income is anticipated to underachieve by £70k as investment balances are less than budgeted due to the delay in borrowing, but the savings on borrowings exceed the reduced investment income. Appendix C includes a detailed analysis of Treasury management activities.
- 10.5 The general fund reserve balance as at 31 March 2012 was £6.1m. This amount is above the Council's policy of maintaining a minimum of £4.5m of general reserves as a contingency against unforeseen emergencies and events. Any overspend on the revenue account at the year-end would have to be met largely from this reserve.
- 10.6 At 1 April 2012 the Council held £13.5m of earmarked reserves, which are detailed in Appendix A. The specific nature of those reserves means that some are not available for reclassification as general reserves, for example the balance held for schools. However, the requirement for other reserves is being reviewed as part of the recovery plan.

11. Community Impact

- 11.1 The actions being taken to reduce in year spend are likely to have some impact on the public, including service levels and response times etc. Every effort is being made to keep this to a minimum.

12. Equality and Human Rights

- 12.1 There are no specific implications in the report and recommendations.

13. Financial Implications

13.1 These are contained within the report.

14. Legal Implications

14.1 None.

15. Risk Management

15.1 It is important that regular budget monitoring reports are presented to outline the financial position. This allows mitigating actions to be put in place to protect the Council's overall financial standing.

16. Consultees

16.1 None

17. Appendices

17.1 Appendix A - Revenue Budget Monitoring

17.2 Appendix B - Capital Monitoring

17.3 Appendix C - Treasury Management

18. Background Papers

18.1 None identified.

REVENUE BUDGET MONITORING

Summary

1. The following table summarises the 2012/13 projected outturn based on the financial position as at 31st January 2013.

£'000	Pay/Non Pay Budget	Income Budget	Net Budget	Projected (over) or under spend
People's Services	195,682	(123,156)	72,526	(6,762)
Places and Communities	50,820	(13,799)	37,021	187
Corporate Services	88,803	(67,040)	21,763	1,036
Directorate Position	335,305	(203,995)	131,310	(5,539)
Capital funding			16,072	850
Investments			(352)	(70)
Revenue Contribution to Capital			336	320
WMS Profit Share			(624)	(394)
Centrally Held Budgets (net)			545	(335)
Government grants			(4,623)	235
Contingency			1,000	1,000
Transfer to/from Reserves			(305)	
Total			143,359	(3,933)

2. As of the end of January 2013 the overall revenue budget position for 2012/13 shows a projected £3.933m overspend, which is approximately 2.7% of the council's £143.4m revenue budget. The main movements from the December projected spend of £3.819m are shown in the table below;

	£000
Projected out-turn as at December	(3,819)
Emergency works in relation to flood damage from September, November & December 2012 (15% Bellwin grant claim)	(356)
Adult social care – increase in backdated packages for residential and nursing placements.	(354)
Adult social care – increase in learning disability packages	(243)

Adult social care – reduction in other packages (mental health and Physical disabilities)	91
Adult social care – contract and other savings	117
Children’s commissioning – vacancy savings and use of grants	82
Reduction in discretionary spend within children’s services	47
Schools severance costs	(23)
Other changes within children’s services	66
Children’s safeguarding, including looked after children residential placements	(215)
Reduced commitment towards Public Health consultants	26
Additional capitalised interest	50
Improvement on investment income	20
Transferring Revenue funded capital to borrowing	320
West Mercia Energy – estimated distribution notified	230
Other centrally held budgets	28
Projected out-turn as at January 2013	(3,933)

3. The 2012/13 budget includes savings requirements of £10.8m, approved in the council’s Financial Resource Model as part of the budget setting process. A further target of £5.6m was allocated to adult social care as part of the recovery plan to bring the budget into balance, resulting in a savings plan for adult social care of £7.9m. In addition, there was slippage on the procurement savings programme from 2011/12 of £1.5m plus a top-slice to cover consultancy costs. The £1.5m procurement target includes £483k of social care projects which are being monitored as part of the £7.9m recovery plan. These targets are included in the Directorate budget monitoring projections detailed in this Appendix.
4. The Treasury Management projected out-turn is an underspend of £850k on borrowing costs. This is mainly through delaying taking out PWLB loans by utilising internal reserves and short-term borrowing from other local authorities and estimated capitalised interest on schemes over 12 months duration. Investment income is anticipated to underachieve by £70k as investment balances are less than budgeted due to the delay in borrowing, but the savings on borrowings exceed the reduced investment income. Appendix C includes a detailed analysis of Treasury management activities.

Revenue Reserves Position

5. The general reserve balance as at 31st March 2012 was £6.1m. This amount is above the council’s policy of maintaining a minimum of £4.5m of general reserves as a contingency against unforeseen emergencies and events.
6. At 1st April 2012 the council held £13.5m of earmarked reserves, which are detailed in the table below. The specific nature of those reserves means that some are not available for reclassification as general reserves. One such example is the balance held for schools.

Earmarked Reserves

	31 Mar 2012
	£000
Schools balances	5,789
Grange Court	83
Commuted sums	36
Industrial Estates - maintenance	413
Schools Insurance	495
Schools sickness	84
ICT	91
Members ICT	40
Planning	24
Community Centre	180
Waste Disposal	2,407
Hereford Futures	125
Whitecross school PFI	321
Schools Rates Reserve	106
Economic Development	163
Pool car reserve	10
Three Elms Industrial Estate	362
Unused Grants carried forward	2,729
	13,458

PEOPLE'S SERVICES DIRECTORATE

Overall Projected Outturn

£'000	Exp Budget	(Income) Budget	Annual Budget	Under / (Over) Spend
Directorate costs *	1,017	(15,053)	(14,036)	384
Children's Safeguarding	12,203	(27)	12,176	(232)
Other Children's Provider Services	10,190	(429)	9761	635
Total CYP Provider Services	22,393	(456)	21,937	403
Learning and Achievement	7,511	(1,308)	6,203	228
Children's Commissioning	1,882	0	1,882	113
Other Children's Services	9,655	(1,896)	7,759	204
Total Children's Commissioned Services	19,048	(3,204)	15,844	545
Total Adult Social Care	65,686	(18,583)	47,103	(8,124)
Health & Wellbeing- EHTS	2,737	(859)	1,878	230
Root and Branch Savings Target -HERS	(200)		(200)	(200)
Total Health and Wellbeing	2,537	(859)	1,678	30
Total Local Authority	110,681	(38,155)	72,526	(6,762)
Schools	71,332	(71,332)	0	0
Total Peoples Services	182,013	(109,487)	72,526	(6,762)

*The report for Peoples Services has been updated to reflect the separation of directorate costs, which includes the central Dedicated Schools Grant (DSG) and Early Intervention grant for the directorate.

Headlines

- The last reported outturn to Cabinet for December was £6.356m overspend. The January outturn reflects a worsening of this position by £406k. The key changes have been within Children's Safeguarding where external agency and residential placements have increased by £242k and in Adult social care Older People costs have increased by £354k as a result of backdated packages.
- To date within the Adult Social Care savings plan £2.9m of savings have been confirmed, leaving £816k of the projected out-turn to be achieved. However, the balance to be achieved includes the majority of the additional charging income which started to come through in January.
- The directorate leadership team continues to meet weekly to ensure that essential expenditure only is being approved and reviews an updated list of all commitments as part of the cost control process. Minimal expenditure is being reported across all services areas each week. Weekly finance meetings also take place with the interim Assistant Director for Adult Social Care to review and monitor financial issues.

Directorate Costs

Key Points

10. The directorate costs are broadly unchanged from the previous position of £407k and anticipate an underspend of £384k. The savings have arisen from an expected reduction in severance costs for schools as more schools convert to academies and cease to be eligible for funding from the LA.

Risks

11. The schools which remain with the LA are the more vulnerable ones and may have additional calls to support redundancy programmes.

Opportunities

12. Further opportunities to utilise available grants will be explored as part of year end processes where appropriate to do so.

Children's Provider Services

Key Points

13. Safeguarding services forecast has worsened by £215k since December from an overspend of £17k to a predicted overspend of £232k. The main movements are;
 - a. An increase in placements and the extension of some existing placements to the year end. This is an anticipated consequence of the Ofsted outcome resulting in additional costs of £242k compared to the position reported in December.
 - b. An increase in the cost estimate for agency staff in the fieldwork teams and interim management costs of £25k.
 - c. The pressures have in part be mitigated by savings within adoption and other LAC services totalling £64k
14. Other Children's Provider Services has now had directorate costs and central grant income disaggregated since the December Cabinet report. The current forecast is for an underspend of £635k which is broadly unchanged from last month. The key components of the under spend are:
 - a. Children's centres - £171k arising from vacancy management and cost control
 - b. Integrated youth support - £238k arising from vacancy management and cost control
 - c. Additional Needs and Education Psychology as above - £116k
 - d. Complex Needs case - £84k
 - e. Other savings principally arising from management of vacant posts - £26k

Risks

15. After the sharp rise in agency foster placements in December and February there remains a risk of additional costs estimated at up to £50k
16. There are no significant risks across other children's provider services to report.

Opportunities

17. There are potential further opportunities in adoption / other services of up to £30k, which should offset most of the risk on placements.

Children's Commissioning

Key Points

18. The Children's commissioning budget now includes the Learning and Achievement services following the realignment of services across the Assistant Directors. The projected under spend is now £545k.
19. The key components of the underspend are Learning and Achievement total saving predicted of £228k, Sufficiency and Capital savings of £200k and Children's Commissioning savings of £113k. The savings have been achieved through a combination of holding vacant posts, cost control and effective utilisation of available grants.

Risks

20. A known data protection breach in Children's Services is likely to mean a fine in the region of £100k. It has been confirmed that fines are not covered by the insurance policy although claims for damages may be covered under the public liability insurance. There is still some uncertainty as to when the fine will be levied.

Opportunities

21. There may be savings on school transport as a result of schools closures from snow, but a saving will only be achieved if routes were not operated.

Adult Social Care and Commissioning

Key Points

22. The forecast overspend now stands at £8.124m, a net increase of £389k. The key additional pressures include:
 - Older People costs have increased by a further £354k largely as a result of back dated package costs being identified.
 - An increase in Learning Disabilities forecast of £243k.
23. The pressures have been partly mitigated by
 - Reductions in the projected outturns of Physical Disabilities and Mental Health totalling £91k.
 - The inclusion of an anticipated refund to the local authority of slippage within the reablement project, within the Wye Valley Section 75 agreement, and some savings identified within central costs, £117k in total.

Risks

24. The improvement plan still includes £847k of savings to be achieved in the last two months. At particular risk are the savings from reviews / transfers to supported accommodation and Care Funding Calculator (CFC) clients, the estimated risk is £500k-£600k.

25. Some of the winter pressures funding (£274k) may be required to cover additional costs and therefore not all available to offset pressures. The hospital is currently experiencing a peak in admissions and is at risk of delayed discharges for which the winter pressures money may well be needed.
26. There may still be further back dated packages to come through but this should be a declining risk as the new procedures become embedded.
27. There is a risk of bad debt on non payment by PCT/ DoH on disputed invoices at year end, agreement has been reached on payment of 11/12 and 12/13 invoices relating to the Equipment Store and Social Workers in hospitals, but only on a one off basis. The underlying issue has not yet been resolved.
28. There is a risk that £190k of the assumed £470k capitalisation is achievable based upon relevant items identified to date.

Health and Wellbeing – Environmental Health and Trading Standards

Key Points

29. Overall savings in this area now total £230k and this meets the £200k savings target set at the beginning of the year. Savings have been achieved across all services through a combination of vacancy management, charging for services and cost control.

Opportunities

30. No additional opportunities above those included in the forecast at present.

PLACES AND COMMUNITIES DIRECTORATE

Overall Projected Outturn

£'000	Pay/Non Pay Budget	Income Budget	Annual Budget	Under / (Over) Spend
Economic, Environment and Cultural Services	11,192	(4,071)	7,121	26
Homes and Community Services	7,784	(4,483)	3,301	134
Place Based Commissioning	31,496	(5,188)	26,308	(80)
Director and Management	348	(57)	291	107
Total	50,820	(13,799)	37,021	187

Summary

31. The Directorate is currently showing an underspend of £187k for the year. The reduction in underspend for the Directorate reflects the pressure on the highways maintenance budgets in relation to emergency works in response to wet weather events in September, November and December 2012.
32. This position also incorporates the Directorate Savings Plan of £2.81m, of which £1.94m has been achieved and £870k remain at medium risk. The majority of the medium risk savings relates to Streetscene Review described below under Place Based Commissioning and the remaining savings are expected to be met by in year savings.
33. Whilst in year pressures on income budgets in relation to Planning Fees and Car Parking will be met by in year savings, the Directorate carries the risk of further bad winter conditions.

Economic, Environment & Cultural Services

34. Planning Fee income remains considerable lower than the same period in 2011/12. Current forecasts are a shortfall of income of £500k for the year. This pressure is mitigated by a planned underspend in the services through the halt on discretionary spend and use of unused grant reserves.
35. Planning fees are currently set by the Government and have not been increased since 2008. For fees from 23 November 2012 the Government has proposed a one-off adjustment to "up-rate" fees in line with inflation, which amounts to around 15%. Based on the income levels in previous years, this would mean an additional £50k income in 2012/13.

Homes & Communities

36. There is currently a pressure on parking budgets of £185k which mainly reflects the shortfall in income on car parking charges. This includes projections of increased income from changes to parking fees introduced in November 2012. As previously reported the pressure partly reflects the closure of 58 spaces on the Garrick Surface Car Park and the wet weather conditions.

37. There are in year savings to mitigate this position from the discretionary spend budgets and the use of previous years grant reserves.

Place Based Commissioning

38. The estimated pressure on the 2012/13 winter budget remains at £120k. If there is another bout of severe weather or a prolonged period of marginal weather conditions, this will put further pressure on the budget.
39. There is also a risk in relation to disputed items in the Amey contract. These disputed items total £3m and impact on both capital and revenue items, some which will be met within the current annual budgets managed by Amey through the MAC contract. The next step is to take a sample of disputes to go to adjudication in February 2013 and although this should give an indication of the likely outcome, it is not expected to be fully settled before the end of this financial year.
40. There remains risk in the achievement of the 2012/13 annual savings in relation to Streetscene Root and Branch review. Revenue savings have previously been identified in excess of £1m within the Amey contract and are mainly expected to be achieved through the re prioritisation of annual routine works to capital works and one off contract dispute settlements, dependent on the resolution above These contract variations are expected to meet the £650k savings targets, previously reported at high risk and the 2012/13 Bellwin threshold liability.
41. Following confirmation by DCLG that Bellwin grant funding for September, November and December wet weather events have been agreed by the Secretary of State. It is now clear from recently received grant claim guidance that only 85% of the works will be met by the grant for these events Previous claims, June and July 2012, have been 100% funded in excess of the annual threshold liability of £459k. Works for these 3 events are estimated to total £2.37m therefore Herefordshire Council will have to meet a further £356k from its own budget in 2012/13. The directorate has already made in year savings through the Amey contract to meet the threshold amount of £459k.
42. The expected outturn for the joint Waste Disposal contract with Worcestershire County Council for 2012/13 is £9.5m. Previous estimates were based on disposal tonnages to date, earlier in the year, being lower than originally expected however latest tonnage info from WCC shows this has increased and moving nearer to the original estimate. This outturn position would require utilisation of £300k of the waste contingency budgets, thereby releasing the remaining £490k as an in year saving reflected in the central budgets.

Director and Management

43. There is currently underspend in relation to the Directorate's annual non pay inflation budget which is will be used to mitigate the pressures within the Directorate.

CORPORATE SERVICES DIRECTORATE

Overall Projected Outturn

£'000	Pay/Non Pay Budget	Income Budget	Annual Budget	Under / (Over) Spend
Customer Services and Communications	3,231	(287)	2,944	202
People, Policy and Partnership	9,414	(1,520)	7,894	519
Law, Governance and Resilience	3,744	(931)	2,813	(126)
Chief Finance Officer and Commercial	69,552	(64,092)	5,460	538
Corporate Management	2,428	0	2,428	0
Chief and Deputy Chief Executive	434	(210)	224	(97)
Total	88,803	(67,040)	21,763	1,036

Summary

44. The Directorate is expected to underspend by £1.036m for the year, as reported last month. There are a number of significant risks already identified which are also being managed within the Directorate in the year.
45. This position includes achievement of the Directorate Savings Plan, totalling £1.8m, of which the following are at high risk of not being achieved and will therefore be met from other in year savings.

Service Area	Principles	Risk	Savings Target 2012/13 £000
Legal (HC)	Building capacity to deliver to partners in the Health Sector, in sourcing and delivering to new clients in the local community third sector at competitive rates	Additional work not requested by WVT & PCT and HWFRA appointed own legal staff.	30
Support Services	Root & Branch Review	Savings unlikely to be identified through reviews for 2012/13.	150
Total			180

46. Of the remaining savings target £1.29m has a low risk rating and £330k has medium risk of not being achieved, however, any savings not achieved in 2012/13 will be met from in year savings.

Customer Services & Communications

47. The Customer Organisation project continues in 2012/13 introducing a new system and look at business processes for delivering front line services. It is estimated that staff costs of £50k are attributable to the projects and will therefore be funded from capital as part of the 2012/13 Capital programme.
48. The service is expected to deliver in year savings on management costs in excess of the £100k 2012/13 Customer Services target as part of the Root and Branch Review. Whilst in 2012/13 this excess will be used to meet in year service pressures and contribute to the council's overall deficit position, these savings will contribute to the 2013/14 Root & Branch savings target.

People, Policy and Partnership

49. The service has identified further in year savings on discretionary spend budgets. This includes the hold on spend on ICT Strategy Projects, governed by the Information Management and Technology Board realising £400k in year savings.
50. A further review of spend on ICT projects is currently underway to identify capital expenditure which can be funded from capital budgets in the year thereby releasing revenue budget savings to help address the Council overall deficit position.

Law, Governance and Resilience

51. Along with the high risk of not being able to achieve £30k income from partners, noted above, there is a further risk of £50k of the service total savings target of £125k from staff savings. This is due to slippage in Legal Services restructure.
52. These pressures will be managed within the directorate budgets.

Chief Finance Officer and Commercial

53. Through a review and further control of discretionary spend budgets and use of previous years grant reserves, the service is expected to make annual savings of £238k which includes a hold on emergency maintenance.
54. A review of expenditure in Property Services has also identified £300k which can be classified as capital spend. A further review will be carried out before the end of the financial year.
55. Pressure remains on the Property budgets in relation to the Corporate Accommodation Project, meaning maintenance costs of vacated building continue to be incurred, and the impact of the disaggregation of PCT staff from council offices, resulting in loss of income.

Chief and Deputy Chief Executive

56. Whilst in year savings of £150k have been identified from the Chief Executive and Deputy Chief Executive's annual budget. This will be utilised in year to meet pressures identified above in relation to the Directorate's annual savings plan.
57. The pressure of £97k reflect the 2012/13 savings target for the Business Support Review that will be met within the services from in year discretionary spend savings. These saving are expected to be met on a more permanent basis across the Directorate in 2013/14.

Capital Forecast

1. The capital outturn forecast for 2012/13 as at the end of January totals £41.9 million, a decrease of £1.8 million reported at the end of December. The main changes represent the slippage of forecast spend into 13/14;-
 - £500k prudential borrowing towards the Garrick House multi-storey improvements slipping into 13/14 due to the next phase of works starting in March.
 - £500k Borders broadband forecast spend in 12/13 slipping into 13/14 as a result of the confirmation of the supplier first claim for funding to be submitted in June.
 - £440k disabled facilities grant forecast spend is expected to fall into 13/14 as referrals and approvals come on line.
 - £300k prudential borrowing towards the moving or refurbishment of the community equipment store for which plans are yet to be agreed.
 - £200k housing revolving loans forecast will be carried forward into 13/14 as a result of finalising agreements between registered social landlords and the HCA.
2. There is a continued overspend on the new livestock market due to the facility encountering problems regarding on site drainage. The 12/13 overspend is currently £170k for which no funding resource has yet been identified, although the increase rentals expected from the site could be used to fund the cost of borrowing this sum.
3. A summary by directorate and funding source is provided in Table A below.

Table A - Funding of 2012/13 Capital Outturn Forecast

Directorate	2012/13 Forecast £'000	Prudential Borrowing £'000	Grants & Contributions £'000	Capital Receipts Reserves £'000
People's Services	8,760	347	8,349	64
Places & Communities	28,331	9,238	15,907	3,186
Corporate Services	4,789	4,332	84	373
Contingency	38	38	-	-
Total	41,918	13,955	24,340	3,623

4. **Table B - Schemes with an outturn forecast exceeding £500k in 2012/13**

Scheme	Spend to end Jan £'000	2012/13 Original Forecast £'000	2012/13 Current Forecast £'000	Comments
People's Services				
Blackmarstons Special School	1,140	3,000	2,425	SEN school extension in progress
Condition property works	913	1,807	1,267	Annual programme of works at various sites committed on a highest need first basis. The funding has decreased in 12/13 as a result of a number of schools converting to academies

Basic Need – Schools	601	-	1,217	This funding has been allocated to schools through a structured bidding process. This relates to grant funding brought forward from previous years.
Hampton Dene	603	750	708	SEN school specialist unit works complete
Leominster Primary school	221	6,807	520	Scheme in planning phase
Places & Communities				
Local Transport Plan	5,919	9,985	9,985	Annual programme of capital works to highways, footways and bridges, This funding has been cut by 5% from the 2011/12 funding allocation
Link Road	6,233	4,593	6,270	Key property purchase complete
Connect 2	186	1,779	1,736	Cycle footpath connection between the city centre and Rotherwas, site works have commenced
Grange Court	567	-	1,152	Refurbishment works complete
Rotherwas Enterprise Zone	696	-	1,100	To enable the provision of serviced plots to private sector inward investors
Disabled Facilities Grant	540	-	1,000	There is a large demand for these grants, processing is dependent on the rate of referrals. This represents grant funding (unknown when original budget set) plus match funding brought forward.
Rotherwas Relief Road	584	-	806	Final compensation payments falling due
Putson Community Building	462	-	765	S106 funded new build
Affordable Housing Grants	113	-	729	Various grants awarded to approved schemes, budget fully committed
Hereford Active Travel Schemes	68	-	623	Detailed travel schemes recently agreed
Ledbury Library	482	2,537	591	Awaiting confirmation of potential grant funding towards the next phase of works
Street Lighting	572	-	539	Self-financed capital works generating carbon reductions and energy cost savings
Corporate Services				
Corporate accommodation	1,990	4,580	3,265	Works underway at Plough Lane, the civic hub and the better ways of working project. The new heritage, archive and record centre (HARC) has been granted planning permission
Hereford Leisure Pool	994	-	911	Scheme complete, forecast represents budget brought forward from 2011/12
Sub Total	22,884	35,838	35,609	
Schemes with a budget <£500k in 2012/13	3,826	8,191	6,309	
Total	26,710	44,029	41,918	

Prudential Borrowing

5. A summary of the forecast Prudential Borrowing (PB) position is set out below.

	£'000	£'000
2012/13 Original Prudential Borrowing Forecast		11,905
Less: Slippage into 2013/14	(763)	
Removal of Halo driving range funding	(346)	
Add: Revenue financed IKEN capital scheme	65	
Funding resource swap	320	
Slippage from 2011/12	<u>2,774</u>	
		2,050
Expected use of Prudential Borrowing in 2012/13		13,955

Capital Receipts Reserve

6. The opening capital receipts reserve balance was £2.8 million as at 1st April 2012. This has been increased by £1.4 million by the capital receipt share from the sale of West Mercia Supplies and £1.5 million from the sale of the old livestock market (£0.5m of this receipt is anticipated to become repayable). Of this total £3.6 million will be used to fund capital expenditure in 2012/13 with the balance remaining earmarked to fund future year's capital expenditure.

This report ensures the council demonstrates best practice in accordance with CIPFA's recommendations in their Code of Practice for Treasury Management, by keeping members informed of treasury management activity.

1. The Economy

1.1. Recent economic events and statistics show the following:

- The second estimate of economic growth for the fourth quarter of 2012 confirmed the first estimate with the economy contracting by 0.30% over the quarter. However, upward revisions to growth data in earlier quarters of 2012 lifted year on year growth in GDP from zero to 0.30%.
- The weakness in growth was a major factor in the credit rating agency Moody's downgrading the UK's long term rating from Aaa to Aa1.
- The year-on-year Consumer Price Index (CPI) for January 2013 stayed constant at 2.70% for the fourth month in succession.
- Members of the Monetary Policy Committee voted unanimously to hold the Bank Rate at 0.50% at their meeting in February but were split 6-3 on maintaining the stock of asset purchases at £375 billion. Three members voted to increase the size of the asset purchase programme by £25 billion to £400 billion.
- Political events in Italy cast a shadow over markets as concerns over the Eurozone were raised again.
- The IMF has said that the global economy will slow this year unless the United States averts the spending cuts due to start on 1st March.

2. The Council's Investments

2.1 At 31st January 2013 the council held the following investments:

Investment	Term	Maturity Date	Interest Rate	Amount invested	
				£m	£m
<u>Instant Access Bank Accounts:</u>					
National Westminster	N/A	N/A	1.10%	5.00	
Santander	N/A	N/A	0.50%	4.49	9.49
<u>Instant access Money Market Funds:</u>					
Prime Rate	N/A	N/A	0.47%	2.48	2.48
<u>Fixed Term Deposits:</u>					
Lloyds	100 days	07/02/13	1.40%	2.00	
Lancashire C C	364 days	06/03/13	0.85%	2.00	
Bank of Scotland	120 days	15/03/13	1.20%	2.00	
Bank of Scotland	120 days	20/03/13	1.20%	1.00	
Bank of Scotland	136 days	22/03/13	1.40%	2.00	
Lloyds	182 days	31/05/13	1.00%	0.50	
Nationwide	273 days	11/09/13	0.76%	2.00	
Barclays	365 days	01/11/13	1.07%	2.00	
Gateshead Council	549 days	18/11/13	1.10%	2.00	
Barclays	364 days	29/11/13	1.00%	1.00	
Barclays	365 days	05/12/13	1.00%	1.00	17.50
Total			0.96%		29.47

Treasury Management Interim Report Ten months to 31 January 2013

2.2 Due to the cessation of council tax receipts, and the need to keep funds liquid in February and March, no new term deposits were placed in January.

2.3 The council's current eligible UK counterparties, together with the maximum maturity periods (as recommended by the council's treasury advisers, Arlingclose) are as follows:

	Date counterparty added or maturity limits revised						
	1 st Apr	3 rd May	18 th May	1 st Jun	30 th Jul	31 st Oct	1 st Mar
Close Brothers Ltd							100 days
Santander UK	35 days	35 days	overnight	overnight	35 days	100 days	100 days
Nat West and RBS	100 days	35 days	35 days	overnight	35 days	6 mnths	6 mnths
Bank of Scotland and Lloyds TSB	100 days	35 days	35 days	overnight	100 days	6 mnths	6 mnths
Nationwide	100 days	100 days	100 days	100 days	100 days	12 mnths	12 mnths
Barclays	100 days	100 days	100 days	100 days	100 days	12 mnths	12 mnths
HSBC and Standard Chartered Bank	6 mnths	6 mnths	6 mnths	6 mnths	12 mnths	12 mnths	12 mnths

2.4 Following a sustained stabilisation in UK credit markets, with effect from 1st March Arlingclose have added Close Brothers as a counterparty for short-term, liquid investments. Close Brothers has a long-term credit rating of A and has maintained a relatively stable credit rating throughout the financial crisis. With the UK government keen to reduce the banking sector's reliance on government support Arlingclose are undertaking a detailed analysis of other financial institutions with a standalone strong long term credit rating which does not factor in any government assistance.

2.5 The rates of interest receivable on the council's investments have reduced during 2012/13. For example, as noted in the previous report, rates on the following investments have been as follows:

Investment	2 nd Apr	2 nd Jul	28 th Sep	27 th Dec
Prime Rate Money Market Fund (instant access)	0.87%	0.69%	0.61%	0.46%
Ignis Money Market Fund (instant access)	0.82%	0.72%	0.65%	0.50%
Nationwide E.g. 3 month term deposit	0.98%	0.60%	0.51%	0.44%
Barclays E.g. 3 month term deposit	0.91%	0.83%	0.53%	0.46%
Lloyds Group E.g. 3 month term deposit	1.40%	1.40%	1.35%	0.70%

2.6 The interest rates on the council's instant access bank accounts have also fallen recently as follows:

Bank	With effect from	Old rate	New rate
Santander	4 th December 2012	0.80%	0.50%
Nat West	12 th February 2013	1.10%	0.60%
Bank of Scotland	22 nd April 2013	0.85%	0.40%

2.7 Arlingclose has issued the following forecast of the Bank Base Rate (issued 15th February 2013). As previously noted, Arlingclose believe that it could be 2016 before the first increase in the Bank Base Rate.

Treasury Management Interim Report Ten months to 31 January 2013

Bank Rate	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun 15
Upside risk					+0.25	+0.25	+0.50	+0.50	+0.50	+0.50
Central case	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk		-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25

The only slight change from their previous forecast is that there is now no upside risk until March 2014.

2.8 The Council has earned interest on its investments as follows:

Month	Amount invested		Average rate of interest earned		Amount of interest earned £	Budget £	Short-fall £
	Actual £m	Budget £m	Actual %	Budget %			
Apr-12	22.11	30	1.15	0.90%	20,643	22,500	(1,857)
May-12	31.94	40	1.09	0.90%	29,247	30,000	(753)
Jun-12	32.57	45	1.07	0.90%	28,657	33,750	(5,093)
Jul-12	32.34	50	0.93	0.90%	25,676	37,500	(11,824)
Aug-12	31.33	45	0.98	0.90%	26,190	33,750	(7,560)
Sep-12	28.82	45	1.00	0.90%	23,542	33,750	(10,208)
Oct-12	28.00	45	1.00	0.90%	23,760	33,750	(9,990)
Nov-12	25.61	40	0.98	0.90%	20,505	30,000	(9,495)
Dec-12	31.17	35	0.92	0.90%	24,386	26,250	(1,864)
Jan-13	32.04	35	0.92	0.90%	24,831	26,250	(1,419)
Total to 31st January 2013					247,437	307,500	(60,063)
Feb-13	28.88	30	0.86	0.90%	19,124	22,500	(3,376)
Mar-13	24.00	30	0.80	0.90%	16,000	22,500	(6,500)
Projected outturn					282,561	352,500	(69,939)

2.9 The interest received in the ten months to 31st January 2013 has fallen short of the amounts budgeted by £60,063. Whilst the average rates achieved in this period have been higher than the budgeted rate of 0.90%, the average amounts invested have been lower.

2.10 The investment budget was set on a consistent basis with the borrowing budget assuming that the council may take out further borrowing totalling £11.5 million at the end of 2011/12 and/or at the beginning of 2012/13. The postponement of this borrowing has caused investment income to fall but the reduction in income is outweighed by savings made on the borrowing side. Recent short-term borrowing from other local authorities will reduce the gap between projected and actual investment balances but falling council reserves have the opposite effect.

2.11 In view of falling interest rates, actual investment income is anticipated to fall short of the amount budgeted by around £70,000.

**Treasury Management Interim Report
Ten months to 31 January 2013**

3. The Council's Borrowing

Short-term borrowing

3.1 During the year to date the council has taken out short-term loans from other local authorities. This is good practice as the rates are below levels available from other sources.

Date Borrowed	Local Authority	£m	Period (days)	Date Repayable	Interest Rate – gross including brokers commission	Interest Payable (including brokers commission)
01/05/12	Worcestershire	3.00	7	08/05/12	0.39%	£224.38
02/05/12	Rhondda	3.97	8	10/05/12	0.39%	£339.35
08/05/12	Worcestershire	3.50	7	15/05/12	0.39%	£261.78
10/05/12	Coventry	3.50	21	31/05/12	0.38%	£765.21
28/05/12	Caerphilly	3.00	10	07/06/12	0.38%	£312.33
24/08/12	Leicester	2.00	83	15/11/12	0.36%	£1,637.27
24/08/12	London Borough of Hammersmith & Fulham	2.00	52	15/10/12	0.37%	£1,054.25
12/09/12	East Renfrewshire	2.00	50	01/11/12	0.37%	£1,013.70
15/10/12	Worcestershire	2.00	50	04/12/12	0.37%	£1,013.70
19/11/12	Leicester City	1.50	28	17/12/12	0.37%	£425.75
20/11/12	West Mercia Police	1.00	56	12/01/13	0.37%	£567.68
26/11/12	Merseyside Transport	2.00	224	08/07/13	0.40%	£4,909.59
30/11/12	South Yorkshire	2.00	255	12/08/13	0.42%	£5,868.49
30/11/12	Merseyside Transport	2.00	283	09/09/13	0.44%	£6,823.02
04/01/13	City & County of Swansea	2.00	97	11/04/13	0.35%	£1,860.27
05/01/13	City & County of Swansea	2.00	92	08/05/13	0.40%	£2,016.43
06/02/13	Kent Police Authority	2.00	119	05/06/13	0.40%	£2,608.22
Total interest and commission payable on the above loans						£25,216.50
Less interest and commission relating to 2013/14						£11,517.81
Total short-term interest for 2012/13 on loans taken out to date						£16,126.09
Shaded lines are those loans both taken out and repaid in 2012/13						

Treasury Management Interim Report Ten months to 31 January 2013

- 3.2 Short-term loans taken out during the year have either been to provide additional liquidity (at times when it was cheaper to use short-term loans rather than keep instant access to the required investment balances) or, more recently, to fund capital expenditure.
- 3.3 The council can only borrow up to its Capital Financing Requirement and cannot borrow beyond this to finance the revenue budget.
- 3.4 The council's existing longer term loans from the Public Works Loan Board (PWLB) are all at fixed rates with an average interest rate payable of 4.04%. Short-term loans are currently available at very low rates and remove the cost of carry (the differential between investment and borrowing rates) associated with longer term loans.
- 3.5 At the present time, with the bank base rate anticipated to stay at 0.50% for the next few years, it is intended to use short-term borrowing from other local authorities to fund both this year's capital expenditure and a significant part of the capital expenditure in 2013-14. It can be seen from the above table that the short-term borrowing has been taken out so that £2 million matures each month from April to September inclusive. This is to spread interest rate risk and give the council the opportunity to renew the loans at a time when other local authorities balances should be relatively high resulting in advantageous interest rates. It is stressed that using other local authorities is sound financial management given the very favourable rates available.

Long-term borrowing

- 3.6 No long-term loans have been taken out in the year to date.
- 3.7 As noted previously, there are currently good reasons to postpone further borrowing from the PWLB, including:
- The expectation that PWLB rates will remain relatively low for the foreseeable future;
 - The large differential between PWLB rates and those currently earned on the council's investments;
 - The availability of cheap short-term loans from other local authorities; and
 - The flexibility offered by short-term borrowing in terms of repaying loans and reducing investments should financial conditions deteriorate.
- 3.8 The costs and benefits of longer term borrowing, relative to shorter term borrowing, continue to be monitored and discussed with the council's treasury adviser Arlingclose. At present their advice is to continue using short-term loans and delay taking out more expensive longer-term finance.
- 3.9 It is anticipated that at the year end the council will have £12 million of short-term loans outstanding (as shown in the table above) but the difference in the budgeted PWLB interest rate of 4.00% and the interest rates payable on the short-term loans (less than 0.44% or less) will result in significant budget savings. The current underspend can be estimated as follows:

**Treasury Management Interim Report
Ten months to 31 January 2013**

Summary of Borrowing Budget	Budget	Forecast	Saving
	£m	£m	£m
Minimum Revenue Provision	9.95	9.79	0.16
Interest on existing loans (January 2012 position)	5.76	5.76	-
Provision for borrowing of £5.50m to be taken out before the end of 2011/12 at 4.00%	0.22	-	0.22
Borrowing requirement for 2012/13 of £6m, included at an interest rate of 4.00%	0.24	-	0.24
Interest payable on short-term borrowing in lieu of longer-term loans		0.02	(0.02)
Additional budget towards property disposal costs	0.05	0.05	-
Original budget	16.22	15.62	0.60
Budget adjustment relating to a reduction in capital financing contributions from directorates	(0.15)	-	(0.15)
Capitalised interest		(0.40)	0.40
Forecast budget surplus as at 31 March 2013	16.07	15.22	0.85

4. Summary of Borrowing Outturn Position

- 4.1 It is anticipated that no PWLB borrowing will be taken out before the year end and all borrowing will consist of short-term loans from other local authorities. The current forecast is for an underspend of £850,000.
- 4.2 The council is able to capitalise interest costs relating to interest paid on borrowing used to fund large capital schemes that take substantial periods of time to get to the point at which the assets may be utilised. Such interest, incurred at the construction or installation phase, may be added to the cost of the associated asset. At this stage capitalised interest is estimated to be £400,000, as shown above.
- 4.3 The use of short term loans will continue to be a key part of our treasury management and means we are able to deliver savings against this year's revenue budget for funding the capital programme.

MEETING :	AUDIT AND GOVERNANCE COMMITTEE
DATE:	15 MARCH 2013
TITLE OF REPORT:	AUDIT PLAN 2012/13
REPORT BY:	CHIEF OFFICER: FINANCE AND COMMERCIAL

1. Classification

1.1 Open.

2. Key Decision

2.1 This is not a key decision.

3. Wards Affected

3.1 County-wide.

4. Purpose

4.1 To inform the Audit and Governance Committee of the work to be undertaken by Grant Thornton over coming months for the year ended 31 March 2013.

5. Recommendation(s)

THAT the Audit and Governance Committee notes the content of the Audit Plan 2012/13.

6. Key Points Summary

- The Audit Plan lists key phases of the audit leading to the external auditor being able to complete required work prior to issuing an audit opinion and value for money conclusion.

7. Alternative Options

7.1 There are no alternative options.

8. Reasons for Recommendations

8.1 The Audit Plan 2012/13 is an opportunity for the Audit and Governance Committee to be informed of the planned outputs.

9. Introduction and Background

- 9.1 Grant Thornton is the Council's appointed external auditor.
- 9.2 This report is required in order to inform the Audit and Governance Committee about the work to be undertaken by the external auditor over coming months for the 2012/13 financial year.

10. Key Considerations

- 10.1 As reported to the 19 February 2013 meeting, the Annual Audit Fee letter details the amount to be paid to Grant Thornton (£164,803). This is a decrease on the actual fees of £274,672 for 2011/12.
- 10.2 The Audit fee covers work on the audit of financial statements, value for money conclusion and Whole of Government accounts requirements.
- 10.3 The Audit Plan sets out the audit approach, the results of interim audit work and work to be undertaken.

11. Community Impact

- 11.1 Not applicable.

12. Equality and Human Rights

- 12.1 Not applicable.

13. Financial Implications

- 13.1 The fee reflected in the Audit Plan is included in the Council's budget.

14. Legal Implications

- 14.1 There are no legal implications.

15. Risk Management

- 15.1 The effective management of risk is through the delivery of internal processes that address the risks associated with areas such as final accounts delivery.

16. Consultees

- 16.1 None.

17. Appendices

- 17.1 The Audit Plan for Herefordshire Council, Year Ended 31 March 2013 from Grant Thornton.

18. Background Papers

- 18.1 None identified.



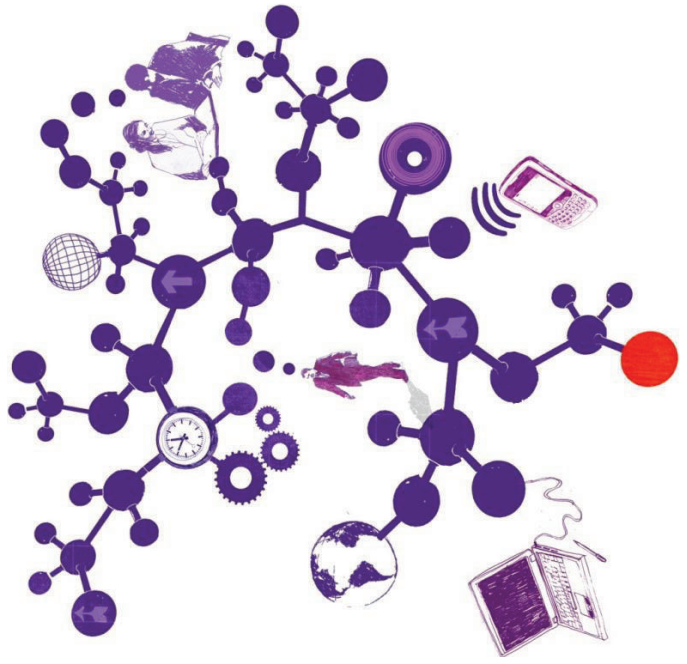
The Audit Plan for Herefordshire Council

Year ended 31 March 2013

5 March 2013

Phil Jones
Director – Engagement Lead
T 0121 232 5232
E phil.w.jones@uk.gt.com

Terry Tobin
Manager
T 0121 232 5276
E terry.p.tobin@uk.gt.com



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

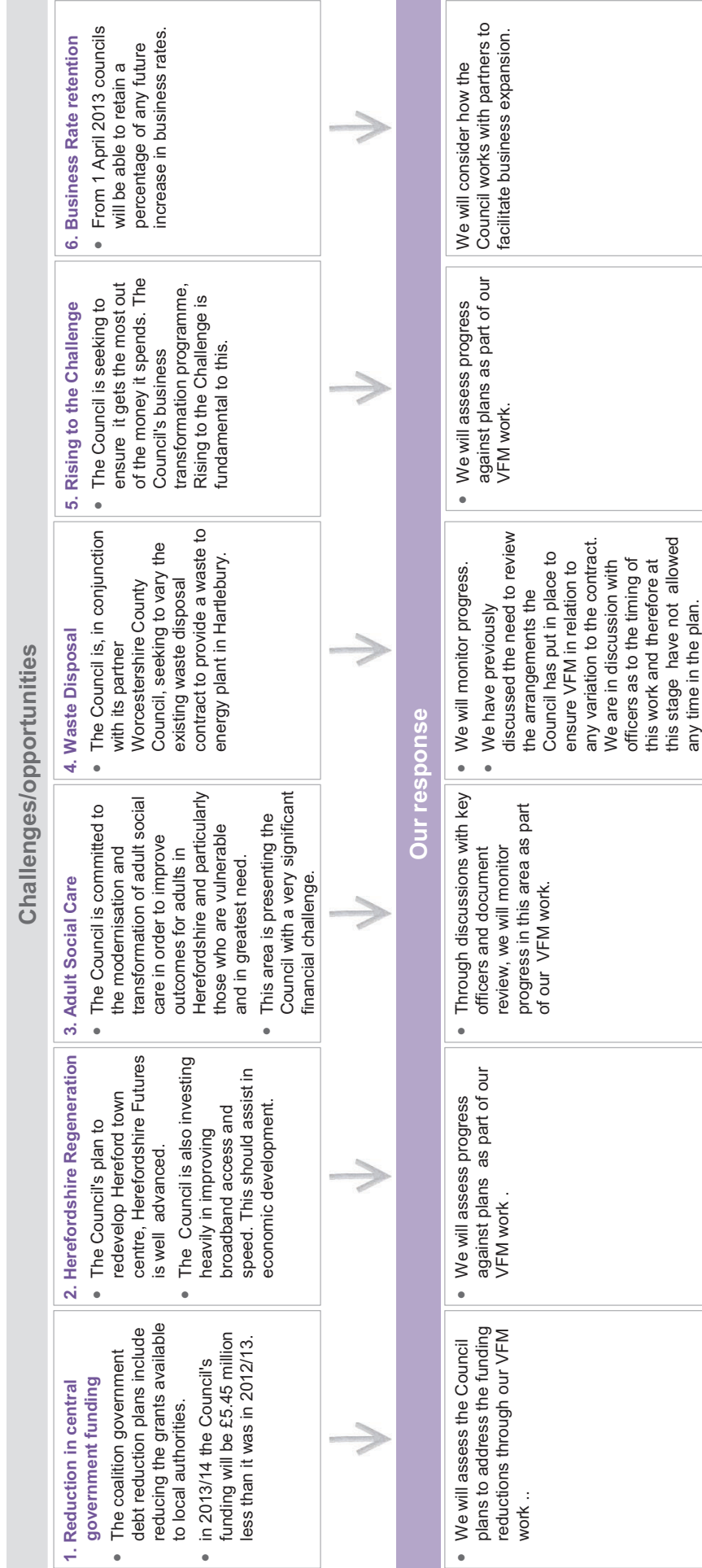
Contents

Section

1. Understanding your business
2. Developments relevant to your business and the audit
3. Our audit approach
4. An audit focused on risks
5. Significant risks identified
6. Other risks
7. Results of interim work
8. Value for Money
9. Logistics and our team
10. Fees and independence
11. Communication of audit matters with those charged with governance

Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.



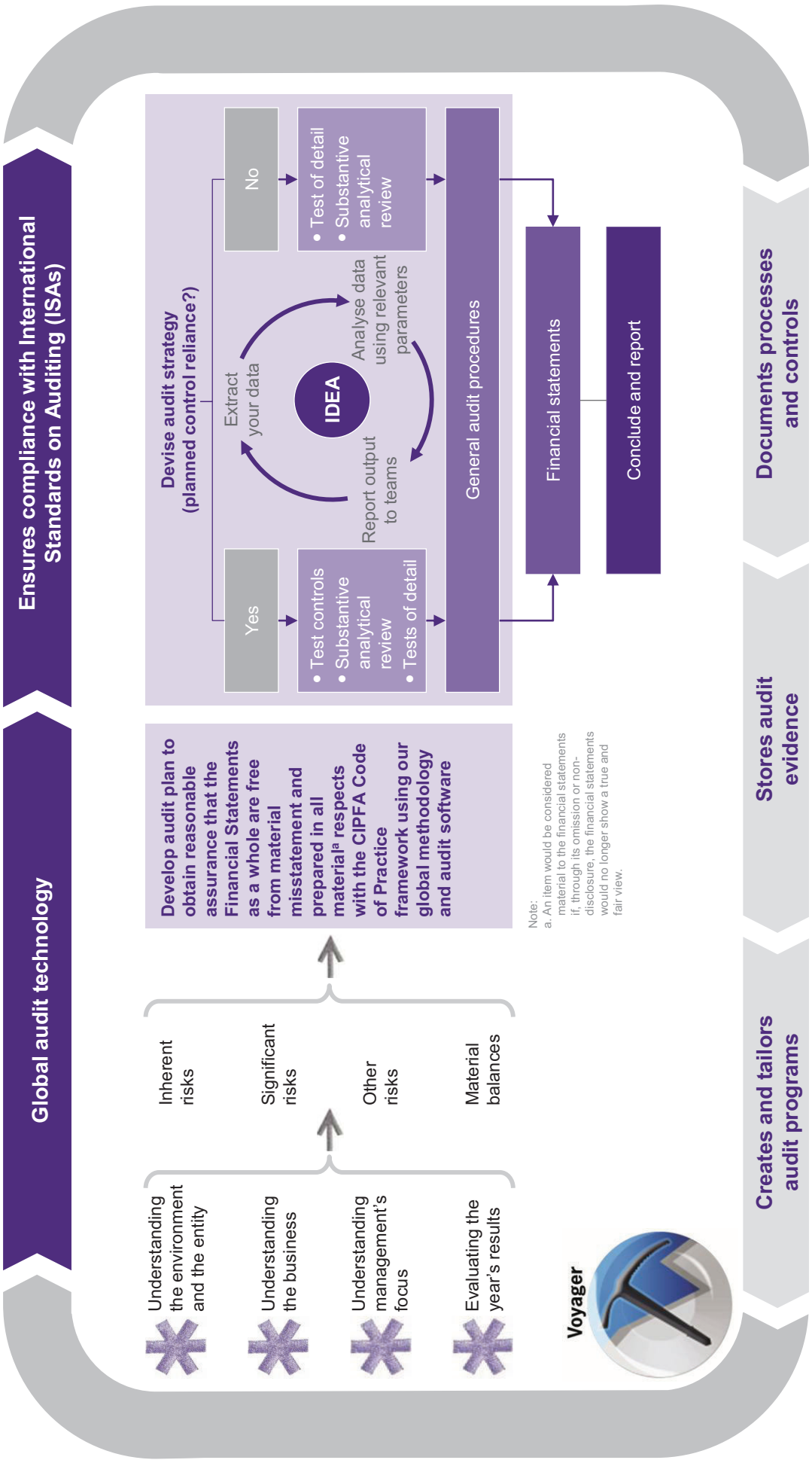
Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

Developments and other requirements			
<p>1. Financial reporting</p> <ul style="list-style-type: none"> Changes to the CIPFA Code of Practice Transfer of assets to Academies Recognition of grant conditions and income 	<p>2. Legislation</p> <ul style="list-style-type: none"> Local Government Finance settlement 2012/13 and 2013/14. Welfare reform Act 2012 3 	<p>3. Corporate governance</p> <ul style="list-style-type: none"> Annual Governance Statement (AGS) Explanatory foreword 	<p>4. Pensions</p> <ul style="list-style-type: none"> Planning for the impact of 2013/14 changes to the Local Government Pension Scheme (LGPS)
		<p>5. Financial Pressures</p> <ul style="list-style-type: none"> Managing service provision with less resource Progress against savings plans 	<p>6. Other requirements</p> <ul style="list-style-type: none"> The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion The Council completes grant claims and returns on which audit certification is required

Our response	
<p>We will ensure that</p> <ul style="list-style-type: none"> the Council complies with the requirements of the CIPFA Code of Practice through our substantive testing schools are accounted for correctly and in line with the latest guidance grant income is recognised in line with the correct accounting standard 	
<p>We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate</p>	<p>We will review the Council's performance against the 2012/13 budget, including consideration of performance against the savings plan</p> <p>We will undertake a review of Financial Resilience as part of our VFM conclusion</p>
<p>We will review the arrangements the Council has in place for the production of the AGS</p> <p>We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge</p>	<p>We will carry out work on the WGA pack in accordance with requirements</p> <p>We will certify grant claims and returns in accordance with Audit Commission requirements</p>
<p>We will discuss how the Council is planning to deal with the impact of the 2013/14 changes through our meetings with senior management</p>	

Our audit approach



An audit focused on risks

We undertake a risk based audit whereby we focus audit effort on those areas where we have identified a risk of material misstatement in the accounts. The table below shows how our audit approach focuses on the risks we have identified through our planning and review of the national risks affecting the sector. Definitions of the level of risk and associated work are given below:

Significant – Significant risks are typically non-routine transactions, areas of material judgement or those areas where there is a high underlying (inherent) risk of misstatement. We will undertake an assessment of controls (if applicable) around the risks and carry out detailed substantive testing.

Other – Other risks of material misstatement are typically those transaction cycles and balances where there are high values, large numbers of transactions and risks arising from, for example, system changes and issues identified from previous years audits. We will assess controls and undertake substantive testing, the level of which will be reduced where we can rely on controls.

None – Our risk assessment has not identified a risk of misstatement. We will undertake substantive testing of material balances. Where an item in the accounts is not material we do not carry out detailed substantive testing.

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Controls testing?	Substantive testing?
Cost of services - operating expenses	Yes	Operating expenses	Medium	Other	Operating expenses understated	✓	✓
Cost of services – employee remuneration	Yes	Employee remuneration	Medium	Other	Remuneration expenses not correct	×	✓
Costs of services – Housing & council tax benefit	Yes	Welfare expenditure	Medium	Other	Welfare benefits improperly computed	HB Count	✓
Cost of services – other revenues (fees & charges)	Yes	Other revenues	Low	None		×	✓
(Gains)/ Loss on disposal of non current assets	Yes	Property, Plant and Equipment	Low	None		×	✓
Payments to Housing Capital Receipts Pool	No	Property, Plant & Equipment	Low	None		×	×

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Controls testing?	Substantive testing?
Precepts and Levies	Yes	Council Tax	Low	None		X	✓
Interest payable and similar charges	Yes	Borrowings	Low	None		X	✓
Pension Interest cost	Yes	Employee remuneration	Low	None		X	✓
Interest & investment income	No	Investments	Low	None		X	X
Return on Pension assets	Yes	Employee remuneration	Low	None		X	✓
Dividend income from Joint Venture	No	Revenue	Low	None		X	X
Impairment of investments	No	Investments	Low	None		X	X
Investment properties: Income expenditure, valuation, changes & gain on disposal	No	Property, Plant & Equipment	Low	None		X	X
Income from council tax	Yes	Council Tax	Low	None		X	✓
NNDR Distribution	Yes	NNDR	Low	None		X	✓

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Controls testing?	Substantive testing?
PFI revenue support grant & other Government grants	Yes	Grant Income	Low	None		X	✓
Capital grants & Contributions (including those received in advance)	Yes	Property, Plant & Equipment	Low	None		X	✓
(Surplus)/ Deficit on revaluation of non current assets	Yes	Property, Plant & Equipment	Low	None		X	✓
Actuarial (gains)/ Losses on pension fund assets & liabilities	Yes	Employee remuneration	Low	None		X	✓
Other comprehensive (gains)/ Losses	No	Revenue/ Operating expenses	Low	None		X	X
Property, Plant & Equipment	Yes	Property, Plant & Equipment	Medium	Other	PPE activity not valid	X	✓
Property, Plant & Equipment	Yes	Property, Plant & Equipment	Medium	Other	Revaluation measurements not correct	X	✓
Heritage assets & Investment property	No	Property, Plant & Equipment	Low	None		X	X

An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction Cycle	Inherent risk	Material misstatement risk?	Description of Risk	Controls testing?	Substantive testing?
Intangible assets	yes	Intangible assets	Low	None		X	✓
Investments (long & short term)	Yes	Investments	Low	None		X	✓
Debtors (long & short term)	Yes	Revenue	Low	None		X	✓
Assets held for sale	No	Property, Plant & Equipment	Low	None		X	X
Inventories	No	Inventories	Low	None		X	X
Cash & cash Equivalents	Yes	Bank & Cash	Low	None		X	✓
Borrowing (long & short term)	Yes	Debt	Low	None		X	✓
Creditors (long & Short term)	Yes	Operating Expenses	Medium	Other	Creditors understated or not recorded in the correct period	X	✓
Provisions (long & short term)	Yes	Provision	Low	None		X	✓
Pension liability	Yes	Employee remuneration	Low	None		X	✓
Reserves	Yes	Equity	Low	None		X	✓

Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	<p>We will:</p> <ul style="list-style-type: none"> • Review and test revenue recognition policies • Perform attribute testing on material revenue streams
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	<p>We will:</p> <ul style="list-style-type: none"> • Review accounting estimates, judgments and decisions made by management • Testing of journal entries • Review unusual significant transactions

Other risks

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315). The table below copies the risks classed as "Other" in the section "An audit focused on risk" and provides further detail on the testing we will undertake to address the risk identified. These are not additional risks.

Other reasonably possible risks	Description	Work completed to date	Further work planned
Operating expenses	Operating expenses understated	<ul style="list-style-type: none"> We are not due to begin our detailed work until 18 March. 	<ul style="list-style-type: none"> We will conduct a walkthrough of the key controls for this system We will seek to test the key controls where it is efficient to do so We will conduct substantive testing to address any residual risks
Operating expenses	Creditors understated or not recorded in the correct period	<ul style="list-style-type: none"> We are not due to begin our detailed work until 18 March. 	<ul style="list-style-type: none"> We will conduct a walkthrough of the key controls for this system We do not expect to test creditors key controls as it is not efficient to do so, given that they mainly happen at year end We will conduct substantive testing of creditors
Employee remuneration	Remuneration expenses not correct	<ul style="list-style-type: none"> We are not due to begin our detailed work until 18 March. 	<ul style="list-style-type: none"> We will conduct a walkthrough of the key controls for this system We will conduct substantive testing to address any residual risks
Welfare Expenditure	Welfare benefits improperly computed	<ul style="list-style-type: none"> We are not due to begin our detailed work until 18 March. 	<ul style="list-style-type: none"> We will use the Audit Commission HB Count methodology to test this item
Property Plant and Equipment	PPE activity not valid	<ul style="list-style-type: none"> We are not due to begin our detailed work until 18 March. 	<ul style="list-style-type: none"> We will conduct a walkthrough of the key controls for this system As the majority of the transactions are processed at year end, we will substantively test PPE
Property, Plant and Equipment	Revaluation measurement not correct	<ul style="list-style-type: none"> We are not due to begin our detailed work until 18 March. 	<ul style="list-style-type: none"> We will conduct a walkthrough of the key controls for this system As the majority of the transactions are processed at year end, we will substantively test PPE

Results of interim audit work

Scope

As part of the interim audit work and in advance of our final accounts audit fieldwork, we will consider:

- the effectiveness of the internal audit function
- internal audit's work on the Council's key financial systems
- walkthrough testing to confirm whether controls are implemented as per our understanding in areas where we have identified a risk of material misstatement
- a review of Information Technology (IT) controls

	Work performed	Conclusion/ Summary
Internal audit	We will review internal audit's overall arrangements against the CIPFA Code of Practice. Where the arrangements are deemed to be adequate, we can gain assurance from the overall work undertaken by internal audit and can conclude that the service itself is contributing positively to the internal control environment and overall governance arrangements within the Council.	We are due to complete our testing shortly. We will report any significant findings to the Audit and Governance Committee in June.
Walkthrough testing	We will undertake walkthrough tests in relation to the specific accounts assertion risks which we consider to present a risk of material misstatement to the financial statements.	We are due to complete our testing shortly. We will report any significant findings to the Audit and Governance Committee in June.
Review of information technology (IT) controls	Our information systems specialist will perform a high level review of the general IT control environment, as part of the overall review of the internal controls system.	We have completed our testing . There are no significant findings to report to the Audit and Governance Committee . We have provided management with details of our findings and recommendations and are awaiting a response.
Journal entry controls	We will review the Council's journal entry policies and procedures as part of determining our journal entry testing strategy. We will undertake detailed testing on journal transactions recorded for the first nine months of the financial year, by extracting 'unusual' entries for further review.	We are due to complete our testing shortly. We will report any significant findings to the Audit and Governance Committee in June.

Value for Money

Introduction

The Code of Audit Practice requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

2012/13 VfM conclusion

Our Value for Money conclusion will be based on two reporting criteria specified by the Audit Commission.

We will tailor our VfM work to ensure that as well as addressing high risk areas it is, wherever possible, focused on the Council's priority areas and can be used as a source of assurance for members. Where we plan to undertake specific reviews to support our VfM conclusion, we will issue a Terms of Reference for each review outlining the scope, methodology and timing of the review. These will be agreed in advance and presented to Audit Committee.

The results of all our local VfM audit work and key messages will be reported in our Audit Findings report and in the Annual Audit Letter. We will agree any additional reporting to the Council on a review-by-review basis.

Code criteria

The Council has proper arrangements in place for:

- securing financial resilience
- challenging how it secures economy, efficiency and effectiveness in its use of resources



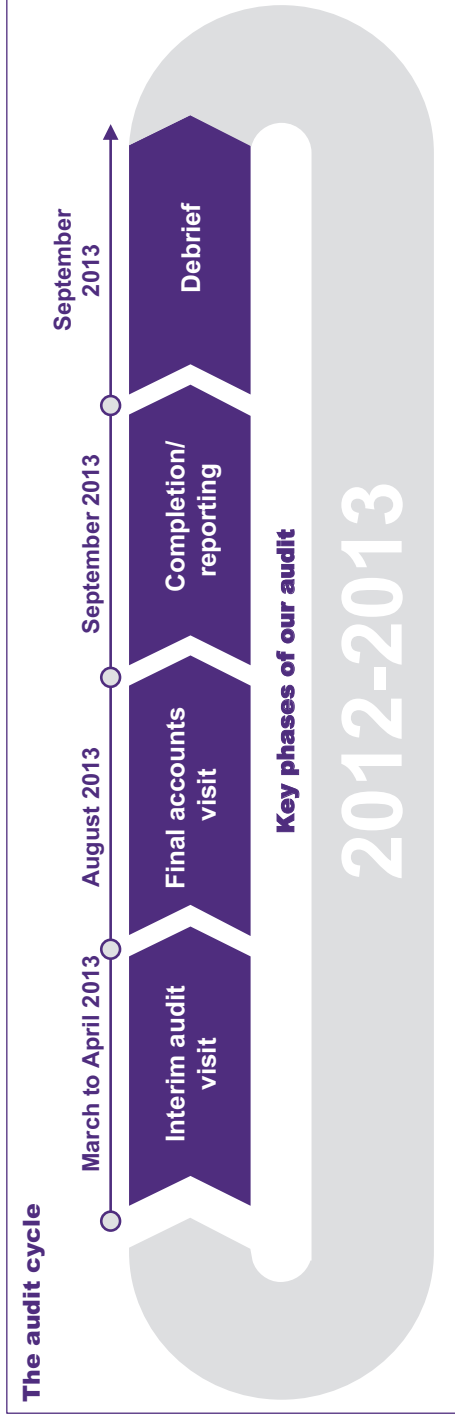
Work to be undertaken

Risk-based work focusing on arrangements relating to financial governance, strategic financial planning and financial control. Specifically we will:

- complete a risk assessment against each of the 48 risk indicators specified by the Audit Commission
- undertake further work on specific indicators where there is a residual risk
- focus particular attention on financial resilience by considering how the Council is addressing the challenges of lower central government funding and the economic downturn

We will consider whether the Council is prioritising its resources with tighter budget

Logistics and our team



Date	Activity
February	Planning meeting
March	Interim site work
March	The audit plan presented to Audit and Governance Committee
August	Year end fieldwork commences
TBC	Audit findings clearance meeting
September	Audit Committee meeting to report our findings
By 30 September	Sign financial statements and VFM conclusion
November	Issue Annual Audit Letter

Our team9999

<p>Phil Jones Engagement Lead T 0121 232 5232 E phil.w.jones@uk.gt.com</p>	<p>Terry Tobin Manager T 0121 232 5276 E terry.p.tobin@uk.gt.com</p>
---	---

Fees and independence

Fees

	£
Council audit	164,803
Grant certification	10,600
Total	175,403

Fees for other services

Service	Fees £
None	Nil

Our fee assumptions include:

- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Ethical standards and International Standards on Auditing (ISA) 260 require us to give you full and fair disclosure of matters relating to our independence. In this context, we disclose the following to you:

- The wife of one of our audit team occasionally works as a supply teacher in Herefordshire schools.. We will ensure that this auditor does not undertake any audit work in related areas.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice (the Code) issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



© 2013 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grant-thornton.co.uk

MEETING:	AUDIT AND GOVERNANCE COMMITTEE
DATE:	15 MARCH 2013
TITLE OF REPORT:	CHANGES TO THE CONSTITUTION
REPORT BY:	HEAD OF GOVERNANCE

1. Classification

1.1 Open.

2. Key Decision

2.1 This is not a key decision.

3. Wards Affected

3.1 County-wide.

4. Purpose

4.1 To consider changes to the Constitution.

5. Recommendation(s)

THAT

- (a) it be recommended to Council that the Leader should include details of each executive decision taken during the period since the last report was submitted to the Authority where the decision was regarded as urgent in his regular report to each Council meeting (except the annual meeting); and
- (b) the Committee considers what term of office it would wish to recommend to Council that Leaders of the Council should have.

6. Key Points Summary

- The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 prescribe a number of procedural changes which the Council has no choice but to adopt. The general principle of the Regulations is for the public to have access to meetings and documents where a local authority executive, committee or individual is taking an executive decision.
- There is one issue that the Regulations require the Authority to determine. Regulation 19 requires the Leader to submit a report to the Authority containing details of each

executive decision taken during the period since the last report was submitted to the Authority where the decision was regarded as urgent (Regulation 11 - cases of special urgency). There must be at least one report annually. The previous Regulations specified that the Leader must report quarterly. It is proposed that the Leader should include this information in his regular report to each Council meeting (except the annual meeting to which it is proposed he will no longer report).

- The Local Government and Public Involvement in Health Act 2007 provided for a mandatory four year term of office for the Leader of the Council. The Localism Act 2011 removes the mandatory provision and leaves it to each authority to determine the term of office of the Leader.

7. Alternative Options

- 7.1 There are a number of different recommendations that could be made for both the frequency with which the Leader reports to Council and the Leader's term of office.

8. Reasons for Recommendations

- 8.1 The recommendations are made to ensure that the Council complies with relevant legislation and Regulations.

9. Introduction and Background

- 9.1 The Council needs to form a view on the frequency with which the Leader submits a report to the Authority containing details of each executive decision taken during the period since the last report was submitted to the Authority where the decision was regarded as urgent. The Authority also needs to consider the length of the term of office of Leaders of the Council.

10. Key Considerations

The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012

- 10.1 These Regulations made on 10 August 2012 came into force on 10 September. The explanatory note to the Regulations states that: *'The general principle of the Regulations is for the public to have access to meetings and documents where a local authority executive, committee or individual is taking an executive decision.'*
- 10.2 In the main, the Regulations prescribe a number of procedural changes which the Council has no choice but to adopt. The Monitoring Officer will simply amend the Constitution in particular the Access to Information Rules (Part 4 Section 2) and the Cabinet Rules (Part 4 section 4) accordingly.
- 10.3 The principal changes include:
- Local authorities must provide reasonable facilities to any member of the public who may wish to report the proceedings of a meeting of the executive as well as accredited newspapers. (This was hailed on the Department of Communities and Local Government press release as *'town hall doors unlocked to social media and bloggers'*.)

- The provision that the Council must prepare a Forward Plan listing key decisions to be taken in the ensuing 4 months updated on a rolling monthly basis has been removed. The Authority must, however, give 28 clear days notice of any key decision. There are, as under the previous Regulations, circumstances in which decisions may be taken at shorter notice (general exception and special urgency). The Regulations specify various procedural steps that have to be taken and the various notices that have to be produced including one explaining why a meeting is urgent and cannot reasonably be deferred.
- Where a meeting is to be held in private the executive must provide 28 clear days notice, during which the public may make representations about why they think the meeting should be held in public. Various other notices are also required to be produced including one setting out any representations received that the meeting should be open to the public and a statement of the response to those representations.
- Background papers listed in a report to the executive must be made available on the website.
- The Association of County Secretaries and Solicitors is seeking legal advice on the provision in Regulation 14 that refers to actions to be taken once an individual Member or an officer has made an executive decision, because this appears to impose requirements on non-key officer decisions. This is a procedural matter. Members will be informed of the outcome.
- Regulation 17 deals with additional rights of access to documents for members of overview and scrutiny committees. New features include a provision that where a member of an overview and scrutiny committee requests a document to which they are entitled under the Regulations the executive must provide that document as soon as is reasonably practical and in any case no later than 10 clear days after the executive receives the request. Also, where the executive determines that a member of an overview and scrutiny committee is not entitled to a document on grounds set out in the Regulations, it must provide the overview and scrutiny committee with a written statement setting out its reasons for that decision.

10.4 There is one issue that the Regulations require the Authority to determine. Regulation 19 requires the Leader to submit a report to the Authority containing details of each executive decision taken during the period since the last report was submitted to the Authority where the decision was regarded as urgent (Regulation 11 - cases of special urgency). There must be at least one report annually. The previous Regulations specified that the Leader must report quarterly.

10.5 It is proposed that the Leader should include this information in his regular report to each Council meeting (except the annual meeting to which it is proposed he will no longer report).

Term of Office of the Leader

10.6 The Local Government and Public Involvement in Health Act 2007 provided for a mandatory four year term of office for the Leader of the Council.

10.7 The Localism Act 2011 (Schedule 2 part 1) inserts Section 9 I into the 2000 Act. This removes the mandatory provision and leaves it to each authority to determine the term of office of the Leader. The Localism Act 2011 (Local Authority Governance Transitional Provisions) (England) Order requires the Authority to determine this issue as soon as is reasonably practicable after the order comes into force (4 May 2012).

10.8 The options would appear to be to provide for the Leader to hold office for a four year term or to return to the practice of annual election of the Leader.

11. Community Impact

11.1 There is no community impact.

12. Equality and Human Rights

12.1 There are no equality and human rights implications.

13. Financial Implications

13.1 There are no financial implications.

14. Legal Implications

14.1 The report has been prepared to comply with the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 and the Localism Act 2011.

15. Risk Management

15.1 There would be a risk if the Authority were not complying with the relevant legislation and Regulations. The proposals in this report mitigate that risk.

16. Consultees

16.1 None.

17. Appendices

17.1 None.

18. Background Papers

18.1 None identified.