

# AGENDA

## Audit and Governance Committee

Date: **Friday 21 September 2012**

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Time: **2.00 pm**

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Place: **Committee Room 1, Shire Hall, Hereford**

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

For any further information please contact:

**Sally Cole, Governance Services**

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If you would like help to understand this document, or would like it in another format or language, please call Sally Cole, Governance Services on 01432 260249 or e-mail [scole@herefordshire.gov.uk](mailto:scole@herefordshire.gov.uk) in advance of the meeting.

# **Agenda for the Meeting of the Audit and Governance Committee**

## **Membership**

**Chairman**  
**Vice-Chairman**

**Councillor J Stone**  
**Councillor JW Millar**

**Councillor CNH Attwood**  
**Councillor EMK Chave**  
**Councillor PGH Cutter**  
**Councillor KS Guthrie**  
**Councillor AJ Hempton-Smith**  
**Councillor TM James**  
**Councillor Brig P Jones CBE**  
**Councillor PJ McCaull**

## AGENDA

		Pages
1.	<b>APOLOGIES FOR ABSENCE</b> To receive apologies for absence.	
2.	<b>NAMED SUBSTITUTES (IF ANY)</b> To receive details any details of Members nominated to attend the meeting in place of a Member of the Committee.	
3.	<b>DECLARATIONS OF INTEREST</b> To receive any declarations of interest by Members in respect of items on the Agenda.	
4.	<b>MINUTES</b> To approve and sign the minutes of the meeting held on 6 July 2012.	1 - 4
5.	<b>STATEMENT OF ACCOUNTS 2011/12</b> To consider and approve the 2011/12 statement of accounts.	5 - 112
6.	<b>ANNUAL GOVERNANCE REPORT 2011/12</b> To consider and note the external auditor's statutory annual governance report for 2011/12.  <b>Wards: Countywide</b>	113 - 144
7.	<b>ANNUAL GOVERNANCE STATEMENT</b> To consider and approve the annual governance statement for 2011/12.  <b>Wards: Countywide</b>	145 - 164
8.	<b>ANNUAL ASSURANCE REPORT 2011/12</b> To note the summary of internal audit work undertaken in 2011/12, and to give an overall internal audit opinion based on this work.  <b>Wards: Countywide</b>	165 - 184
9.	<b>THE ANNUAL COUNCIL MEETING</b> To consider amending the business to be discussed at the annual Council meeting.  <b>Wards: Countywide</b>	185 - 188
10.	<b>REVIEW OF OVERVIEW AND SCRUTINY STRUCTURE</b> To consider proposed changes to the overview and scrutiny structure.  <b>Wards: Countywide</b>	189 - 210
11.	<b>GRANT OF DISPENSATIONS UNDER THE LOCALISM ACT 2011</b> To delegate the power to grant dispensations, and amend the Council's procedure rules accordingly.  <b>Wards: Countywide</b>	211 - 214

**12. DATES OF FUTURE MEETINGS**

To agree the dates of future meetings.

**13. EXCLUSION OF THE PUBLIC AND PRESS**

In the opinion of the Proper Officer, the following item will not be, or is likely not to be, open to the public and press at the time it is considered.

**RECOMMENDATION:** that under section 100(A)(4) of the Local Government Act 1972, the public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Schedule 12(A) of the Act, as indicated below and it is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

**1 Information relating to any individual.**

**2 Information which is likely to reveal the identity of an individual.**

**14. TRANSITIONAL ARRANGEMENTS FOR STANDARDS CASES**

215 - 226

To consider the processing of complaints involving elected members, which were unresolved as at 1st July 2012 with the Standards Committee, and which require conclusion under the Council's new local complaints system; and

To authorise the Monitoring Officer to complete the make-up of the Standards Panel as necessary.

**Wards: Countywide**



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# **COUNTY OF HEREFORDSHIRE DISTRICT COUNCIL**

**BROCKINGTON, 35 HAFOD ROAD, HEREFORD.**

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HEREFORDSHIRE COUNCIL

**MINUTES of the meeting of Audit and Governance Committee held at The Council Chamber, Brockington, 35 Hafod Road, Hereford, HR1 1SH on Friday 6 July 2012 at 2.00 pm**

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

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

**1. APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors: PGH Cutter, AJ Hempton-Smith and JW Millar.

Apologies for absence were also received from Councillor A Seldon, who is in attendance at the meeting as Chairman of the Overview and Scrutiny Committee.

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

There were no named substitutes.

**3. DECLARATIONS OF INTEREST**

There were no declarations of interest made.

**4. MINUTES**

**RESOLVED:** That the minutes of the meeting held on 11 May 2012 be approved as a correct record and signed by the Chairman subject to the following amendments.

**Minute 108:** Internal Audit Progress 2011/12, bullet point one – the Chief Officer Finance and Commercial informed the Committee that due to incomplete information he was he had been unable to provide the list of directors and terms of reference for partner organisations, but he would do so by the end of the following week.

**Minute 109:** Community Governance Reviews – The Chairman informed the Committee that the setting up of a sub-committee to deal with the Community Governance Review would need to be dealt with at the September meeting of the Committee.

**Minute 110:** Changes to the Standards Regime – The Chairman advised that this matter would also need to be brought to the September meeting of the Committee.

**Minute 111:** Future Meetings – The Committee was advised that the September meeting would now be held on 21 September at the Shire Hall in Committee Room 1 at 2.00 pm.

The Chairman welcomed Mr Phillip Ashurst, former Chairman of the PCT Audit Committee, to the meeting. Mr Ashurst informed the Committee:

- He was now a member of the Clinical Commissioning Committee and was a member of the Audit Board for the West Mercia Cluster of PCTs which covered Herefordshire, Shropshire, Worcestershire and Telford and Wrekin. The cluster formally came into being January this year and would cease to exist from April 2013.
- All former Non Executive Directors of Herefordshire's PCT had been retained as local support members.
- The Clinical Commissioning Group hopes to be formally authorised and appoint a chairman by September / October 2012.
- Mr Ashurst expressed a wish to continue to liaise with the Audit and Governance Committee until March 2013 to keep the Committee updated.

## **5. DRAFT ANNUAL GOVERNANCE STATEMENT**

The Chief Internal Auditor presented his report on the Draft Annual Governance Statement and reminded the Committee the report was for Members to review and that the Annual Governance Statement would come before the September meeting of the Committee for final approval.

The following points were made in discussion:

- That the report provides the public with a view of how the authority is running its business.
- Appendix 1, 5.2 of the report - there was a significant issue with a potential fraud in the creditors system, however an action plan was now in place.
- 5.5 Adult Social Care budget referred to overspends and the action being taken to address the issue.
- In response to a question the Chief Officer Finance and Commercial advised the Committee that the Committee's role was to challenge, check and monitor and that the Chairman of the Committee could not sign off the Annual Governance Statement, as this was a requirement of the Leader of the Council along with the statutory officers. It was emphasised that the role of the Committee was not that of an Overview and Scrutiny Committee.
- In response to a question as to why the Council had decided not to follow CIPFA's statement about the position in the authority of the lead financial role, the Chief Officer Finance and Commercial (CFO) advised Members that the guidance from CIPFA covered the status and position of the Section 151 role in a local authority. This was the first year the authority had to make a declaration about whether it followed the guidance. The CFO stated that whilst the authority did not follow some aspects of the statement's guidance he had access to the Chief Executive and right of attendance at any meeting so that the role of the Section 151 officer could be carried out. Members noted the current approach.
- In response to a question on the resilience team the Committee was advised that the team was made up of officers from across the authority that prepares plans for any major incident such as floods and keep a register of potential risks to the authority.
- The Committee was informed that the Draft Annual Governance Statement would be forwarded to the Chairman for comment and then to the Committee Members it would also include information on partner organisations.

## **RESOLVED**

### **THAT:**

- a) the draft Annual Governance Statement 2011/12 as attached at Appendix 1 to the report be reviewed; and**

**b) the draft Annual Governance Statement 2011/12 for inclusion in the Statement of Accounts for 2011/12 be approved.**

**6. ANNUAL INTERNAL AUDIT PLAN**

The Chief Internal Auditor presented his report and advised that it had been signed off by Herefordshire Public Services Leadership Team.

The following points were made in discussion:

- It was noted that issues were taken account of and looked into as they arose, as outlined on page 39 of the report.
- Work on financial systems was being carried out on behalf of the Section 151 officer to examine the work of Hoople Ltd.
- Creditors had an alleged fraud last year, which was being investigated and to provide assurance to Members, would be reported back to the Committee.
- The Committee was reminded that KPMG acted as auditors for the PCT and the hospital trust as well as the Council.
- With regards to health and safety and business continuity planning the resilience team was overseeing the implementation of any issues in this area.
- In referring to the Rising to the Challenge project the authority was looking to make significant savings and the audit team would be looking to see if it was delivering on the various projects.
- IT system – a considerable piece of work was being carried out on data protection. Members were informed that the rules on data protection were frequently revised.
- In response to questions on fraud the Committee was reminded that Hoople Ltd., carried out its own audit function. It was noted that Hoople Ltd., was jointly owned by the Council, the PCT and the Wye Valley Trust. All work carried out by Hoople Ltd., could be accessed by the Chief Officer Finance and Commercial at any time. It was felt by the audit team that good governance arrangements were in place.
- In response to questions on public health Members were informed that a further piece of work was being carried out by the audit team next year.
- In response to a question on value for money and the renewal of contracts. The Committee was advised that Cabinet had received a report on whether to extend contracts and once a decision had been made this would be reported back to the Committee.

**RESOLVED: That the Annual Internal Audit Plan 2012/13 be approved.**

**7. WORK PROGRAMME 2012/13**

The Chairman proposed to the Committee deferring the Work Programme 2012/13 report until the next meeting of the Committee in September due to incomplete information. All Members agreed to the deferring of the item to the next meeting.

**RESOLVED: That the Work Programme 2012/13 be deferred to the next meeting of the Committee.**

**8. ANNUAL AUDIT FEE LETTER AND AUDIT WORK 2011/12**

The Chief Officer Finance and Commercial presented his report on the Annual Audit Fee and Letter which sets out the current view of risks, the work that will be undertaken by the Audit Commission and outlines the proposed fee.

The following points were made in discussion:

- Page 85 of the report sets out the significant risks to the authority, the first being the implementation of a new financial ledger system and capital accounting model which has brought about considerable change. Additionally there was suspected fraud resulting in a change to the audit approach. The audit team was satisfied by the response of the Chief Officer Finance and Commercial in ordering some detailed work to be carried out as early as possible. Budget holders were also contacted to identify any unusual activity. The Committee was assured that the matter had been identified quickly through the Council's own internal checks and was seen as a one off as no further evidence came to light.
- A second risk was that Hoople Ltd., would be closing down the final accounts for the first time, which is a significant risk to the Council. Previously the Council has always had a good track record and assurance was being sought from Hoople Ltd., that that would be maintained. Hoople staff had been invited to attend training to assist with the final accounts.
- In referring to page 89 of the report regarding value for money, Members were advised that the Waste PFI contract is now likely to be dealt with by the Secretary of State.
- It was noted that the Council's continued overspend in Adult Social Care would continue to make it difficult to balance the Council's financial position
- It was also noted that the savings expected through the transformation programme may not be sufficient to deliver a balanced position.

In concluding this item Members felt it would be useful to invite the Chairman of the Hereford Futures Audit Committee to a future Committee meeting for an informal discussion.

## **RESOLVED**

### **THAT:**

- a) the content of the Audit Commission's Annual Audit Plan be noted; and**
- b) the planned outputs be noted.**

## **9. AUDIT AND GOVERNANCE COMMITTEE UPDATE FROM THE AUDIT COMMISSION**

The Chief Officer Finance and Commercial presented his report and referred Members to page 109 of the agenda and the progress report, which indicates the current position with the audit.

The following points were made in discussion:

- The Committee referred to page 112 of the agenda, the outsourcing of current work undertaken by the Audit Practice and the future of external auditing. Members were advised of the list of firms available and that auditors would be appointed from 2012/13 on a five year basis.
- It was noted that Grant Thornton was to be the Council's auditors for the next financial year.
- The Committee was advised that further cost savings were to be made and that fees could drop by as much as 40% next year.

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

The meeting ended at 3.55 pm

**CHAIRMAN**



<b>MEETING:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>DATE:</b>	<b>21<sup>ST</sup> SEPTEMBER 2012</b>
<b>TITLE OF REPORT:</b>	<b>Statement of Accounts 2011/12</b>
<b>PORTFOLIO AREA:</b>	<b>CORPORATE SERVICES</b>

### **Wards Affected**

None affected.

### **Purpose**

To seek Audit and Governance Committee's approval of the 2011/12 Statement of Accounts.

### **Key Decision**

This is not a Key Decision.

### **Recommendation**

**THAT the Audit and Governance Committee approve the 2011/12 Statement of Accounts.**

### **Key Points Summary**

- The statement is a technical document setting out the council's financial accounting information. Management accounting information has been reported to Cabinet throughout the year and the out-turn position was reported to Cabinet on 14<sup>th</sup> June 2012.
- Herefordshire Council's Statement of Accounts 2011/12, which have been certified by the Chief Officer (Finance and Commercial) are attached at Appendix A.

### **Alternative Options**

1. There are no Alternative Options as all councils are required to produce a statutory statement of accounts.

### **Reasons for Recommendations**

2. The council is required to produce a statement of accounts in accordance with legal and accounting requirements. The process requires the accounts to be certified by the Chief Officer (Finance and Commercial) by 30<sup>th</sup> June and then approved by the Audit and Governance Committee by 30<sup>th</sup> September.

### **Introduction and Background**

3. The purpose of the statement of accounts is to give electors, members, employees and other

Further information on the subject of this report is available from  
Heather Foster, Head of Corporate Finance on 01432 260284

interested parties (including the Audit Commission) clear information about the council's finances.

4. The statement has been drawn up in accordance with the Accounts and Audit Regulations 2011, and the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Code consolidates the statutory requirements and accounting standards that the council is legally required to follow.
5. The 2011/12 accounts were prepared on the new Agresso system and within the new organisational structure of Hoople and retained finance. This is the first time these major system and organisational changes have affected the preparation of accounts process.
6. The revenue and capital out-turn position compared to budget was reported to Cabinet on 14<sup>th</sup> June 2012 and a summary of the position is included in the explanatory foreword to the Statements.

## **Key Considerations**

7. This is the second year that the accounts have been prepared according to International Financial Reporting Standards, which introduced significant changes to the accounts.
8. For 2011/12 Heritage Assets had to be recognised as a separate class of assets for the first time and included in the balance sheet at current value. These assets were previously grouped under Community Assets, which only have to be recorded at historic cost.
9. The Code also required a new disclosure note on exit packages, analysed between compulsory redundancies and other departures.

## **Financial Position**

10. The most significant matters in the accounts for 2011/12 and a summary of the council's financial position are set out in the Explanatory Foreword. Key points for 2011/12 include the following;
  - The out-turn position on the council's revenue account was an overspend of £236k after appropriations to and from reserves.
  - £49.4m was incurred on capital spending, funded by borrowing (£10.3m), capital receipts (£4.5m), and grants (£34.6m).
  - The council's total borrowing at 31<sup>st</sup> March 2012 stood at £144.5m (£145.6m at 31<sup>st</sup> March 2011).
  - At the end of 2011/12 the council held general reserves of £6.1m (£6.3m in 2010/11) and specific earmarked reserves of £13.5m (£17.6m in 2010/11).
  - Provisions of £1.5m were held at 31<sup>st</sup> March 2012, including £1.1m insurance provision and £141k provision for redundancies.
  - The liability on Herefordshire's pension fund increased from £131.8m at 31<sup>st</sup> March 2011 to £159.3m at 31<sup>st</sup> March 2012 due to actuarial losses on the schemes assets and liabilities. This liability represents commitments to pay pensions in the long-term but is not representative of the ability of the fund to pay pensions.
  - As schools have moved to Academy status this has resulted in a significant write off of assets (£69m) in 2011/12. As at June 2012 there were 18 academies with further transfers programmed to occur in 2012/13.

## 2011/12 Statements

11. Under International Financial Reporting Standards (IFRS) the main financial statements comprise the Movement in Reserves Statement, Comprehensive Income and Expenditure Account, Balance Sheet and Cash Flow Statement.

### Movement in Reserves Statement

12. This statement, which is section 4 of the Statements, shows the movement in the year on the different reserves held by the authority, analysed into usable and non-usable reserves. These are also shown in the bottom half of the Balance Sheet.

13. Usable Reserves

Total usable reserves at 31<sup>st</sup> March 2012 were £38m compared with £43.8m at 31<sup>st</sup> March 2011. This is summarised in the table below.

	General fund balance	Earmarked reserves	Capital receipts reserve	Capital grants unapplied	Total usable reserves
	£000	£000	£000	£000	£000
Balance as at 31st March 2011	6,349	17,572	6,754	13,103	43,778
Balance as at 31st March 2012	6,113	13,458	2,769	15,679	38,019

14. The general fund balance reduced by £236k, which reflects the funding of the overspend on the revenue account in the year.
15. Details of the movement to and from earmarked reserves are shown in Note 8.8, the largest transfer being the reduction of £2.1m in the unused grants reserve. The capital receipts reserve reduced by £4m reflecting the use of the reserve to fund the capital programme. Further details are included in Note 8.23 of the Statements.
16. Unusable Reserves  
Unusable reserves are not available to be spent. They include unrealised gains and losses, such as the revaluation reserve and reserves that hold timing differences such as the Capital Adjustment Account. These moved from £143.6m at 31<sup>st</sup> March 2011 to £71.7m at 31<sup>st</sup> March 2012. The main movements are on the pensions reserve and the Capital Adjustment Account, which includes amounts written off for the transfer of Academy schools. Further details can be found in Note 8.24

### Comprehensive Income and Expenditure Statement (CIES)

17. This statement, which is Section 5 of the Statements, shows the accounting cost in the year of providing services, rather than the amount to be funded from council tax. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The adjustments to reconcile this statement to the amount to be funded from council tax are included in the Movement in Reserves Statement and detailed in Note 8.7.
18. The net cost of services in 2011/12 was £155.6m compared to £148.9m in 2010/11. The 2010/11 comparative figure included an exceptional credit item of £22.5m, shown separately

on the face of the Income and Expenditure Statement, relating to a reduction in pensions liabilities. From 1<sup>st</sup> April 2011 public service pensions have been up-rated in line the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). In 2011/12 there was also an exceptional item of £5.7m credit relating to the pensions impact of transferring Hoople and Academy staff. There was no impact on the General Fund for these items as these are not intended to impact on council tax and are reversed out in the movement in reserves statement.

- 19 'Other operating expenditure' on the CIES was significantly higher in 2011/12 (£71.3m compared to £13.5m in 2010/11. This reason for this is the write-off of assets disposed of in the year of £68.6m (compared to £10.8m in 2010/11) reflecting the transfer of Academy schools.

## **Balance Sheet**

- 20 The Balance Sheet summarises the council's assets, liabilities and other balances at the end of the financial year.
- 21 At 31<sup>st</sup> March 2012 long-term assets totalled £440.9m, compared to £489.3m at 31<sup>st</sup> March 2011. The main element of this is property, plant and equipment which amounted to £403m at the year-end compared to £453.6m at 31<sup>st</sup> March 2011. Movements in the year include depreciation, revaluations, disposals and additions through the capital programme. Details of the movements are set out in Note 8.12.
- 22 Current assets amounted to £44.6m at 31<sup>st</sup> March 2012, including £12.8m in cash and investments and £27.3m short-term debtors. The reduction in current assets from £63.8m in 2010/11 is mainly due to year-end fluctuations in short-term deposits with banks and building societies.
- 23 Current liabilities amounted to £53.6m at 31<sup>st</sup> March 2012, including £17.6m related to short-term borrowing and £31.3m short-term creditors. The reduction in current liabilities from £74.1m in 2010/11 was mainly due to the repayment of £5.5m of temporary loans in May 2011 and fewer capital grants received in advance of spend.
- 24 Long-term liabilities were £322.3m at the 31<sup>st</sup> March 2012 compared to £291.7m at 31<sup>st</sup> March 2011. The 2 main figures are borrowing and pensions liabilities. The pensions liability as determined by the pension fund actuary increased by £27.5m.

## **Cash Flow Statement**

- 25 This statement represents a summary of all cash flowing in and out of the council arising from transactions with third parties. All internal transactions between the various accounts maintained by the council are excluded. The statement shows that during 2011/12 total cash outflows were £476.3m and inflows £463.5m, resulting in a net decrease in cash and cash equivalents of £12.8m.

## **The Collection Fund**

- 26 This statement shows all income collected from council taxpayers and business ratepayers (NDR), which amounted to £149m in 2011/12 (£146.5m in 2010/11). Expenditure includes precept payments to the West Mercia Police Authority (£12.8m) and Hereford & Worcester Fire Authority (£5.3m), representing income collected from council taxpayers on their behalf. The Herefordshire Council precept includes £2.6m for parishes, which are paid through the council's general fund. NDR contributions of £42.5m were payable to central government (which is the income collected less and allowance for the cost of collection).

## **Equality and Human Rights**

27 The contents of the report has no direct impact on equality and human rights

## **Community Impact**

28. Not applicable.

## **Financial Implications**

29. As set out in the report

## **Legal Implications**

30. The requirement for the council to approve the statement of accounts by end of September is a legal requirement

## **Risk Management**

31 Risk management activity is addressed by providing working papers and officer time to help external auditors form an appropriate judgement on the statement of accounts by 30 September 2012.

## **Consultees**

32. None.

## **Appendices**

33. Appendix A – Draft Statement of Accounts

## **Background Papers**

34. Accounts and Audit Regulations 2011.



# **HEREFORDSHIRE COUNCIL**

## **STATEMENT OF ACCOUNTS**

**2011-2012**

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# 1. INTRODUCTION

- 1.1 The Statement of Accounts for 2011/12 is the key financial report that presents the council's overall revenue and capital position for the year.
- 1.2 2011/12 was a very challenging year. The 2010 Comprehensive Spending Review had a significant impact on funding from central government in 2011/12 and Herefordshire Council's 2011/12 budget included £10.3 million of cuts. At the same time the economic downturn continues to impact on Herefordshire as well as continuing pressures within Adult Social Care.
- 1.3 The council has responded to these challenges through a transformation programme 'Rising to the Challenge'. This included major changes to the way we deliver services in 2011/12. An integrated care organisation, Wye Valley NHS Trust, has been established as the provider arm of the council and Herefordshire PCT and mental health services are now delivered through an established specialist, 2gether. From April 2011 back-office functions have been delivered by a newly formed joint venture company, Hoople Ltd, to facilitate the sharing of support services with Herefordshire PCT and Wye Valley Trust.
- 1.4 The final position on the council's revenue account was an overspend of £236,000 leaving general reserves at £6.1m at 31<sup>st</sup> March 2012 compared to £6.3 million at 31<sup>st</sup> March 2011. This is in excess of the council's policy of maintaining a minimum working balance of £4.5 million. Herefordshire's financial management strategy is to maintain specific reserves to deal with the key corporate financial risks, which stood at £13.5 million at 31<sup>st</sup> March 2012.

**Cllr Philip Price**  
**Cabinet member for Corporate and Education**

## 2. EXPLANATORY FOREWORD

### 2.1 Introduction

- 2.1.1 The following Statement of Accounts for Herefordshire Council presents the overall financial position for the Authority for the year ended 31st March 2012 and has been produced in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12, published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The amounts presented in the financial statements and notes have been rounded to the nearest thousand.
- 2.1.2 This is the second year that the Code has been based on reporting to International Financial Standards (IFRS). The move to IFRS resulted in a number of significant changes in accounting practice for 2010/11. Some further changes for 2011/12 include:
- a) Heritage assets are to be recognised as a separate class of assets for the first time in the 2011/12 financial statements. These assets were grouped under 'Community Assets' in 2010/11. The assets are initially recognised at cost and the carrying amount will be reviewed regularly to ensure that the valuation remains current. However, operational heritage assets will not be included in this classification.
  - b) The Code requires the disclosure of Exit Packages analysed between compulsory redundancies and other departures. Exit packages include compulsory and voluntary redundancy costs, pension contributions in respect of added years, ex-gratia payments and other departure costs.

### 2.2 Revenue Expenditure and Income

- 2.2.1 The out-turn position on the council's revenue account was an over spend of £236,000 after transfers from reserves.
- 2.2.2 The following table summarises the overall position.

	<b>Under/ (Over) £000</b>
Directorate over spends	(2,929)
Treasury management including borrowing and investment income	1,410
Centrally held budgets	552
Use of reserves	659
Other changes (net)	72
<b>NET POSITION</b>	<b>(236)</b>

2.2.3 As part of the year end process one new reserve was created relating to the Three Elms Industrial Estate. Prior to the abolition of Advantage West Midlands (AWM) Herefordshire Council entered into a management agreement with AWM for the council to take over the general estate and property management. Any surplus income is held for future major capital expenditure/improvements on the estate. The surplus funds amounted to £362,000 as at 31<sup>st</sup> March 2012.

**Service Area Outturn Position**

2.2.4 The net over spend for the council’s directorates of £2.9 million was made up as follows:

*	Budget *	Actual *	Under/(Over) Spends
	£000	£000	£000
<b>Directorate</b>			
People’s Services	91,365	95,486	(4,121)
Places and Communities	53,012	52,307	705
Corporate Service	6,994	6,507	487
<b>TOTAL</b>	<b>151,371</b>	<b>154,300</b>	<b>(2,929)</b>

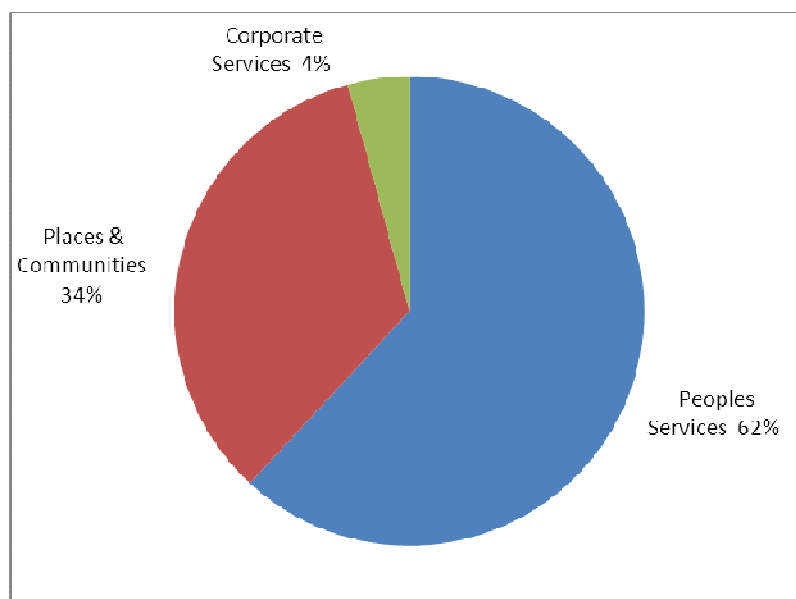
\* These figures include reallocated support services, overheads, capital charges and IAS 19 pension adjustments.

2.2.5 The most significant overspend related to commissioning of adult services, which had been anticipated and included in budget monitoring reports throughout the year. The final position was an overspend of £5.54m

**2.3 Analysis of Revenue Expenditure and Income**

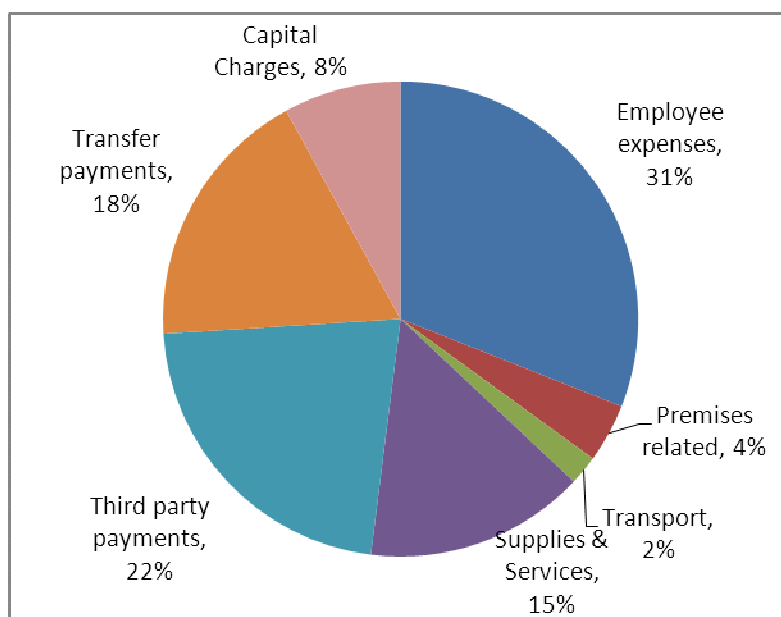
2.3.1 The net cost of services within the Income and Expenditure Account is £156 million, made up of the following directorates.

**Analysis of Net Expenditure by Directorates**



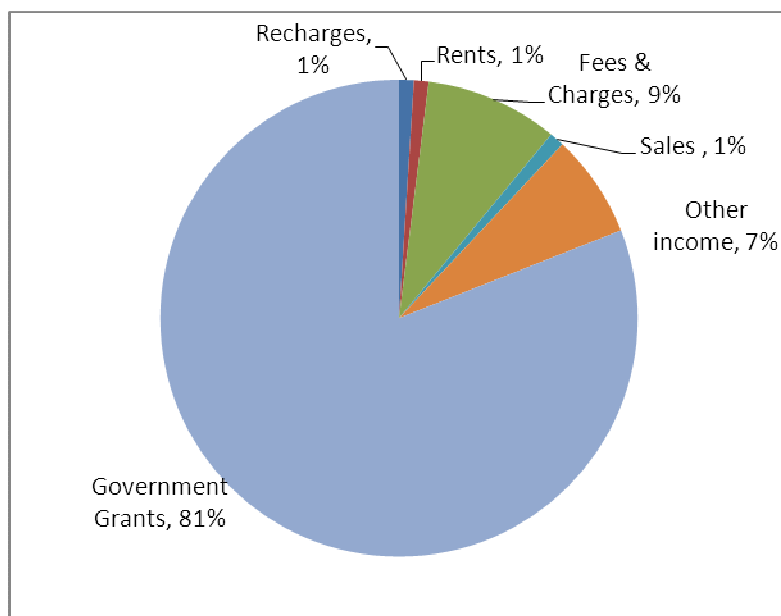
2.3.2 The gross cost of services was £367 million, spent on the following types of expenditure:

### Analysis of Gross Service Expenditure



2.3.3 The gross income for the year for services was £211 million and came from the following sources:

### Analysis of Income within Services

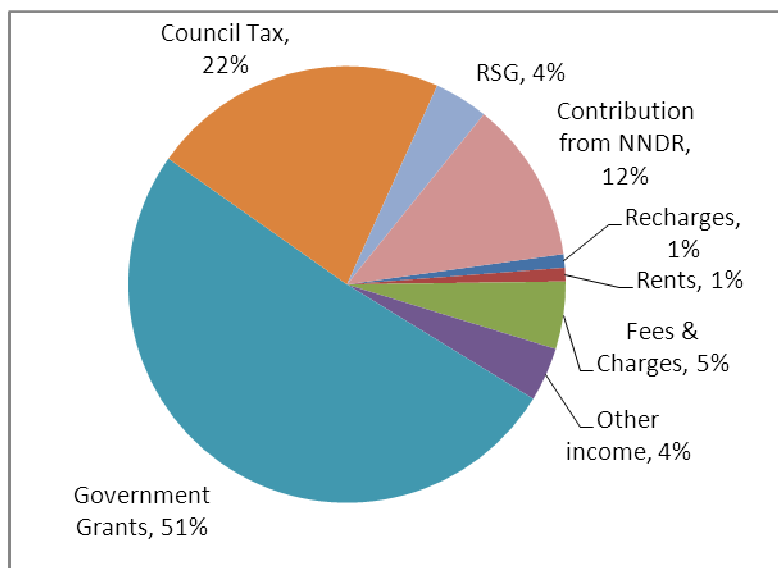


2.3.4 The figure for government grants includes £86.2 million Dedicated Schools Grant, which is a grant towards schools expenditure. The grants figure also includes £58.3 million in respect of the payment and administration of housing and council tax benefits.

2.3.5 In addition to income generated by services and service specific grants, the council received £14.2 million Revenue Support Grant (RSG), and £46 million in redistributed non-domestic rates towards financing the council's net expenditure. Council tax income totalled £88.7 million in 2011/12, including parish and town councils' precepts.

2.3.6 The total sources of income, including service income and income received centrally, is shown in the pie chart below. This excludes capital grants and contributions of £32.9 million, which are shown in the Comprehensive Income and Expenditure account but are reversed out through the Movement in Reserves Statement to fund capital schemes.

### Total Revenue Income



## 2.4 Capital Programme

### 2011/12 Out-turn

2.4.1 £49.4 million was incurred on capital spending funded through the utilisation of capital receipts reserve funding of £4.5 million, grants of £34.6 million and prudential borrowing of £10.3 million.

### Summary of Capital Expenditure

2.4.2 Capital expenditure for the year can be summarised as follows:

	<b>£000</b>
Local Transport Plan	10,506
Hereford Academy	5,187
New livestock market	2,052
Devolved school expenditure	2,779
Yazor flood alleviation scheme	3,252
Hereford Leisure Pool	2,669
Rural Enterprise Grant Scheme	2,120
School estate works	2,148
St Owens Centre	1,203
Corporate accommodation	1,730
Grange Court	1,061
ICT efficiencies	1,156
Other capital schemes	13,574
	<b>49,437</b>

### Prudential Borrowing

- 2.4.3 When capital grants cannot fund a scheme in full then the use of unsupported prudential borrowing can be considered. In 2011/12 the council utilised £10.3 million of prudential borrowing to fund the capital programme. The table below summarises the out-turn position:

	£000	£000
2011/12 Planned Prudential Borrowing		10,920
Add: New Funding Allocations	4,109	
Less: Slippage into future years	<u>(4,727)</u>	
		10,302

- 2.4.4 Included in the £4.7 million slippage is forecast spend in relation to corporate accommodation and Ledbury library.

### Future years' capital programme

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

	2012/13 £000	2013/14 £000	2014/15 £000
<b>Sources of funding</b>			
Grants and Contributions	30,027	22,287	18,367
Prudential Code Borrowing	11,905	23,787	10,100
Capital Receipts Reserves	2,097	503	-
	<b>44,029</b>	<b>46,577</b>	<b>28,467</b>

## 2.5 The Council's Borrowing

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

- 2.5.2 In 2011/12 the council took out new borrowing of £10.5 million from the Public Works Loan Board.

- 2.5.3 Amounts borrowed were as follows:

New Loans					
Date	Amount Borrowed £000	Interest Rate	Period of Loan	Type of Loan	of
14/07/11	7,500	3.59%	15 years	EIP	
03/11/11	3,000	3.35%	20 years	EIP	
EIP= Loan repayable in equal instalments every 6 months over period of loan					

- 2.5.4 Principal of £6.1 million was repaid to the Public Works Loan Board under existing EIP and annuity loan agreements.
- 2.5.5 £5.5 million of short-term loans from other local authorities which were outstanding as at 31<sup>st</sup> March 2011 had all been repaid by 4<sup>th</sup> May 2011 and no new short-term loans were taken out during the year.
- 2.5.6 At 31<sup>st</sup> March 2012 total borrowing stood at £144.5 million of which £12 million, relating to two potentially long-term bank loans, is shown as being repayable within 12 months. Accounting convention dictates that these two loans are shown as current liabilities because the lenders have an annual option to increase the interest rates being charged. If a lender did increase the rate (from 4.50%) the council would then have the option to repay the loan.
- 2.5.7 The amounts noted above relate to principal outstanding at the end of the year. The borrowing figures in the Balance Sheet are higher as they include accrued interest and other accounting adjustments.
- 2.5.8 The council is only allowed to borrow to support capital projects. The borrowing supports fixed assets valued at more than £442 million at the balance sheet date.

## **2.6 The Council's Reserves**

### **General reserves**

- 2.6.1 The council has a policy of maintaining a minimum of £4.5 million of general reserves as contingency against unforeseen emergencies and events. At the end of 2011/12 the council held general reserves of £6.1 million compared with a position of £6.3 million in 2010/11.

### **Earmarked reserves**

- 2.6.2 Specific reserves totalled £13.5 million (£17.6 million in 2010/11), which are detailed in Note 8.8 to the Statements.

## **2.7 Significant provisions, contingencies and write-offs**

- 2.7.1 The council held provisions of £1.5 million at 31<sup>st</sup> March 2012, as detailed in Note 8.22 to the Statements.
- 2.7.2 The most significant provision is the insurance provision of £1.1 million. Herefordshire Council pays the first £5,000 to £50,000 of most insurance claims (depending on the type or class of the claim), known as the deductible. During 2011/12 the council commissioned a review of the insurance provision to include schools, which was used as the basis of the provision. However, as a large proportion of the liability was in respect of capital work relating to school's flooding, £558,000 of these works were funded from the schools capital programme.
- 2.7.3 At 31<sup>st</sup> March 2012 the council also held a provision of £141,000 for redundancies, including schools, based on the number of planned redundancies and staff identified at risk of redundancy at 31<sup>st</sup> March 2012.
- 2.7.4 A list of contingent liabilities are set out in Note 8.44 to the Statements. Although contingent liabilities are not specifically accounted for there is a provision of £300,000 in the 2012/13 budget as a contingency against future spend.
- 2.7.5 There were no significant write-offs of income to the General Fund in the year.

## 2.8 Pensions

- 2.8.1 In accordance with International Accounting Standard 19 on Retirement Benefits (IAS 19), Note 8.43 to the Statements sets out the council's assets and liabilities in respect of the Local Government Pension Scheme (LGPS). Herefordshire Council's non-teaching staff are members of the Worcestershire County Council Pension Fund.
- 2.8.2 The net deficit shown as at 31<sup>st</sup> March 2012 is £159.3 million, which is approximately 76% of the fair value of the assets (57% at 31<sup>st</sup> March 2011). Whilst this deficit does not have to be met immediately from the council's reserves, action must be taken over a period of years to eliminate it. In addition the balance sheet deficit also includes £1.1 million relating to ex-Hereford and Worcester teachers' unfunded benefits.
- 2.8.3 The pension fund position is reviewed every three years and was last revalued as at 31<sup>st</sup> March 2010. Further to the revaluation, the council's employers' contribution will increase from 20.4% of pensionable pay in 2010/11 to 25% by 2016/17.

## 2.9 Impact of Economic Climate

- 2.9.1 The economic climate has had an impact on the 2011/12 accounts in a number of areas:
- 2.9.2 **Children's Services:** The current economic climate continues to affect the lives of children and young people in Herefordshire. Financial pressures continue to affect all families. In line with national trends Herefordshire has continued to see increased numbers of children needing to be looked after in 2011/12 creating cost pressures for the service.
- 2.9.3 Additional funding for social care means less funding is available for other services. Other services were cut back in 2011/12 in order to deliver savings to cover the increasing cost of providing children's social care.
- 2.9.4 In line with council policy to reduce and eliminate subsidies on non-statutory services prices charged for denominational and post 16 schools transport were increased above inflation from September 2011. The decision was taken to reduce but not fully remove the subsidy due to the potential adverse impact on young people struggling to find jobs, many of whom are electing to continue in education to improve their prospects for future career opportunities.
- 2.9.5 In line with national trends there were increases in NEET's (Not in Education, Employment or Training) as the young people of Herefordshire are struggling to find jobs, apprenticeships, and training opportunities when they leave education. The participation age will be raised to 17 in September 2012 and the council is preparing for the impact of this.
- 2.9.6 **Adult Services:** The growing needs of the population have continued to cause financial pressure in particular aiding early discharge from hospital due to the reduction in beds due to ward closure. This has led to increased community equipment issued and domiciliary care support.
- 2.9.7 The increased financial burdens on families have meant that more people are having difficulties undertaking their caring role and are seeking social care support.
- 2.9.8 Reduction in grant funding has meant a number of housing related support contracts have ended which provided low level support for independent living. Those who benefited from these services now meet the council's eligibility criteria and are funded through social care support plans.



- 2.9.9 **Places and Communities:** Fee income continued to be adversely affected by the current economic downturn in relation to Planning and Car Parking, although parking charges were increased from 1<sup>st</sup> November to help address the pressure.
- 2.9.10 **Corporate:** Local land charges income also continues to be low due to the current economic climate.
- 2.9.11 **Treasury Management activities:** In the continuing fragile economic climate the government maintained the Bank Base Rate at 0.50% all year. This low interest rate meant that the council's investment income also remained low. During the first part of the year, the council maximised its income by investing for longer periods, but during the second part of the year, the problems in the Eurozone caused the credit rating agencies to downgrade the banks and building societies. This caused the council's counterparty list to shrink and the maturity limits for new investments were shortened.
- 2.9.12 The government used Quantitative Easing (QE) to try to stimulate the economy. This is a process whereby the Bank of England purchases assets from the private sector, which is designed to inject money directly into the economy and fill the gap caused by the fall in spending by businesses and consumers. Most of the assets purchased are government bonds or gilts. The increased demand for sterling gilts, as a result of QE and because of the troubled Eurozone, caused interest rates to fall, which in turn led to a fall in the interest rates available on loans from the Public Works Loan Board (which are set at 1% above the equivalent gilt yields). The council took out two loans in the first half of year (as at that time the forecast was for rates to rise). Further loans were not taken out although rates fell further because of the lack of good quality investment counterparties and the revised expectation that low PWLB interest rates would continue for some months to come.

## 2.10 Academy schools

- 2.10.1 Academies are publicly funded local schools that are independent of the council, responsible to, and funded directly by, government. They are freed from national restrictions such as the teachers' pay and conditions documents, the national curriculum and Ofsted inspection requirements. Academies receive additional top-up funding to reflect their extra responsibilities which are no longer provided by the local authority.
- 2.10.2 In May 2010 the Secretary of State for Education, announced legislation which allows the Secretary of State to approve schools to become academies through a simplified streamlined process.
- 2.10.3 Many schools in Herefordshire are investigating the benefits of converting to academy schools and as at 1<sup>st</sup> June 2012 there are 18 academies with 6,463 pupils (32% of total pupils) and it is expected that by 1<sup>st</sup> October 2012 there may be a further five academies (23 in total) educating 40% of the county's pupils. Included in this number is Whitecross High School, a PFI school. A further increase in the number of academies is expected over the next few years.
- 2.10.4 Reduction from formula grant for schools moving to academy status was £650,000 in 2011/12 and is £500,000 in 2012/13, which is irrespective of the number of academies commencing. The Department for Education is consulting on the introduction of a national school funding formula from April 2013 and subject to further consultation with local authorities, further changes are proposed to academy funding in 2013/14.
- 2.10.5 With both Foundation Schools and Academies, the ownership of the school land and buildings is transferred from the council to the school by issuing a long-term lease at a

peppercorn rent. The assets are removed from the Balance Sheet when the legal agreement is completed.

2.10.6 In 2010/11 St Peters Primary and Queen Elizabeth Humanities College (both in Bromyard) and Brockhampton Primary and Bredenbury Primary all became foundation schools and the assets were legally transferred to the school in 2011/12.

2.10.7 In addition, in 2011/12 the following schools converted to Academies:

Ashperton Primary School	April 2011
Lord Scudamore Foundation School *	June 2011
Kings Cagle Primary School	June 2011
Sutton Primary School	June 2011
John Masefield High School	June 2011
Kingstone High School	August 2011
Kingstone & Thrupton Primary School	September 2011
Brockhampton Primary School*	November 2011
Lady Hawkins' School, Kington	November 2011
Holmer CE Primary School	December 2011
Queen Elizabeth Humanities College*	December 2011

\*Assets already transferred on becoming foundation schools

2.10.8 As a result of the above schools converting to foundation schools or academies £69 million has been written out of the council's balance sheet as fixed asset disposals.

2.10.9 Schools that converted to academies after the year end (in April 2012) were Lugwardine Primary School, St Paul's CofE Primary School and Stretton Sugwas CofE Primary School.

2.10.10 Possible further conversions to academy status in 2012/13 are Burghill Community Primary School, Canon Pyon CofE Primary School, Kington Primary School, Ledbury Primary School, Llangrove CofE Primary School, Mordiford CofE Primary School (already a foundation school) and Whitecross High School.

2.10.11 If all these schools convert to academy status in 2012/13, further fixed assets totalling at least £26 million will be removed from the council's balance sheet.

## 2.11 The 2011/2012 Financial Statements

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

### **Movement in Reserves Statement**

2.11.1 This statement shows the movement in the year on the different reserves held by the authority.

### **Comprehensive Income and Expenditure Statement**

2.11.2 This statement shows the accounting cost in the year of providing services, rather than the amount to be funded from council tax.

### **Balance Sheet**

2.11.3 The Balance Sheet summarises the council's assets, liabilities and other balances at the end of the financial year.

### **Cash Flow Statement**

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

### **Notes to the Financial Statements**

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

### **The Collection Fund**

2.11.6 This statement shows all income collected from council taxpayers and business ratepayers (NNDR). Expenditure includes precept payments to the West Mercia Police Authority and Hereford & Worcester Fire Authority, representing income collected from council taxpayers on their behalf, and NNDR contributions payable to central government.

2.11.7 The Statement of Accounts, which takes into account events up to 13<sup>th</sup> September 2012, was authorised for issue on 13<sup>th</sup> September 2012 by the Chief Officer (Finance and Commercial Services).

2.11.8 Further information about the council's finances is available from the Chief Officer (Finance and Commercial Services), Herefordshire Council, Brockington, 35, Hafod Road, Hereford, HR1 1SH.

**Chief Officer (Finance and Commercial Services)**

### **3. STATEMENT OF RESPONSIBILITIES**

#### **3.1 The Council's Responsibilities**

3.1.1 The council is required to:

- a. Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Officer (Finance and Commercial Services).
- b. Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- c. Approve the statement of accounts.

#### **3.2 The Chief Officer (Finance and Commercial Services) - Responsibilities**

3.2.1 The Chief Officer (Finance and Commercial Services) is responsible for the preparation of the authority's statement of accounts in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

3.2.2 In preparing this statement of accounts, the Chief Officer (Finance and Commercial Services) has:

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

3.2.3 The Chief Officer (Finance and Commercial Services) has also:

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

#### **Certificate of the Chief Officer (Finance and Commercial Services)**

I certify that the Statement of Accounts gives a true and fair view of the financial position of Herefordshire Council at 31<sup>st</sup> March 2012 and its income and expenditure for the year ended 31<sup>st</sup> March 2012.

## 4 MOVEMENT IN RESERVES STATEMENT

4.1 This Statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The surplus or (deficit) on the provision of services' line shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different from the statutory amounts required to be charged to the General Fund Balance for council tax setting. The net increase/decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

	General fund balance £000	Earmarked reserves £000	Capital receipts reserve £000	Capital grants unapplied £000	Total usable reserves £000	Unusable reserves £000	Total reserves £000
<b>Balance as at 31st March 2010</b>	<b>5,349</b>	<b>19,242</b>	<b>13,565</b>	<b>6,321</b>	<b>44,477</b>	<b>133,712</b>	<b>178,189</b>
<u>Movement in reserves during 2010/11</u>							
Surplus or (deficit) on the provision of services	24,366				<b>24,366</b>		<b>24,366</b>
Other comprehensive income and expenditure						(15,156)	<b>(15,156)</b>
<b>Total comprehensive income and expenditure</b>	24,366	0	0	0	<b>24,366</b>	(15,156)	<b>9,210</b>
Adjustments between accounting basis and funding basis under regulations (note 8.7)	(25,036)		(6,811)	6,782	<b>(25,065)</b>	25,065	<b>0</b>
<b>Net increase or decrease before transfers to earmarked reserves</b>	(670)	0	(6,811)	6,782	<b>(699)</b>	9,909	<b>9,210</b>
Transfers to or from earmarked reserves (note 8.8)	1,670	(1,670)			<b>0</b>		<b>0</b>
<b>Increase or (decrease) in 2010/11</b>	1,000	(1,670)	(6,811)	6,782	<b>(699)</b>	9,909	<b>9,210</b>
<b>Balance as at 31st March 2011</b>	<b>6,349</b>	<b>17,572</b>	<b>6,754</b>	<b>13,103</b>	<b>43,778</b>	<b>143,621</b>	<b>187,399</b>

	General fund balance £000	Earmarked reserves £000	Capital receipts reserve £000	Capital grants unapplied £000	Total usable reserves £000	Unusable reserves £000	Total reserves £000
<b>Balance as at 31st March 2011</b>	<b>6,349</b>	<b>17,572</b>	<b>6,754</b>	<b>13,103</b>	<b>43,778</b>	<b>143,621</b>	<b>187,399</b>
<u>Movement in reserves during 2011/12</u>							
Surplus or (deficit) on the provision of services	(57,376)				(57,376)		(57,376)
Other comprehensive income and expenditure					0	(20,340)	(20,340)
<b>Total comprehensive income and expenditure</b>	<b>(57,376)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(57,376)</b>	<b>(20,340)</b>	<b>(77,716)</b>
Adjustments between accounting basis and funding basis under regulations (note 8.7)	53,026		(3,985)	2,576	51,617	(51,617)	0
<b>Net increase or decrease before transfers to earmarked reserves</b>	<b>(4,350)</b>	<b>0</b>	<b>(3,985)</b>	<b>2,576</b>	<b>(5,759)</b>	<b>(71,957)</b>	<b>(77,716)</b>
Transfers to or from earmarked reserves (note 8.8)	4,114	(4,114)			0		0
<b>Increase or (decrease) in 2011/12</b>	<b>(236)</b>	<b>(4,114)</b>	<b>(3,985)</b>	<b>2,576</b>	<b>(5,759)</b>	<b>(71,957)</b>	<b>(77,716)</b>
<b>Balance as at 31st March 2012</b>	<b>6,113</b>	<b>13,458</b>	<b>2,769</b>	<b>15,679</b>	<b>38,019</b>	<b>71,664</b>	<b>109,683</b>

## 5. COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

2010/11				2011/12		
Expenditure	Income	Net		Expenditure	Income	Net
£'000	£'000	£'000		£'000	£'000	£'000
74,666	(14,245)	60,421	Adult Social Care	75,327	(17,702)	57,625
184,566	(137,928)	46,638	Educational and Children Services	146,490	(111,107)	35,383
15,852	(3,887)	11,965	Cultural and Related Services	12,579	(2,590)	9,989
20,715	(4,894)	15,821	Environmental and Regulatory	22,171	(4,885)	17,286
14,123	(6,359)	7,764	Planning Services	13,232	(6,366)	6,866
22,362	(7,685)	14,677	Highways and Transport Services	25,211	(4,613)	20,598
49,691	(45,989)	3,702	Housing Services	48,487	(45,840)	2,647
6,838	(302)	6,536	Corporate and Democratic Core	8,687	(976)	7,711
4,034	(2,371)	1,663	Non-distributed Costs	3,004	(954)	2,050
(22,540)	0	(22,540)	Pensions - (exceptional items – note 8.5)	(5,749)	0	(5,749)
17,458	(15,233)	2,225	Central Services to the Public	17,760	(16,535)	1,225
<b>387,765</b>	<b>(238,893)</b>	<b>148,872</b>	<b>Cost of Services</b>	<b>367,199</b>	<b>(211,568)</b>	<b>155,631</b>
13,546		13,546	Other operating expenditure (Note 8.5 and 8.9)	71,309		71,309
17,352	(4,792)	12,560	Financing and investment income & expenditure (Note 8.10)	16,563	(1,021)	15,542
0	(199,344)	(199,344)	Taxation and non-specific grant income (Note 8.11)		(185,106)	(185,106)
		<b>(24,366)</b>	<b>(Surplus) or Deficit on the provision of services</b>			<b>57,376</b>
		28,687	(Surplus)/deficit on revaluation of Property, Plant and Equipment assets			(11,428)
		(13,531)	Actuarial (gains) or losses on pension assets and liabilities	(Note 8.24.4 and 8.43)		31,768
		<b>15,156</b>	<b>Other comprehensive income and expenditure</b>			<b>20,340</b>
		<b>(9,210)</b>	<b>Total comprehensive income and expenditure</b>			<b>77,716</b>

## **6 BALANCE SHEET**

- 6.1 The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories.
- 6.2 The first category of reserves are usable reserves i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt).
- 6.3 The second category of reserves is those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve) where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.



## BALANCE SHEET

Restated 1.4.10 £000	Restated 31.3.11 £000		Notes	31.3.12 £000	31.3.12 £000
464,195	453,618	Property, plant and equipment	8.12	402,958	
1,787	1,787	Heritage Assets	8.13	2,820	
24,934	23,955	Investment property	8.14	26,954	
4,955	5,657	Intangible assets	8.15	5,867	
2,538	2,538	Assets held for sale	8.20	0	
4	4	Long-term investments	8.16	4	
1,333	1,754	Long-term debtors		2,335	
<b>499,746</b>	<b>489,313</b>	<b>Long-term Assets</b>			<b>440,938</b>
5,016	11,052	Short-term Investments		9,589	
700	0	Assets held for sale	8.20	4,132	
128	655	Inventories	8.17	342	
35,074	32,218	Short-term Debtors	8.18	27,341	
703	445	Intangible current asset	8.15	10	
11,662	19,444	Cash and cash equivalents	8.19	3,200	
<b>53,283</b>	<b>63,814</b>	<b>Current Assets</b>			<b>44,614</b>
(4,855)	(6,727)	Cash and cash equivalents	8.19	(3,341)	
(14,704)	(24,769)	Short term borrowing	8.16	(17,562)	
(35,983)	(34,790)	Short-term creditors	8.21	(31,326)	
(3,194)	(6,530)	Capital grants receipts in advance	8.25	(933)	
(1,205)	(1,252)	Provisions	8.22	(424)	
<b>(59,941)</b>	<b>(74,068)</b>	<b>Current Liabilities</b>			<b>(53,586)</b>
(1,463)	(1,463)	Provisions	8.22	(1,124)	
(111,880)	(122,266)	Long-term borrowing	8.16	(128,532)	
(194,657)	(162,302)	Other long-term liabilities	8.43	(189,545)	
(6,899)	(5,629)	Capital grants receipts in advance	8.25	(3,082)	
<b>(314,899)</b>	<b>(291,660)</b>	<b>Total Long-term liabilities</b>			<b>(322,283)</b>
<b>178,189</b>	<b>187,399</b>	<b>Net Assets</b>			<b>109,683</b>
44,477	43,778	Usable reserves	8.23		38,019
133,712	143,621	Unusable reserves	8.24		71,664
<b>178,189</b>	<b>187,399</b>	<b>Total reserves</b>			<b>109,683</b>

Prior years' figures have been restated to reflect the inclusion of a new category of asset, heritage assets (note 8.1.41)

## **7 CASH FLOW STATEMENT**

- 7.1 The Cash Flow statement shows the changes in cash and cash equivalents of the authority during the year. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows arising as operating, investing and financing activities.
- 7.2 The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority.
- 7.3 Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery.
- 7.4 Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.

## CASH FLOW STATEMENT

2010/11 £000		2011/12 £000	2011/12 £000
	<b>Operating Activities</b>		
	<b>Cash inflows</b>		
(78,402)	Taxation	(78,626)	
(247,257)	Grants	(238,088)	
(456)	Interest received	(493)	
(114,162)	Other receipts from operating activities	(82,712)	
<u>(440,277)</u>	<b>Cash inflows generated from operating activities</b>		(399,919)
	<b>Cash outflows</b>		
140,723	Cash paid to and on behalf of employees	115,834	
41,684	Housing benefit paid out	44,721	
2,488	Precepts paid	2,558	
11	Payments to the Capital Receipts Pool	9	
7,726	Interest paid	8,198	
236,388	Other payments and operating activities	218,874	
<u>429,020</u>	<b>Cash outflows generated from operating activities</b>		390,194
(11,257)	<b>Net cash flows from operating activities</b>		<u>(9,725)</u>
	<b>Investing Activities</b>		
62,192	Purchase of PPE, investment property and intangible assets	44,907	
50,550	Purchase of investments ( <i>not cash equivalents</i> )	25,500	
267	Other payments for investing activities	281	
(1,855)	Proceeds from the sale of PPE, investment property and intangible assets	(1,014)	
(44,550)	Proceeds from investments ( <i>not cash equivalents</i> )	(27,000)	
<u>(45,548)</u>	Other receipts from investing activities	<u>(25,045)</u>	
21,056	<b>Net cash flows from investing activities</b>		17,629
	<b>Financing Activities</b>		
(56,500)	Cash receipts of short and long term borrowing	(10,500)	
	Cash payments for the reduction liabilities for finance leases and PFI contracts	909	
36,045	Repayments of short and long term borrowing	11,586	
3,928	Other payments for financing activities	2,959	
<u>(15,709)</u>	<b>Net cash flows from financing activities</b>		4,954
<u>(5,910)</u>	<b>Net decrease/(increase) in cash and cash equivalents</b>		<u>12,858</u>
	<b>6,807 Cash and cash equivalents at 1<sup>st</sup> April</b>		<b>12,717</b>
	<b>12,717 Cash and cash equivalents at 31<sup>st</sup> March</b>		<b>(141)</b>
<u>(5,910)</u>	<b>Net decrease/(increase) in cash and cash equivalents</b>		<u>12,858</u>

## 8 NOTES TO THE FINANCIAL STATEMENTS

### 8.1. Accounting Policies

#### **General Principles**

- 8.1.1 The council is required to produce an annual Statement of Accounts by the Accounts and Audit Regulations 2011, which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the Service Reporting Code of Practice (SERCOP) 2011/12, supported by International Financial Reporting Standards.

#### **Accruals of Income and Expenditure**

- 8.1.2 Revenue and capital transactions are accounted for on an accruals basis. Customer and client receipts are accounted for in the period to which they relate. The cost of supplies and services are accrued and accounted for in the period during which they were consumed or received. Interest payable on external borrowings and interest income is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract. Debtors and creditors are included in the accounts on an actual basis where known, or on an estimated basis where precise amounts are not established at the year-end.

#### **Borrowing Costs**

- 8.1.3 Borrowing costs that can be directly attributable to acquisition, construction or production of qualifying assets are capitalised as part of the cost of those assets. Qualifying assets are assets that take a substantial period of time to get ready, which is sufficiently long enough for a material balance of borrowing to accrue. This will be applied to schemes lasting more than 12 months and with at least £10,000 of interest associated with the project.
- 8.1.4 During 2011/12 £113,000 of borrowing costs have been capitalised relating to spend on Hereford Leisure Pool and Ledbury Library in year.

#### **Cash and cash equivalents**

- 8.1.5 Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are deemed to be 'on-call' investments, where investments can be recalled immediately.

#### **Contingent assets**

- 8.1.6 Contingent assets are not recognised in the financial statements but disclosed as a note to the accounts where an inflow of economic benefits or service potential is probable. If it becomes virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, then the debtor and related revenue are recognised in the financial statements in the year the change occurs.

#### **Contingent liabilities**

- 8.1.7 A contingent liability arises when an event has taken place that gives the authority a possible obligation whose existence will only be confirmed by the occurrence of uncertain future events not wholly within control of the authority. Contingent liabilities are not recognised in the financial statements but disclosed as a note to the accounts. If it becomes probable that an outflow of future economic benefits

or service potential will be required then a provision is recognised in the year in which the probability occurs.

## **Employee benefits**

### **Benefits payable during employment**

- 8.1.8 Employment benefits are accounted for according to the principles of accruals of expenditure. Short-term compensated absences, such as annual leave and flexi-time, are recognised when employees render services that increase their entitlement to future compensated absences. These are measured as the additional amount that the authority expects to pay as a result of unused entitlement at the balance sheet date, including employer's national insurance and pension contributions. The accumulated benefits are included in the balance sheet as a provision for accumulated absences. The amounts charged to the General Fund are reversed out through the Movement of Reserves Statement to the accumulated absences account in the balance sheet.

### **Termination benefits**

- 8.1.9 Termination benefits are payable as a result of either:

- a) An employer's decision to terminate an employee's employment; or
- b) An employee's decision to accept voluntary redundancy

Termination benefits are recognised immediately in the Surplus or Deficit on the Provision of Services

### **Post-employment benefits**

- 8.1.10 Employees of the council are members of two separate pension schemes;
- a) The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education; and
  - b) The Local Government Pension Scheme administered by Worcestershire County Council.
- 8.1.11 Pension schemes are classed as either defined contribution or defined benefit plans. Both schemes provide defined benefits to members, built up during the time employees work for the council. However, the arrangements for the Teachers' scheme mean that the liabilities for these benefits cannot be identified to the council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the balance sheet and the education service revenue account is charged with the employer's contributions payable to the Teachers' Pensions Scheme in the year.
- 8.1.12 The Local Government Pension Scheme is accounted for as a defined benefits scheme as follows:
- a) The liabilities are included in the Balance Sheet on an actuarial basis using the projected unit method, that is, an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees;
  - b) Liabilities are discounted to their value at current prices;
  - c) Assets are included in the Balance Sheet at their fair value;

- d) The change in the net pension's liability is analysed into seven components;
- i. **Current service cost:** The increase in liabilities as a result of service earned in the year is allocated to the revenue account of the services for which the employee worked, within the Comprehensive Income and Expenditure Account.
  - ii. **Past service cost:** The increase in liabilities arising from current year decisions whose effect relates to service earned in earlier years is debited to the Net Cost of Services in the Comprehensive Income and Expenditure Account.
  - iii. **Interest cost:** The expected increase in the present value of liabilities during the year as they move one year closer to being paid is debited to the Financing and Investment Income section of the Comprehensive Income and Expenditure Account.
  - iv. **Expected return on assets:** The annual investment return on the fund assets attributable to the council, based on an average of the expected long-term return, is credited to the Financing and Investment Income section of the Comprehensive Income and Expenditure Account.
  - v. **Gains/losses on curtailments:** The results of actions to relieve the council of liabilities or events that reduce the expected future benefits of employees is included in the Net Cost of Services in the Comprehensive Income and Expenditure Account.
  - vi. **Actuarial gains and losses:** Changes in the net pension's liability that arise because events have not coincided with assumptions previously made by the actuaries is included in Other Comprehensive Income and Expenditure.
  - vii. **Contributions paid to the pension fund:** Cash paid as employer's contributions to the pension fund.

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

8.1.14 Further information on accounting for the pension fund is set out in Note 8.43 to the Statements.

#### **Events after the balance sheet date**

8.1.15 Events after the Balance Sheet date are those that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. There are two types;

- a. Those that provide evidence of conditions at the end of the reporting period, which are adjusted in the accounts; and

- b. Those that relate to conditions after the reporting period, which are not adjusted in the accounts, rather disclosed in the notes to the statements.

#### **Exceptional items**

- 8.1.16 Where items of income and expenditure are material, the nature and amount is disclosed separately in the Income and Expenditure Statement or in the notes to the accounts.
- 8.1.17 A number of schools transferred to Academy status during 2011/12, resulting in the net book value of the schools of £69 million being written out of the council's assets through the 'Other Operating Expenditure' section of the Comprehensive Income and Expenditure Statement.

#### **Prior period adjustments, changes in accounting policies and estimates and errors**

- 8.1.18 Prior period adjustments may arise from a change in accounting policies or to correct a material error. Changes in estimates are accounted for prospectively, whereas changes in accounting policies are applied retrospectively. Material errors in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.
- 8.1.19 In 2011/12 there was one change in the accounting policies. This relates to heritage assets and is detailed in the relevant paragraphs in the accounting policies.

#### **Financial Instruments**

- 8.1.20 Financial instruments are contracts that give rise to a financial asset of one entity and a financial liability (or equity instrument, such as share capital) of another entity.

#### **Financial liabilities**

- 8.1.21 A financial liability is an obligation to deliver cash (or another financial asset) to another entity.
- 8.1.22 Financial liabilities are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges for interest payable are based on the carrying amount of the liability, multiplied by the effective interest rate for the instrument and are charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For most of the borrowings that the council has, the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged is the amount payable for the year in the loan agreement. However, the council has two stepped interest rate loans, where the effective interest rate differs from the loan agreement.
- 8.1.23 Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or

added to the amortised cost of the new or modified loan and the write-down is spread over the life of the loan by an adjustment to the effective interest rate.

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

#### **Financial Assets**

- 8.1.25 A financial asset is a right to future economic benefits that is represented by cash, an equity instrument of another entity (e.g. shares held) or a contractual right to receive cash (or another financial asset) from another entity.

- 8.1.26 Financial assets are classified into two types:

- a. Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market; or
- b. Available for sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

- 8.1.27 **Loans and receivables** are recognised in the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For all of the loans the council has made the amount presented in the balance sheet as the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

- 8.1.28 The council has no available-for-sale assets.

#### **Government grants and other contributions**

- 8.1.29 Grants and contributions are recognised in the accounts when there is reasonable assurance that;

- The authority will comply with any conditions attached to them, and
- The grants or contributions will be received.

- 8.1.30 Grants and contributions relating to capital and revenue expenditure are accounted for on an accruals basis and recognised immediately in the Comprehensive Income and Expenditure Statement as income, except to the extent that the grant or contribution has conditions that the authority has not satisfied.

- 8.1.31 General grants and contributions e.g. Revenue Support Grant, are disclosed on the face of the Comprehensive Income and Expenditure Statement.



8.1.32 Grants and contributions funding capital expenditure that have been credited to the Comprehensive Income and Expenditure Statement are not proper income to the General Fund according to the capital control regime. These amounts are accounted for as follows;

- Where conditions of the grant are outstanding at the balance sheet date, they are recognised as Capital Grants Receipts in Advance. Once the conditions have been met the grant or contribution is transferred to the Comprehensive Income and Expenditure Statement.
- Where the capital grant or contribution has been recognised in the Comprehensive Income and Expenditure Statement, no conditions remain outstanding and the expenditure has been incurred at the Balance Sheet date, the grant or contribution is transferred from the General Fund to the Capital Adjustment Account. This reflects the application of capital resources to finance expenditure and is reported in the Movement in Reserves Statement.
- Where the capital grant or contribution has been recognised in the Comprehensive Income and Expenditure Statement, but the expenditure to be financed has not been incurred at the Balance Sheet date, the grant or contribution is transferred to the Capital Grants Unapplied Account. When the expenditure is incurred the grant or contribution is transferred from the Capital Grants Unapplied Account to the Capital Adjustment Account, reflecting the application of capital resources to finance expenditure.

#### **Heritage assets**

8.1.33 Heritage assets are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held principally for their contribution to knowledge and culture.

8.1.34 Heritage assets are recognised as a separate class of assets for the first time in the 2011/12 financial statements. These assets were grouped under 'Community Assets' in 2010/11.

8.1.35 Heritage assets continue to be recognised and measured (including the treatment of revaluation gains and losses) in accordance with the council's accounting policies on property, plant and equipment (see note 8.1.69).

8.1.36 The council has recognised as heritage assets the museum exhibits held by Heritage Services and the collection was professionally valued at the year end. The collection is shown in the balance sheet at open market value.

8.1.37 In addition to the museum collection the council has capitalised new heritage assets purchased during the year although, in line with the council's general capitalisation policy, purchases less than £10,000 are not recognised in the Balance Sheet.

8.1.38 As recommended in Financial Reporting Standard 30, operational assets continue to be recognised under Property, Plant and Equipment notwithstanding any historical or other heritage qualities.

8.1.39 Heritage assets, assumed to have indefinite lives, will not be depreciated although the carrying amount will be reviewed at least every five years to ensure that the valuation remains current.

8.1.40 In addition the carrying amount of an asset will be reviewed if there is evidence of impairment e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity.

8.1.41 Changes to the accounting policy for heritage assets has resulted in the following changes being made to the 2010/11 comparative figures in the balance sheet:

	<b>2010/11 Statements</b>	<b>Adjustments made</b>
	<b>£000</b>	<b>£000</b>
Property Plant and Equipment	455,405	(1,787)
Heritage Assets	0	1,787

#### **Intangible assets**

8.1.42 Expenditure on non-monetary assets that do not have physical substance but are identifiable and controlled by the council (e.g. computer software licences) is capitalised when it will bring benefits to the council for more than one financial year. Intangible assets are normally carried at cost less accumulated amortisation and impairment losses. Where an intangible asset is acquired by way of government grant, it is recognised initially at fair value.

8.1.43 An intangible asset with a finite useful life is amortised to the relevant service revenue account over its economic life to reflect the pattern of consumption of benefits.

8.1.44 Gains or losses on derecognition of an intangible asset are recognised in the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

8.1.45 Neither amortisation, gains nor losses are permitted to have an impact on the General Fund Balance and so all are reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

#### **Inventories**

8.1.46 Inventories are measured at the lower of cost and net realisable value, except where they are held for distribution at no charge in which case they are measured at the lower of cost and net current replacement cost.

#### **Investment property**

8.1.47 Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or is held for sale.

8.1.48 Investment property is measured initially at cost, and subsequently at market value. Properties are not depreciated but are revalued annually reflecting market conditions at the year end.

8.1.49 Gains and losses on revaluation are included in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. Gains or losses on disposal of an investment property are treated in the same way.

8.1.50 Gains or losses recognised in the Comprehensive Income and Expenditure Statement are not proper charges to the General Fund and are reversed out through the Movement in Reserves Statement as follows;

- a) On derecognition of an investment property the disposal proceeds are credited to the Capital Receipts Reserve and the carrying amount of the property is debited to the Capital Adjustment Account.
- b) Gains or losses are reversed out to the Capital Adjustment Account.

#### **Landfill allowances scheme**

8.1.51 The Waste and Emissions Trading Act 2003 places a duty on waste disposal authorities (WDAs) to reduce the amount of biodegradable municipal waste (BMW) disposed to landfill. It provides the legal framework for the Landfill Allowance Trading Scheme (LATS), which commenced operation on 1 April 2005 in England.

8.1.52 LATS is a 'cap and trade' scheme. The scheme gives rise to;

- an asset for allowances held
- LATS grant income
- A liability for actual BMW

8.1.53 Landfill allowances are recognised as assets and measured initially at fair value. The landfill allowances issued free by DEFRA are treated as a government grant.

8.1.54 As landfill is used a liability in the form of a provision is recognised for actual BMW landfill usage. The liability is discharged by using allowances to meet the liability, paying a cash penalty to DEFRA or a combination of both. The liability is measured at the best estimate of the expenditure required to meet the obligation at the reporting date. After initial measurement the value of landfill allowances is re-measured at the lower of cost or net realisable value.

#### **Leases**

8.1.55 Leases are classified as either finance leases or operating leases based on the extent to which risks and rewards of ownership of a leased asset lie with the lessor or the lessee.

#### **8.1.56 Finance leases**

- a) Where the council is **lessee** - finance leases are recognised as assets and liabilities at the fair value of the property or, if lower, the present value of the minimum lease payments. Minimum lease payments are apportioned between the finance charge (interest) and the reduction of the outstanding liability. Assets recognised under a finance lease are depreciated over the shorter of the lease term and the asset's useful economic life. Assets recognised under a finance lease are subject to revaluation in the same way as any other asset.
- b) Where the council is **lessor** - assets held under a finance lease are recognised as a debtor equal to the net investment in the lease. The lease payment receivable is treated as repayment of principal and interest.

#### **Operating leases**

- 8.1.57 a) Where the council is **lessee** – an operating lease is recognised as an expense on a straight line basis over the lease term.
- b) Where the council is **lessor** – the asset is recognised under the relevant category of assets. Costs, including depreciation, are recognised as an expense and income is recognised on a straight-line basis over the lease term.

#### **Arrangements containing a lease**

8.1.58 Arrangements that do not take the legal form of a lease but convey the right to use an asset in return for payments, are assessed under IFRIC 4 to determine whether the arrangement contains a lease. This requires an assessment of whether;

- a) The arrangement depends on use of a specific asset
- b) The arrangement conveys the right to use the asset.

If the arrangement contains a lease, that lease shall be classified as a finance or operating lease.

#### **Non-current assets held for sale**

8.1.59 An asset is classified as held for sale if;

- a) The asset is available for immediate sale in its present condition
- b) The sale is highly probable.
- c) The asset is being actively marketed.
- d) The sale should be expected to be completed within one year

8.1.60 Assets held for sale are measured at the lower of the carrying amount and fair value less costs to sell and are not depreciated.

8.1.61 Assets held for sale are presented separately on the face of the Balance Sheet.

#### **Overheads and Support Services**

8.1.62 The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice (SERCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

Several bases are used for the allocation overheads, using the most appropriate basis for each service. Financial services are allocated on time allocation of staff, Human Resources on a per employee basis, Technology Solutions per PC, Revenues on invoices raised, paid and income received and Property services on a per desk basis.

### **PFI schemes**

- 8.1.63 Private Finance Initiative (PFI) contracts are agreements to receive services where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor. As the council is deemed to control the services that are provided under its PFI schemes and as ownership of the fixed assets will pass to the council at the end of the contracts for no additional charge, the council carries the fixed assets used under the contracts on the Balance Sheet.
- 8.1.64 The original recognition of these fixed assets is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets.
- 8.1.65 Fixed assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the council.
- 8.1.66 The amounts payable to the PFI contractors each year are analysed into five elements:
- a) Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.
  - b) Finance cost – a percentage interest charge on the outstanding Balance Sheet liability, debited to interest payable and similar charges in the Comprehensive Income and Expenditure Statement.
  - c) Contingent rent – differences in the amount to be paid for the property arising during the contract, debited or credited to interest payable and similar charges in the Comprehensive Income and Expenditure Statement.
  - d) Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator.
  - e) Lifecycle replacement costs – the annual payment implicit in the contract is funded and treated as a prepayment on the Balance Sheet and recognised as fixed assets when the contractor incurs the expenditure
- 8.1.67 Under the Shaw Healthcare contract the rent and service charges paid to Shaw by residents for the council's extra care flats at Leadon Bank have been treated as a contribution to the revenue costs of the units.
- 8.1.68 The council has two traditional PFI contracts, one in partnership with Worcestershire County Council for the provision of waste management services and the other for the provision of Whitecross secondary school. The council also has one contract that falls within the definition of a similar contract to a PFI, which is the Shaw Healthcare contract for the provision of residential care services

### **Property, plant and equipment**

- 8.1.69 Property, plant and equipment are tangible assets that are held for use on the production or supply of goods and services, for rental to others, or for administration purposes, and are expected to be used for more than a year.

### **Recognition**

- 8.1.70 Property, plant and equipment is only recognised as an asset on the balance sheet if;

- a) it is probable that the future economic benefits or service potential will flow to the council, and
- b) the cost of the asset can be measured reliably.

8.1.71 Costs meeting the definition of recognition include initial costs of acquisition and construction and subsequent costs to enhance or replace part of the asset. The costs arising from day-to-day servicing of an asset are not capitalised as this does not add to the future economic benefits or service potential of the asset. The council does not capitalise fixed assets costing less than £10,000.

8.1.72 Where a component is replaced or enhanced, the carrying amount of the old component is derecognised and the new component reflected in the carrying amount.

8.1.73 With reference to schools, whether or not the school land and buildings are included in the balance sheet will depend upon the type of school:

- Community Schools

Assets relating to state-funded, council controlled community schools are included in the balance sheet.

- Academy Schools

When a school is granted Academy status the land and buildings are transferred to the school and removed from the council's balance sheet in the year when the legal transfer takes place. This is also the case with foundation schools, although most of Herefordshire's foundation schools have now become Academies.

- Voluntary Schools

Voluntary schools are schools which are run by private organisations such as a foundation or a trust (usually a religious organisation) who own the land and buildings. There are two types.

**Voluntary controlled** schools have all their costs met by central government and are controlled by the council. Their land and buildings are included in the council's balance sheet (on a Depreciated Cost Basis) on the assumption that replacement falls to the council.

**Voluntary aided** schools are not fully funded with the foundation being at least partly responsible for financing capital expenditure and they retain greater influence over the school. The land and buildings are not recognised in the council's balance sheet. The exception is playing fields which are required to be provided by the council.

### Measurement

8.1.74 Assets are initially recognised at cost and accounted for on an accruals basis. The measurement of cost comprises:

- a) purchase price;

- b) any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in a manner intended by management; and
- c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located

8.1.75 Assets are then carried in the Balance Sheet using the following measurement bases:

- a) **Infrastructure, community assets and assets under construction** – historical cost.
- b) **Land and buildings** – fair value. Where there is no market-based evidence of fair value because of the specialist nature of the asset fair value may need to be estimated using a depreciated replacement cost approach (DRC).
- c) **Vehicles, plant and equipment** – depreciated historical cost (as a proxy for fair value)

### **Revaluations**

8.1.76 Assets included in the Balance Sheet at fair value are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. The Revaluation Reserve was created with a zero balance on 31 March 2007. Gains may be credited to the Provision of Services where they arise from the reversal of an impairment loss or revaluation decrease previously charged to a service revenue account.

8.1.77 Where the carrying amount of an item of property, plant and equipment is decreased as a result of a revaluation that is not specific to the asset the decrease is recognised in the Revaluation Reserve up to the credit balance existing in respect of the asset and thereafter in the Surplus or Deficit on the Provision of Services.

8.1.78 Revaluation gains and losses charged to the Surplus or Deficit on the Provision of Services are not proper charges to the General Fund and are transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

8.1.79 When an asset is revalued, any accumulated depreciation and impairment is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

### **Depreciation**

8.1.80 Depreciation is provided for on all assets classified as property, plant and equipment by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

8.1.81 The council's valuer makes a professional assessment of the economic life remaining based on the age, condition and suitability of the asset. For the purposes of depreciation a nil residual value is assumed for all building assets. New assets are not subject to a depreciation charge in the year of acquisition.

8.1.82 Each part of an asset with a cost significant in relation to the total cost is depreciated separately where the useful lives or depreciation methods of the components are different. The council reviews assets of £3 million and over for componentisation and treats components worth at least 20% of the asset value as being significant. This applies to enhancement expenditure and revaluations carried out from 1 April 2010. Where a component is replaced or restored, the carrying amount of the old component is derecognised.

8.1.83 Depreciation charged to the Surplus or Deficit on the Provision of Services is not a proper charge to the General Fund and is transferred to the Capital Adjustment Account. This is reported in the Movement in Reserves Statement. Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

### **Impairments**

8.1.84 An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount. At the end of each financial year assets are assessed for any indications of impairment and if there are then the recoverable amount shall be estimated. Circumstances that indicate an impairment may have occurred include;

- a) A significant decline in an asset's value during the year, which is specific to the asset
- b) Evidence of obsolescence or physical damage of an asset
- c) A commitment by the council to undertake a significant re-organisation
- d) A significant adverse change in the statutory or other regulatory environment in which the council operates.

8.1.85 General Fund service revenue accounts, central support services and trading accounts are charged with impairment losses (in excess of any balance on the revaluation reserve). An impairment on revalued assets is recognised in the Revaluation Reserve to the extent that the impairment does not exceed the amount in the Revaluation Reserve for the same asset and thereafter in the Surplus or Deficit on the Provision of Services. An impairment loss on a non-revalued asset shall be recognised in the Surplus or Deficit on the Provision of Services.

8.1.86 At the end of each financial year an assessment shall take place as to whether there is any indication that an impairment loss recognised in earlier periods for an asset may no longer exist or have decreased. The reversal of an impairment loss previously recognised in the Surplus or Deficit on the Provision of Services shall not exceed the carrying amount that would have been determined had no impairment loss been recognised. Any excess above the carrying amount is treated as a revaluation gain and credited to the Revaluation Reserve.

8.1.87 Impairment losses and subsequent reversals are charged to the Surplus or Deficit on the Provision of Services, they are not proper charges to the General Fund. These amounts are transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

### **Disposals**



8.1.88 The carrying amount of an asset is derecognised on disposal and the gain or loss on disposal of the asset is included in the Surplus or Deficit on the Provision of Services. This is not a proper charge to the General Fund and is reversed out by;

- a) Crediting the Capital Receipts Reserve with the disposal proceeds; or
- b) Debiting the Capital Adjustment Account with the carrying amount of the asset on disposal.

Any balance on the Revaluation Reserve is written off to the Capital Adjustment Account on disposal of the asset.

8.1.89 Where appropriate the costs of disposing of non-current assets are financed from the capital receipts generated up to a maximum of 4% of the capital receipt.

### **Provisions**

8.1.90 A provision is recognised when:

- a) An authority has a present obligation (legal or constructive) as a result of a past event;
- b) It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- c) A reliable estimate can be made of the amount of the obligation.

8.1.91 Provisions are charged to the cost of services when the authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are made they are charged to the provision set up in the balance sheet.

### **Reserves**

8.1.92 The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred it is charged to the appropriate revenue account and included in the Cost of Services. The reserve is then appropriated back through the Movement in Reserves Statement so that there is no charge against council tax for the expenditure.

### **Revenue funded from capital under statute**

8.1.93 Where legislation allows expenditure to be classified as capital for funding purposes, which does not result in a fixed asset on the balance sheet (generally grants), it is charged to the Surplus or Deficit on the Provision of Services in accordance with proper practice. A transfer to the Capital Adjustment Account from the Statement of Movement in Reserves reverses this out so that there is no impact on council tax.

### **Value added tax**

8.1.94 Revenue included in the Comprehensive Income and Expenditure Statement is only the amount relating to the authority on its own behalf and therefore excludes VAT that must be passed on the HM Revenue and Customs. VAT is only included in the accounts to the extent that it is irrecoverable. The net amount due to or from HM Revenue and Customs in respect of VAT is included as part of creditors or debtors.

### **Revenue recognition**

8.1.95 Revenue is measured at the fair value of the consideration received or receivable.

8.1.96 **The sale of goods**; revenue is recognised when all the following conditions have been satisfied:

- a) the significant risks and rewards of ownership have been transferred to the purchaser.
- b) the council retains neither continuing managerial involvement nor effective control over the goods sold
- c) the amount of revenue can be measured reliably.
- d) it is probable that the economic benefits or service potential associated with the transaction will flow to the entity, and
- e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

8.1.97 **The rendering of services**; when the outcome of a transaction can be estimated reliably, associated revenue is recognised according to the percentage completed at the reporting date. The following conditions need to be satisfied;

- a) the amount of revenue can be measured reliably;
- b) it is probable that the economic benefits or service potential associated with the transaction will flow to the entity;
- c) the stage of completion at the balance sheet date can be measured reliably; and
- d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

8.1.98 **Interest**; revenue is recognised when;

- a) it is probable that the economic benefits or service potential associated with the transaction will flow to the authority; and
- b) the amount of the revenue can be measured reliably.

8.1.99 **Non-exchange transactions**; revenue is recognised when;

- a) it is probable that the economic benefits or service potential associated with the transaction will flow to the authority; and
- b) the amount of the revenue can be measured reliably.

### **Interests in Companies and Other Entities**

8.1.100 The council has a 20% non-voting shareholding in Amey Wye Valley. The council does not have control over decision making, although it does have the right to veto certain key decisions for the company. Amey appoints its own directors and the council has observer status only on the board. The council does not exercise dominant influence and therefore there is no group relationship requiring group accounts. This is conducted as a contractual arrangement with the transactions included in the council's Income and Expenditure Statement and capital accounts. The amount included in the accounts for the investment is £200, which is the initial amount paid for the share.

- 8.1.101 The council has 33% voting rights with Herefordshire Housing. However, the council is not exposed to the direct risk of any loss through transactions or collapse, and therefore there is no requirement to complete group accounts.
- 8.1.102 The council has an interest in a company called Hereford Futures, whose role is to facilitate development and regeneration within Hereford. This is a company limited by guarantee and the council is a member. However, this relationship does not require group accounts as the company provides an independent role in the redevelopment. Contracts with third parties are entered into by the council and the financial transactions relating to these are included in the council's accounts.
- 8.1.103 The council holds 1.05% of shares in West Midlands Transport Information Services. The council does not have the benefits of future economic benefits or exposure to the risks inherent in the benefits, nor can it control decision making. Therefore the relationship does not require group accounts.
- 8.1.104 The council is also represented by its elected members on the West Mercia Supplies Joint Committee. West Mercia Supplies (WMS) is a Purchasing Consortium that was established in 1987. It is constituted as a Joint Committee and Herefordshire Council is one of four constituent authorities. The other three Councils are Shropshire Council, Worcestershire County Council and Telford and Wrekin Council. WMS exists in order to provide joint procurement services to the four constituent authorities. The financial advantage of bulk purchasing arrangements is reflected in the Income and Expenditure Account. The council's share is not considered material to the accounts. At 11.7%, based on the proportion of the surplus attributable to the council, the council's share of WMS net assets of £2.979m amounted to £349,000 at 31 March 2012.
- 8.1.105 The council holds 62% shareholding in Hoople Ltd. This is a joint venture which the council entered into with Wye Valley NHS Trust and Herefordshire Primary Care Trust in 2011. The purpose of the joint venture is to increase efficiency and reduce back office costs for all partners. However, the balance sheet value of Hoople Ltd at 31 March 2012 was insignificant to justify the preparation of group accounts.

## **8.2. Accounting standards that have been issued but have not yet been adopted**

- 8.2.1 Authorities are required to disclose the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted in the CIPFA Accounting Code of Practice for the relevant financial year.
- 8.2.2 There have been amendments to IFRS 7 – Financial Instruments: Disclosures (transfers of financial assets), which are intended to assist users of the financial statements to evaluate the risk exposures that relate to transfers of financial assets and the effect of those risks on the authority's financial position. However, CIPFA/LASAAC is of the view that the transfers described by the standard do not occur frequently in local authorities. Relevant circumstances would arise where an authority retains ownership of a financial asset but contracts to reassign or otherwise pay over the cash flows generated by the instrument, at the same time as retaining substantially all the risks and rewards of ownership.

### 8.3 Critical Judgements in Applying Accounting Policies

8.3.1 In applying the accounting policies set out in Note 8.1, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events.

8.3.2 The critical judgements made in the Statement of Accounts are:

- The council is deemed to control the services provided by Shaw Healthcare under the contract for the development and provision of residential homes and day care centres. The accounting policies for PFI schemes and similar contracts have been applied to the arrangement.
- The council has relationships with a number of companies as detailed in Note 8.1 but it has been determined that group accounts are not required.

### 8.4 Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

8.4.1 The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

8.4.2 There is a significant risk of material adjustment in the forthcoming financial year for the following items in the council's Balance Sheet at 31 March 2012:

Item	Uncertainties	Effect if actual results differ from assumptions
<b>Pensions liability</b>	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The pension fund actuary Mercer Ltd is employed by the pension fund to provide expert advice about the assumptions to be applied.	Changes in any of the assumptions can have a significant effect on the pensions liability shown in the accounts.
<b>Property, plant, equipment and investment properties</b>	Full valuation involving an inspection is carried out every 5 years. An impairment and valuation review is carried out as a desk exercise for properties not valued in the year.	There is a risk of material adjustment in the year when the property is revalued.

## **8.5 Material Items of Income and Expense**

- 8.5.1 There were two material items of income and expense in the Comprehensive Income and Expenditure Account:
- 8.5.2 A number of schools transferred to Academy status during 2011/12, resulting in the net book value of the schools of £69 million being written out of the council's assets through the 'Other Operating Expenditure' section of the Comprehensive Income and Expenditure Statement.
- 8.5.2 There were exceptional items relating to the council's pension fund liabilities. The 2010/11 comparative figures include an adjustment in the council's liabilities in the pensions fund, which reduced by £22.5 million following the change in the pensions uplift from RPI to CPI. In 2011/12 there was an adjustment of £5.7 million for the transfer of staff to Academies and Hoople.
- 8.5.3 These entries are reversed out in the Movement in Reserves Statement and do not have an impact on the General Fund.

## **8.6 Events after the Balance Sheet Date**

- 8.6.1 The Statement of Accounts was authorised for issue on 13<sup>th</sup> September 2012 by the Chief Finance and Commercial Services Officer. Events taking place after this date are not reflected in the financial statements or notes.
- 8.6.2 In September 2011 the owners of West Mercia Supplies appointed a sales agent to pursue the sale of the organisation. Since then a buyer has been found for the stationery division of WMS with the sale completing on 19<sup>th</sup> April 2012. The WMS name and most of the staff transferred as part of the sales agreement, with the energy side of the organisation remaining with the four Member Authorities. The energy division will continue in operational existence under the trading name of "West Mercia Energy" for the foreseeable future.
- 8.6.3 Many schools in Herefordshire are becoming Foundation Schools or Academies. It is council policy to remove the associated fixed assets from the balance sheet on the date that the assets are legally transferred. In April 2012 3 schools transferred to Academy status with a net book value of £2.6 million and there is potential for a further £23.4 million to be transferred in 2012/13.
- 8.6.4 In November 2009 Herefordshire Council entered into a Development Agreement with Stanhope for the redevelopment of the old market site. Following the report to the council's Cabinet on the 5<sup>th</sup> April 2012 the parties have been proactive in addressing the pre-conditions contained within the Development Agreement to the point where most have now been met and we are moving to a position where the Development Agreement will go unconditional and works start on site shortly.

## **8.7 Adjustments between Accounting Basis and Funding Basis under Regulations**

- 8.7.1 This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

2011/12

	Usable Reserves			Unusable reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
<b>Adjustments involving the Capital Adjustment Account:</b>				
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
Charges for depreciation on non-current assets	16,534			(16,534)
Revaluation losses and impairment on Property, Plant and Equipment	6,272			(6,272)
Movements in the market value of investment properties	6,487			(6,487)
Amortisation of intangible assets	1,694			(1,694)
Capital grants and contributions	(27,313)			27,313
Revenue expenditure funded from capital under statute	1,809			(1,809)
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	69,058			(69,058)
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
Statutory provision for the financing of capital investment	(10,514)			10,514
Capital expenditure charged against the General Fund balance	(281)			281
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(5,300)		5,300	
Application of grants to capital financing transferred to the Capital Adjustment Account			(2,724)	2,724
<b>Adjustments involving the Capital Receipts Reserve:</b>				
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(504)	504		
Use of the Capital Receipts Reserve to finance new capital expenditure		(4,492)		4,492
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	9	(9)		
Recognition of new deferred capital receipts	(281)			281

Transfer from Deferred Capital Receipts Reserve upon receipt of cash	12	(12)
<b>Adjustments involving the Financial Instruments Adjustment Account:</b>		
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	4	(4)
<b>Adjustments involving the Pensions Reserve:</b>		
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 8.43)	5,627	(5,627)
Employer's pensions contributions and direct payments to pensioners payable in the year	(9,953)	9,953
<b>Adjustments involving the Collection Fund Adjustment Account:</b>		
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	467	(467)
<b>Adjustment involving the Accumulated Absences Account</b>		
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(789)	789
<b>Total Adjustments</b>	<b>53,026</b>	<b>(3,985)</b>
	<b>2,576</b>	<b>(51,617)</b>

## 2010/11 Comparative Figures

	Usable Reserves			Unusable reserves
	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	
	£000	£000	£000	£000
<b>Adjustments involving the Capital Adjustment Account:</b>				
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
Charges for depreciation on non-current assets	15,774			(15,774)
Revaluation losses and impairment on Property, Plant and Equipment	13,755			(13,755)
Movements in the market value of investment properties	1,170			(1,170)
Amortisation of intangible assets	1,383			(1,383)
Capital grants and contributions	(30,302)			30,302
Revenue expenditure funded from capital under statute	522			(522)
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	12,910			(12,910)
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
Statutory provision for the financing of capital investment	(9,645)			9,645
Capital expenditure charged against the General Fund balance	(772)			772
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(9,358)		9,358	
Application of grants to capital financing transferred to the Capital Adjustment Account			(2,576)	2,576
<b>Adjustments involving the Capital Receipts Reserve:</b>				
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(2,083)	2,083		
Use of the Capital Receipts Reserve to finance new capital expenditure		(8,868)		8,868
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals	29	(29)		
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	11	(11)		
Transfer from Deferred Capital Receipts Reserve upon receipt of cash			14	(14)



**Adjustments involving the Financial Instruments Adjustment Account:**

Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(82)	82
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**Adjustments involving the Pensions Reserve:**

Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 8.43)	(6,721)	6,721
Employer's pensions contributions and direct payments to pensioners payable in the year	(11,430)	11,430

**Adjustments involving the Collection Fund Adjustment Account:**

Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	177	(177)
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**Adjustment involving the Accumulated Absences Account**

Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(374)	374
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<b>Total Adjustments</b>	<b>(25,036)</b>	<b>(6,811)</b>	<b>6,782</b>	<b>25,065</b>
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## 8.8 Transfers to/from Earmarked Reserves

8.8.1 This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund in 2011/12.

	1 April 2010	Transfer (out) 2010/11	Transfer in 2010/11	31 Mar 2011	Transfer (out) 2011/12	Transfer in 2011/12	31 Mar 2012
	£000	£000	£000	£000	£000	£000	£000
School balances	5,497	(1,102)	1,607	6,002	(2,097)	1,884	5,789
Grange Court	0		41	41		42	83
Commuted sums	78	(42)		36			36
Industrial Estates	372		28	400		13	413
Schools Insurance	74	(51)	77	100		343	443
Schools sickness	99	(24)		75		61	136
ICT	0		595	595	(504)		91
Members ICT	0		40	40			40
Planning	24			24			24
Community Centre	180			180			180
Waste Disposal	2,774		133	2,907	(500)		2,407
Invest to Save	1,331	(1,026)		305	(305)		0
Contingent liabilities	300			300	(300)		0
Social care contingency	154	(154)		0			0
Modernisation plans	0			0			0
Hereford Futures	691	(209)		482	(357)		125
Whitecross school PFI	281		50	331	(10)		321
LPSA 2 reward grant	224	(14)		210	(210)		0
Carbon Reserve	20	(20)		0			0
Schools Redundancies	10	(10)		0			0
Schools Rates Reserve	869	(652)		217	(111)		106
Economic Development	266	(98)		168	(5)		163
Safeguarding Board	21	(21)		0			0
Insurance reserve	544	(248)		296	(296)		0
Pool car reserve	10			10			10
Local Dev. framework	270	(270)		0			0
Area based grant	53	(53)		0			0
Three Elms Ind. Estate	0			0		362	362
Unused Grants cfwd	5,100	(4,058)	3,811	4,853	(3,521)	1,397	2,729
	<b>19,242</b>	<b>(8,052)</b>	<b>6,382</b>	<b>17,572</b>	<b>(8,216)</b>	<b>4,102</b>	<b>13,458</b>

## 8.9 Other Operating Expenditure

2010/11 £000		2011/12 £000
2,488	Parish council precepts	2,558
191	Levies	188
11	Payments to the Government Housing Capital Receipts Pool	9
10,856	(Gains)/losses on the disposal of non current assets	68,554
<b>13,546</b>	<b>Total</b>	<b>71,309</b>

## 8.10 Financing and Investment Income and Expenditure

2010/11 £000		2011/12 £000
7,765	Interest payable and similar charges	7,983
6,441	Pensions interest cost and expected return on pensions assets	3,405
(412)	Interest receivable	(476)
(83)	Discount received on early repayment of loans	0
(436)	Income and expenditure in relation to trading accounts/investment properties and changes in their fair value	5,175
(715)	Other investment income	(545)
<b>12,560</b>	<b>Total</b>	<b>15,542</b>

## 8.11 Taxation and Non Specific Grant Income

2010/11 £000		2011/12 £000
(87,572)	Council tax income	(88,215)
(50,282)	Non domestic rates	(45,978)
(21,830)	Non-ringfenced government grants	(18,019)
(39,660)	Capital grants and contributions	(32,894)
<b>(199,344)</b>	<b>Total</b>	<b>(185,106)</b>

## 8.12 Property, Plant and Equipment

### 8.12.1 Movements on Balances

#### Movements in 2011/12:

	Land & buildings £000	Vehicles, plant, furniture & equip £000	Infra structure assets £000	Communi assets £000	Surplus assets £000	Assets under construct ion £000	Total PPE £000	PFI assets incl. in PPE £000
<b>Cost or Valuation</b>								
<b>At 1 April 2011</b>	<b>291,725</b>	<b>20,764</b>	<b>154,689</b>	<b>815</b>	<b>1,765</b>	<b>29,228</b>	<b>498,986</b>	<b>28,604</b>
Additions	14,325	2,604	15,893	87	1,062	7,905	41,876	774
Revaluation increases/(decreases) recognised in the Revaluation Reserve	10,590	0	0	0	(121)	0	10,469	0
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(5,183)	(644)	0	(1)	(425)	0	(6,253)	(715)
Adjustment to write back depreciation on revalued assets	(2,165)	0	0	0	(13)	0	(2,178)	0
Disposals	(71,242)	(1,436)	0	0	0	0	(72,678)	0
Assets reclassified as Held for Sale	(1,672)	0	0	0	0	0	(1,672)	0
Reclassifications from/(to) Investment Properties	189	0	0	0	0	(9,675)	(9,486)	0
Other reclassifications	23,784	0	0	0	721	(24,505)	0	0
<b>At 31 March 2012</b>	<b>260,351</b>	<b>21,288</b>	<b>170,582</b>	<b>901</b>	<b>2,989</b>	<b>2,953</b>	<b>459,064</b>	<b>28,663</b>
<b>Accumulated Depreciation and Impairment</b>								
<b>At 1 April 2011</b>	<b>(14,352)</b>	<b>(9,458)</b>	<b>(21,542)</b>	<b>0</b>	<b>(16)</b>	<b>0</b>	<b>(45,368)</b>	<b>(3,427)</b>
Depreciation on cost (net of any impairments)	(4,499)	(3,867)	(7,309)	0	0	0	(15,675)	(1,214)
Depreciation on revalued amount in excess of cost	(859)	0	0	0	0	0	(859)	(0)
Depreciation written back on revalued assets	2,165	0	0	0	13	0	2,178	0
Disposals	3,192	426	0	0	0	0	3,618	0
<b>At 31 March 2012</b>	<b>(14,353)</b>	<b>(12,899)</b>	<b>(28,851)</b>	<b>0</b>	<b>(3)</b>	<b>0</b>	<b>(56,106)</b>	<b>(4,641)</b>
<b>Net Book Value</b>								
<b>At 31 March 2012</b>	<b>245,998</b>	<b>8,389</b>	<b>141,731</b>	<b>901</b>	<b>2,986</b>	<b>2,953</b>	<b>402,958</b>	<b>24,022</b>
<b>At 31 March 2011</b>	<b>277,373</b>	<b>11,306</b>	<b>133,147</b>	<b>815</b>	<b>1,749</b>	<b>29,228</b>	<b>453,618</b>	<b>25,177</b>

**Comparative Movements in 2010/11 (restated for transfer out of heritage assets) :**

	Land & buildings £000	Vehicles, plant, furniture & equip £000	Infra-structure assets £000	Comm-unity assets £000	Surplus assets £000	Assets under construct-ion £000	Total PPE £000	PFI assets incl. in PPE £000
<b>Cost or Valuation</b>								
<b>At 1 April 2010</b>	<b>317,096</b>	<b>18,422</b>	<b>133,899</b>	<b>778</b>	<b>1,249</b>	<b>24,222</b>	<b>495,666</b>	<b>28,346</b>
Additions	9,495	2,901	20,790	37	587	25,916	<b>59,726</b>	<b>221</b>
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(28,618)	0	0	0	(72)	0	<b>(28,690)</b>	<b>0</b>
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(13,756)	0	0	0	1	0	<b>(13,755)</b>	<b>37</b>
Adjustment to write back depreciation on revalued assets	(941)	0	0	0	0	0	<b>(941)</b>	<b>0</b>
Disposals	(12,461)	(559)	0	0	0	0	<b>(13,020)</b>	<b>0</b>
Assets reclassified as Held for Sale	0	0	0	0	0	0	<b>0</b>	<b>0</b>
Other reclassifications	20,910	0	0	0	0	(20,910)	<b>0</b>	<b>0</b>
<b>At 31 March 2011</b>	<b>291,725</b>	<b>20,764</b>	<b>154,689</b>	<b>815</b>	<b>1,765</b>	<b>29,228</b>	<b>498,986</b>	<b>28,604</b>
<b>Accumulated Depreciation and Impairment</b>								
<b>At 1 April 2010</b>	<b>(9,535)</b>	<b>(6,876)</b>	<b>(15,057)</b>	<b>0</b>	<b>(3)</b>	<b>0</b>	<b>(31,471)</b>	<b>(2,061)</b>
Depreciation on cost (net of any impairments)	(5,706)	(2,802)	(6,485)	0	(12)	0	<b>(15,005)</b>	<b>(1,346)</b>
Depreciation on revalued amount in excess of cost	(768)	(0)	0	0	(1)	0	<b>(769)</b>	<b>(20)</b>
Depreciation written back on revalued assets	941	0	0	0	0	0	<b>941</b>	<b>0</b>
Disposals	716	220	0	0	0	0	<b>936</b>	<b>0</b>
<b>At 31 March 2011</b>	<b>(14,352)</b>	<b>(9,458)</b>	<b>(21,542)</b>	<b>0</b>	<b>(16)</b>	<b>0</b>	<b>(45,368)</b>	<b>(3,427)</b>
<b>At 31 March 2011</b>	<b>277,373</b>	<b>11,306</b>	<b>133,147</b>	<b>815</b>	<b>1,749</b>	<b>29,228</b>	<b>453,618</b>	<b>25,177</b>
<b>At 31 March 2010</b>	<b>307,561</b>	<b>11,546</b>	<b>118,842</b>	<b>778</b>	<b>1,246</b>	<b>24,222</b>	<b>464,195</b>	<b>26,285</b>

### 8.12.2 Depreciation

Depreciation is provided on a straight line basis over an asset's economic useful life. Lives have been estimated as follows:

- Buildings – estimated useful life up to 100 years
- Vehicles, plant, furniture and equipment – 5 years
- Infrastructure – 15 to 50 years

### 8.12.3 Analysis of Capital Charges to Directorates

Capital charges included in the Comprehensive Income and Expenditure Statement relating to tangible fixed assets are analysed by directorate below:

Directorate	Depreciation £000	Impairments £000	Total for 2011/12 £000
People's Services	5,680	3,488	9,168
Places and Communities	9,320	1,461	10,781
Corporate	1,534	1,323	2,857
<b>Total</b>	<b>16,534</b>	<b>6,272</b>	<b>22,806</b>

### 8.12.4 Capital Commitments

At 31 March 2012 the council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2012/13 and future years budgets, the major commitment totalled £2 million, this is for improvements works at Masters House, Ledbury. Similar commitments at 31 March 2011 for 2011/12 and future years was £4.57 million.

### 8.12.5 Revaluations

The council carries out a rolling programme that ensures all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. More frequent valuations are carried out if the rolling programme is insufficient to keep pace with material changes in value. All valuations are done internally. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicle, plant and equipment is based on depreciated costs as a proxy for fair value.

## 8.13 Heritage Assets

8.13.1 The carrying value of heritage assets shown in the Balance Sheet is calculated as follows. Prior year figures have been restated as this is a new category of asset:

2010/11 £000		2011/12 £000
1,787	<b>Balance at start of the year</b>	1,787
	Additions:	
0	Plinth for Hereford bull statue	15
0	Revaluation	1,018
<b>1,787</b>	<b>Balance at end of the year</b>	<b>2,820</b>

- 8.13.2 Previously the museum collection was included in Community assets and has been carried in the balance sheet at a value of £1.79 million for a number of years.
- 8.13.3 Apart from expenditure during the year, the council's heritage assets consist wholly of the museum exhibits held by Heritage Services.
- 8.13.4 Heritage assets that have not been included in the new category include items such as sculptures and war memorials in the county. These items have been excluded on the basis that identification and valuation of these items is considered impractical and the additional work involved would not be commensurate with the benefit to the user of the accounts. In addition, ownership of assets such as war memorials is often difficult to establish without detailed research.
- 8.13.5 The exhibits held by Heritage Services were professionally valued in May 2012 by James Glennie of Art and Antiques Appraisals Ltd (James Glennie has 30 years valuing and auctioneering experience and worked for the international auction house Bonhams for 14 years).

Summary of Collections

The valuation of the museum exhibits can be analysed as follows:

	<b>£000</b>
Paintings and prints	1,383
Ceramics and glass	170
Furniture	144
Costumes and textiles	65
Arms, armour, firearms, weapons etc	42
Archaeology	171
Natural history and sciences	81
Documents, photographs and archives	218
Clocks, watches, scientific instruments and cameras	67
Sculpture	38
Silver, jewellery, coins, medals, tokens etc	61
Transport and carriages	52
Social history	36
Hereford Public Library reference section	277
<b>Total</b>	<b>2,805</b>

- 8.13.6 The museum holds an estimated 120,000 objects.

- 8.13.7 The collections are carefully documented so that the museum holds detailed records of the items in the collection and where they are located. Each item is given a unique reference number and entered into an Accession Register and also into card index systems. The museum is also in the process of entering items onto a computerised collection management system (Micromusee) with more than 30,000 items already recorded.
- 8.13.8 As can be seen from the above, nearly half of the valuation of the collections relate to paintings and prints which comprises more than 3,500 works of art. The Fine Art collection features a significant number of early English watercolours, mainly landscapes, dating from the 18<sup>th</sup> to mid 19<sup>th</sup> centuries. It has a rich selection of work by artists with local connections, such as the work of First World War artist Brian Hatton.
- 8.13.9 The Costume and Textile collection is of national importance with items from the 17<sup>th</sup> century to the present day.
- 8.13.10 Amongst the Natural History collection the geology, herbarium and parts of the invertebrate collections are the most important. There are good local entomological specimens and a local collection of vertebrates including a fine sturgeon caught in the River Wye in the mid 19<sup>th</sup> century (valued today at £20,000).
- 8.13.11 The Archaeological collections are primarily of Herefordshire origin and are particularly strong in the Iron Age and Roman periods from the county. Stone Age material from King Arthur's Cave is of national significance, and there are some fine groups of prehistoric flint and stone tools in the collections.
- 8.13.12 The Social History collection is large and diverse, including local crafts, trades, agricultural implements, wheeled vehicles and numerous domestic artefacts. The collection is largely of 19<sup>th</sup>-20<sup>th</sup> century date, but there is some 17<sup>th</sup> and 18<sup>th</sup> century material including an important group of ironwork. A collection of photographic equipment and items belongs to Alfred Watkins, a Victorian antiquarian, inventor and author of the Ley Line theory, is of local and national relevance.
- 8.13.13 The collection of photographs is an important resource for local imagery and past trades and date from the mid-19<sup>th</sup> century to present day.
- 8.13.14 The collection of currency is greatest in the area of Roman coinage, with two large hoards and coins from the Roman town of Magna at Kenchester. Arms and armour includes some fine Medieval and Civil War pieces including the famous Roaring Meg Mortar and its associated shell from the siege of Goodrich Castle.

#### Preservation and Management



- 8.13.15 The main purpose of Herefordshire Heritage Services is to collect and preserve in perpetuity, objects that celebrate and enhance the lives and environment of the people of Herefordshire and to provide access for everyone to this exciting resource.
- 8.13.16 The museum has been accredited by the Museums, Libraries and Archives Council (MLA). Registration under the MLA Museums Accreditation Scheme indicates that the museum has achieved a nationally approved standard in management, collection care and delivery of information and visitor services.
- 8.13.17 The central storage facility for the county's museum collections is the Museum Resource and Learning Centre. This is a modern purpose-built state of the art facility where the climate controlled stores provide the optimum temperature and humidity to keep the objects in good condition.
- 8.13.18 By definition the museum has a long-term purpose and there is a strong presumption against the disposal of items, except for sound curatorial reasons such as deterioration or damage.
- 8.13.19 The collection is increased by both passive collection (through objects offered by members of the public and occasionally institutions) and active collection. Items will only be considered for collection if:
- The object has been legally acquired and the donor has proper title;
  - It fills a gap in the existing collection;
  - It represents a category of artefact where it is important to have all surviving examples retained for posterity, or
  - It is a complete, or more complete, example of an object already represented in the collection.
- All members of the Collections Team are consulted over potential acquisitions in all collecting areas and a consensus reached.

#### Access to the Collection

- 8.13.20 Herefordshire Heritage Services operates five sites across the county together with an award winning mobile museum service, Museum on the Move. Three sites are in Hereford – these are the Hereford Museum and Art Gallery, the Old House and the Museum Resource and Learning Centre. The other two centres are the Market House Visitor Centre in Ross-on-Wye and Ledbury Heritage Centre. Admission to museums, galleries and heritage centres is generally free of charge.
- 8.13.21 Museum on the Move is a fully accessible bus run by Herefordshire Heritage Services in partnership with Staffordshire Council's Museum Service. Museum on the Move exists to provide access to the collection for different communities in the county, such as day care centres, village fetes and after-school clubs.
- 8.13.22 The centres in Ross-on-Wye and Ledbury provide insights into the past of these historic towns in addition to hosting a wide range of frequently changing community exhibitions, in addition to open days and other activities.
- 8.13.23 The Old House is a well preserved 17<sup>th</sup> century timber-framed building situated in the commercial centre of Hereford. It has been a museum since 1929 and is furnished in Jacobean style. For those unable to climb the stairs a virtual tour is available on the fully accessible ground floor.

8.13.24 Hereford Museum and Art Gallery has been exhibiting artefacts and works of art connected with the local area since 1874. The Art Gallery is host to changing exhibitions and changeovers happen every six to eight weeks.

8.13.25 As noted above, the Museum Resource and Learning Centre is the central storage facility for the county's museum collections. The Centre needs to balance preservation with public access. Access to the collections is provided by:

- Rotating items on show at the Hereford Museum and Art Gallery;
- Holding open days twice a month to enable the public to meet the curators and receive advice on their own items or to tour the facility;
- Allowing access at other times, for longer periods of research or for group visits to see behind the scenes, by appointment;
- Running regular family friendly events, workshops and lectures;
- Exceptionally, by loaning items to other museums or groups for research etc.

## 8.14 Investment Properties

8.14.1 The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. It comprises the trading areas of markets, industrial estates and retail. The direct operating expenses exclude recharged support services, capital charges and changes in the fair value of the assets.

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Rental income from investment property	(2,067)	(2,301)
Direct operating expenses arising from investment property	728	675
Net (gain)/loss	<u>(1,339)</u>	<u>(1,626)</u>

8.14.2 The following table summarises the movement in the fair value of investment properties over the year:

<b>2010/11</b>		<b>2011/12</b>
<b>£000</b>		<b>£000</b>
<b>24,934</b>	<b>Balance at start of the year</b>	<b>23,955</b>
	Additions:	
316	Enhancement expenditure	0
(125)	Disposals	(0)
(1,170)	Net gains/losses from fair value adjustments	(6,487)
0	Transfer from Property, Plant and Equipment	9,486
<u><b>23,955</b></u>	<b>Balance at end of the year</b>	<u><b>26,954</b></u>

The fair value adjustment in 2011/12 includes £8.3 million relating to the new cattle market. This was the result of the asset moving from being classified as an asset under construction (cost basis) to an investment property, which is valued on the basis of rental income.

## 8.15 Intangible Assets

8.15.1 The council accounts for its software as intangible assets. Software is amortised over three to five years in equal annual instalments. Most of the amortisation was charged to the IT administration centre and then absorbed as an overhead across all services in the Net Expenditure of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

8.15.2 The movement on Intangible Asset balances during the year is as follows:

	<b>2011/12 Software £000</b>	<b>2010/11 Software £000</b>
Balance at start of year:		
Gross carrying amounts	10,864	8,779
Accumulated amortisation	<u>(5,207)</u>	<u>(3,824)</u>
Net carrying amount at start of year	5,657	4,955
Additions:	1,904	2,085
Amounts written out of balance sheet		
Gross carrying amounts	(1,540)	
Accumulated amortisation	1,540	
Amortisation for the period	(1,694)	(1,383)
Net carrying amount at end of year	<u>5,867</u>	<u>5,657</u>
Comprising:		
Gross carrying amounts	11,228	10,864
Accumulated amortisation	<u>(5,361)</u>	<u>(5,207)</u>
	<u>5,867</u>	<u>5,657</u>

8.15.3 The council also has £10,000 of intangible current assets relating to the Landfill Allowance Trading Scheme (see note 8.1.51-8.1.54).

## 8.16 Financial Instruments

### 8.16.1 Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

	<b>Long-term</b>		<b>Current</b>	
	<b>31 Mar 2012 £000</b>	<b>31 Mar 2011 £000</b>	<b>31 Mar 2012 £000</b>	<b>31 Mar 2011 £000</b>
<b>Investments</b>				
Loans and receivables	<u>4</u>	<u>4</u>	<u>11,223</u>	<u>26,476</u>
<b>Debtors</b>				
Loans and receivables	<u>643</u>	<u>400</u>	<u>16,582</u>	<u>15,059</u>
<b>Borrowings</b>				
Financial liabilities at amortised cost	<u>(128,532)</u>	<u>(122,266)</u>	<u>(17,562)</u>	<u>(24,769)</u>

### Other Long Term Liabilities

PFI and finance lease liabilities	(28,235)	(28,492)	(969)	(905)
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### Creditors

Financial liabilities at amortised cost	0	0	(18,986)	(21,493)
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Financial instruments are contracts that give rise to a financial asset of one entity and a financial liability (or equity instrument) of another entity. Amounts relating to statutory debts, such as council tax, non-domestic rates, general rates etc, are not classed as financial instruments as they do not arise from contracts. Also excluded from the above analysis are accounting adjustments relating to accruals and payments in advance.

### 8.16.2 Income, Expense, Gains and Losses

The following amounts, relating to financial instruments, are included in the Comprehensive Income and Expenditure Statement:

	Financial Liabilities at amortised cost	2011/12 Financial assets: Loans and receivables	Total	Financial Liabilities at amortised cost	2010/11 Financial assets: Loans and receivables	Total
	£000	£000	£000	£000	£000	£000
Interest expense relating to:						
Loans	5,651	0	5,651	5,479	0	5,479
PFI Liabilities	2,234	0	2,234	2,196	0	2,196
Finance Leases	44	0	44	47	0	47
Impairment losses (bad debts)	0	53	53	0	43	43
Fee expense (commission paid)	4	0	4	15	0	15
<b>Total expense in Surplus or Deficit on the Provision of Services</b>	<b>7,933</b>	<b>53</b>	<b>7,986</b>	<b>7,737</b>	<b>43</b>	<b>7,780</b>
Interest income relating to:						
Investments	0	(476)	(476)	0	(412)	(412)
Gains on derecognition of loans	0	0	0	(83)	0	(83)
<b>Total income in Surplus or Deficit on the Provision of Services</b>	<b>0</b>	<b>(476)</b>	<b>(476)</b>	<b>(83)</b>	<b>(412)</b>	<b>(495)</b>
<b>Net loss/(gain) for the year</b>	<b>7,933</b>	<b>(423)</b>	<b>7,510</b>	<b>7,654</b>	<b>(369)</b>	<b>7,285</b>

### 8.16.3 Fair Values of Assets and Liabilities

Financial liabilities and financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- The fair values of PWLB loans have been calculated based on premature repayment rates at the year end.
- The fair values of the bank loans have been assessed using the market cost of equivalent loans with the same remaining periods to maturity.
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair value of the council's borrowing (which is carried at amortised cost in the Balance Sheet) is as follows:

	31 March 2012		31 March 2011	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Total borrowing	146,094	173,958	147,035	153,631

The fair value is higher than the carrying amount because the council's portfolio of loans are all fixed rate and the interest rate payable on these loans is higher than the relatively low rates prevailing at the Balance Sheet date. Therefore the fair value includes a premium that the council would have to pay if the lender agreed to early repayment of the loans. None of the council's investments are for a period exceeding 364 days and so the fair value of investments will not be significantly different to the carrying amount.

The carrying amounts of other long-term financial assets and liabilities in the balance sheet are assumed to equate to their fair value due to the absence of active markets in the instruments concerned and no information to the contrary.

## 8.17 Inventories

	2011/12 £000	2010/11 £000
Balance outstanding at start of year	655	128
Purchases	538	867
Recognised as an expense in the year	(547)	(292)
Written off balances	(304)	(48)
<b>Balance outstanding at year-end</b>	<b>342</b>	<b>655</b>

## 8.18 Debtors

	31 March 2012 £000	31 March 2011 £000
Central government bodies	5,897	7,423
Other local authorities	121	408
NHS bodies	6,514	9,418
Public corporations and trading funds	0	0
Other entities and individuals	16,009	16,135
	28,541	33,384
Provision for Bad Debts	(1,200)	(1,166)
<b>Total</b>	<b>27,341</b>	<b>32,218</b>

## 8.19 Cash and Cash Equivalents

8.19.1 The balance of cash and cash equivalents is made up of the following elements:

	<b>31 March 2012</b>	<b>31 March 2011</b>
	<b>£000</b>	<b>£000</b>
Cash held by the Authority	1,565	4,020
Short-term deposits	1,635	15,424
	<hr/> 3,200	<hr/> 19,444
Bank current accounts	(3,341)	(6,727)
<b>Total Cash and Cash Equivalents</b>	<hr/> <b>(141)</b> <hr/>	<hr/> <b>12,717</b> <hr/>

8.19.2 By transferring funds to and from its investment accounts the council maintains a £nil cleared balance on its current accounts overnight. The overdrawn amount shown above is wholly due to the inclusion of unrepresented bank payments for accounting purposes.

## 8.20 Assets Held for Sale

	<b>Current</b>		<b>Non current</b>	
	<b>2011/12</b>	<b>2010/11</b>	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Balance outstanding at start of year</b>	<b>0</b>	<b>700</b>	<b>2,538</b>	<b>2,538</b>
Reclassified	2,538		(2,538)	
Assets newly classified as held for sale:	1,672			
Revaluation gains/(losses)	(78)	0	0	0
Assets sold		(700)	0	0
<b>Balance outstanding at year-end</b>	<hr/> <b>4,132</b> <hr/>	<hr/> <b>0</b> <hr/>	<hr/> <b>0</b> <hr/>	<hr/> <b>2,538</b> <hr/>

## 8.21 Creditors

	<b>31 March</b>	<b>31 March</b>
	<b>2012</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>
Central government bodies	2,395	6,162
Other local authorities	2,650	3,470
NHS bodies	1,399	1,695
Public corporations and trading funds	6	79
Other entities and individuals	24,876	23,384
<b>Total</b>	<hr/> <b>31,326</b> <hr/>	<hr/> <b>34,790</b> <hr/>

## 8.22 Provisions

	Insurance £000	Other provisions £000	Total £000
<b>Balance at 1 April 2010</b>	<b>1,463</b>	<b>1,205</b>	<b>2,668</b>
Additional provisions made in 2010/11	0	1,256	1,256
Amounts used in 2010/11	0	(1,201)	(1,201)
Unused amounts reversed in 2010/11	0	(8)	(8)
<b>Balance at 31 March 2011</b>	<b>1,463</b>	<b>1,252</b>	<b>2,715</b>
Additional provisions made in 2011/12	27	404	431
Amounts used in 2011/12	(366)	(1,094)	(1,460)
Unused amounts reversed in 2011/12	0	(138)	(138)
<b>Balance at 31 March 2012</b>	<b>1,124</b>	<b>424</b>	<b>1,548</b>

### 8.22.1 Insurance provision

The largest provision of £1.12 million is for insurance claims. During 2011/12 the council commissioned a review of the insurance provision to include schools, which was used as the basis of the provision. However, as a large proportion of the liability was in respect of capital work relating to school's flooding £558,000 of these works were funded from the schools capital programme. In addition a reserve of £495,000 is held for future potential schools claims.

### 8.22.2 Other Provisions

At 31<sup>st</sup> March 2012 the council also held a number of other provisions;

Provision	£000	
Redundancy	141	Based on the number of planned redundancies and staff identified at risk of redundancy at 31 <sup>st</sup> March 2012
PC replacement	43	Commitment for ICT replacement
Landfill Allowance	10	Commitment for LATS usage in 2011/12
Employment tribunal	75	Estimated liability relating to Employment tribunal decision
Education funding agency	155	For potential clawback of funds following transfer of academies
	<b>424</b>	

## 8.23 Usable Reserves

Movements in the Authority's usable reserves are summarised in the Movement in Reserves Statement and set out in more detail below.

### 8.23.1 Earmarked Reserves

The movement in earmarked reserves are detailed in Note 8.8.

### 8.23.2 Capital receipts reserve

31 March 2011 £000		31 March 2012 £000
<b>13,565</b>	<b>Balance at 1 April</b>	<b>6,754</b>
2,097	Received during the year	516
(8,868)	Applied during the year	(4,492)
(29)	Admin costs of sales	0
(11)	Set aside during the year	(9)
<b>6,754</b>	<b>Balance at 31 March</b>	<b>2,769</b>

### 8.23.3 Capital grants unapplied

31 March 2011 £000		31 March 2012 £000
<b>6,321</b>	<b>Balance at 1 April</b>	<b>13,103</b>
9,358	Received during the year	1,900
0	Transferred from receipts in advance	3,400
(2,576)	Applied during the year	(2,724)
<b>13,103</b>	<b>Balance at 31 March</b>	<b>15,679</b>

## 8.24 Unusable Reserves

### Summary

1 <sup>st</sup> April 2010 £000	31 March 2011 £000		31 March 2012 £000
65,735	35,475	Revaluation reserve	42,782
237,044	245,265	Capital Adjustment Account	192,856
(494)	(412)	Financial Instruments Adjustment Account	(416)
40	26	Deferred Capital Receipts Reserve	295
(164,594)	(132,912)	Pensions Reserve	(160,354)
(117)	(294)	Collection Fund Adjustment Account	(761)
(3,902)	(3,527)	Accumulated Absences Account	(2,738)
<b>133,712</b>	<b>143,621</b>	<b>Total unusable reserves</b>	<b>71,664</b>

#### 8.24.1 Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment (and Intangible Assets). The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.



2010/11 £000		2011/12 £000	2011/12 £000
65,735	<b>Balance at 1 April</b>		35,475
(28,691)	Surplus or (Deficit) on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		11,428
(769)	Difference between fair value depreciation and historical cost depreciation	(859)	
(104)	Prior year adjustments to Capital Adjustment Account	0	
(696)	Accumulated gains on assets sold or scrapped	(3,262)	
(1,569)	Amount written off to the Capital Adjustment Account		(4,121)
<u>35,475</u>	<b>Balance at 31 March</b>		<u>42,782</u>

#### 8.24.2 Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 8.7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2010/11 £000		2011/12 £000	2011/12 £000
<b>237,044</b>	<b>Balance at 1 April</b>		<b>245,265</b>
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
(15,774)	Charges for depreciation on non current assets	(16,534)	
(13,755)	Revaluation losses and impairment on Property, Plant and Equipment	(6,272)	
(1,383)	Amortisation of intangible assets	(1,694)	
(522)	Revenue expenditure funded from capital under statute	(1,809)	
(12,211)	Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(65,796)	
(43,645)			(92,105)
769	Adjusting amounts written out of the Revaluation Reserve		859
104	Prior year adjustments to Revaluation Reserve		0
(42,772)	Net written out amount of the cost of non current assets consumed in the year		(91,246)
	Capital financing applied in the year:		
8,868	Use of the Capital Receipts Reserve to finance new capital expenditure	4,492	
30,302	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	27,313	
2,576	Application of grants to capital financing from the Capital Grants Unapplied Account	2,724	
9,645	Statutory provision for the financing of capital investment charged against the General Fund balance	10,514	
772	Capital expenditure charged against the General Fund balance	281	
52,163			45,324
(1,170)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		(6,487)
<b>245,265</b>	<b>Balance at 31 March</b>		<b>192,856</b>

### 8.24.3 Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account (FIAA) records the timing differences between the rate at which gains and losses are recognised for accounting purposes and the rate at which debits and credits are required to be made against council tax.

The opening balance relates to the council's two "stepped interest" bank loans where the interest paid in the first two years was much lower than the rate subsequently charged. The charge in the Comprehensive Income & Expenditure Statement is based on the effective (or average) rate over the period of the loan and so in the first two years the charge was increased by debiting the differential in the Movement in Reserves Statement and crediting the FIAA. This latter

reserve is then reversed out over the remaining period of the loan to give a consistent effective rate of interest.

Another adjustment is required for 2011/12 relating to the discount received on the early repayment of loans to the Public Works Loan Board in 2010/11. Discount of £83,000 was received and this amount included in the Comprehensive Income & Expenditure Statement. However, for accounting purposes this amount needs to be spread over ten years, so £78,000 was transferred to the FIAA and is credited to revenue over a 10 year (i.e. £8,000 per annum).

<b>2010/11</b> <b>£000</b>		<b>2011/12</b> <b>£000</b>
<b>(494)</b>	<b>Balance at 1 April</b>	<b>(412)</b>
4	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	4
78	Discounts received in the year carried forward to future accounting periods	(8)
<b>(412)</b>	<b>Balance at 31 March</b>	<b>(416)</b>

#### 8.24.4 Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

<b>2010/11</b> <b>£000</b>		<b>2011/12</b> <b>£000</b>
<b>(164,594)</b>	<b>Balance at 1 April</b>	<b>(132,912)</b>
13,531	Actuarial gains or (losses) on pensions assets and liabilities	(31,768)
6,721	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(5,627)
11,430	Employer's pensions contributions and direct payments to pensioners payable in the year	9,953
<b>(132,912)</b>	<b>Balance at 31 March</b>	<b>(160,354)</b>

#### 8.24.5 Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements the Authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

2010/11 £000		2011/12 £000
40	<b>Balance at 1 April</b>	<b>26</b>
-	- Transfer of contribution due credited to the Comprehensive Income and Expenditure Statement	281
(14)	Transfer to the Capital Receipts Reserve upon receipt of cash	(12)
<u>26</u>	<b>Balance at 31 March</b>	<u>295</u>

#### 8.24.6 Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2010/11 £000		2011/12 £000
(117)	<b>Balance at 1 April</b>	<b>(294)</b>
(177)	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(467)
<u>(294)</u>	<b>Balance at 31 March</b>	<u>(761)</u>

#### 8.24.7 Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2010/11 £000		2011/12 £000
(3,902)	<b>Balance at 1 April</b>	<b>(3,528)</b>
374	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	790
<u>(3,528)</u>	<b>Balance at 31 March</b>	<u>(2,738)</u>

## 8.25 Capital Grants Receipts in Advance

8.25.1 Under IFRS grants and contributions given towards an authority's capital investment are retained in this account whilst conditions remain attached to the financial assistance.

2010/11 £000		2011/12 £000
<b>10,093</b>	<b>Balance at 1 April</b>	<b>12,159</b>
4,752	Additional amounts received in the year	296
0	Grant repaid in year	(71)
(2,686)	Amounts transferred to the Comprehensive Income and Expenditure Statement	(8,369)
<b>12,159</b>	<b>Balance at 31 March</b>	<b>4,015</b>

The amounts are split between long-term and short-term liabilities at the balance sheet date.

## 8.26 Amounts Reported for Resource Allocation Decisions

8.26.1 The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice. However, decisions about resource allocation are taken on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular the report includes:

- Transactions for Trading Accounts
- Movements on Schools Balances
- Expenditure on Levies

### 8.26.2 Directorate Income and Expenditure

The income and expenditure of the council's directorates and corporate spend as reported to Cabinet in the 2011/12 out-turn report is as follows;

<b>Directorate Income and Expenditure</b>	<b>People's Services</b>	<b>Places and Communities</b>	<b>Corporate Services</b>	<b>Total</b>
<b><u>2011/12 figures</u></b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Fees, charges & other service income	24,644	12,696	6,451	43,791
Government grants	104,200	6,425	59,678	170,303
<b>Total Income</b>	<b>128,844</b>	<b>19,121</b>	<b>66,129</b>	<b>214,094</b>
Employee expenses	94,098	12,338	6,393	112,829
Other service expenses	116,549	54,494	83,274	254,317
Support services	13,683	4,596	(17,031)	1,248
<b>Total Expenditure</b>	<b>224,330</b>	<b>71,428</b>	<b>72,636</b>	<b>368,394</b>
<b>Net Expenditure</b>	<b>95,486</b>	<b>52,307</b>	<b>6,507</b>	<b>154,300</b>

The following table shows the income and expenditure figures for 2010/11. It must be noted that with effect from 1<sup>st</sup> April 2011 the Directorate structure changed and a large number of Herefordshire Council staff transferred to Hoople Ltd.

2010/11

Directorate Income and Expenditure	Integrated Commission -ing £000	Children & Young People £000	Deputy Chief Executive £000	Public Health £000	Sustainable Communities £000	Central Services £000	Resources £000	Total £000
Fees, charges & other service income	13,251	15,401	3,096	855	17,543	302	4,030	54,478
Government grants	995	121,329	39	115	7,825	0	56,891	187,194
<b>Total Income</b>	<b>14,246</b>	<b>136,730</b>	<b>3,135</b>	<b>970</b>	<b>25,368</b>	<b>302</b>	<b>60,921</b>	<b>241,672</b>
Employee expenses	9,896	102,021	12,689	2,305	14,334	(21,893)	7,679	127,031
Other service expenses	60,509	74,804	7,926	831	51,929	2,360	64,685	263,044
Support services	4,234	6,966	(12,282)	924	7,117	3,083	(9,310)	732
<b>Total Expenditure</b>	<b>74,639</b>	<b>183,791</b>	<b>8,333</b>	<b>4,060</b>	<b>73,380</b>	<b>(16,450)</b>	<b>63,054</b>	<b>390,807</b>
<b>Net Expenditure</b>	<b>60,393</b>	<b>47,061</b>	<b>5,198</b>	<b>3,090</b>	<b>48,012</b>	<b>(16,752)</b>	<b>2,133</b>	<b>149,135</b>

### 8.26.3 Reconciliation of Directorate Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	2010/11 £000	2011/12 £000
<b>Net expenditure in the Directorate Analysis</b>	<b>149,135</b>	<b>154,300</b>
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Account (CIES)	(263)	1,331
<b>Cost of services in the CIES</b>	<b>148,872</b>	<b>155,631</b>

#### 8.26.4 Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2011/12	Directorate Analysis	Amounts not Included in I & E	Cost Of Services	Corporate Items	Total
	£000	£000	£000	£000	£000
Fees, charges & other service income	43,791	(2,526)	41,265	0	41,265
Financing and investment income	0	0	0	1,021	1,021
Income from council tax	0	0	0	88,215	88,215
Government grants and contributions	170,303	0	170,303	96,891	267,194
<b>Total Income</b>	<b>214,094</b>	<b>(2,526)</b>	<b>211,568</b>	<b>186,127</b>	<b>397,695</b>
Employee expenses	112,829	(227)	112,602	0	112,602
Other service expenses	254,317	(593)	253,724	0	253,724
Support Service recharges	1,248	(181)	1,067	0	1,067
Financing and investment expenditure	0	0	0	16,563	16,563
Precepts & Levies	0	(194)	(194)	2,746	2,552
Payments to Housing Capital Receipts Pool	0	0	0	9	9
Gain or Loss on Disposal of Fixed Assets	0	0	0	68,554	68,554
<b>Total expenditure</b>	<b>368,394</b>	<b>(1,195)</b>	<b>367,199</b>	<b>87,872</b>	<b>455,071</b>
<b>(Surplus) or deficit on the provision of services</b>	<b>154,300</b>	<b>(1,331)</b>	<b>155,631</b>	<b>(98,255)</b>	<b>57,376</b>



The following table shows the comparative figures for 2010/11.

2010/11	Directorate Analysis	Amounts not Included in I & E	Total Cost Of Services	Corporate Items	Total
	£000	£000	£000	£000	£000
	54,478	(2,779)	51,699	0	51,699
Fees, charges & other service income					
Financing and investment income	0	0	0	4,792	4,792
Income from council tax	0	0	0	87,572	87,572
Government grants and contributions	187,194		187,194	111,772	298,966
<b>Total Income</b>	<b>241,672</b>	<b>(2,779)</b>	<b>238,893</b>	<b>204,136</b>	<b>443,029</b>
Employee expenses	127,031	(622)	126,409		126,409
Other service expenses	263,044	(2,213)	260,831		260,831
Support Service recharges	732	(13)	719		719
	0	0	0	17,352	17,352
Financing and Investment Expenditure					
Precepts & Levies	0	(194)	(194)	2,679	2,485
Payments to Housing Capital Receipts Pool	0	0	0	11	11
	0	0	0	10,856	10,856
Gain or Loss on Disposal of Fixed Assets					
<b>Total expenditure</b>	<b>390,807</b>	<b>(3,042)</b>	<b>387,765</b>	<b>30,898</b>	<b>418,663</b>
<b>(Surplus) or deficit on the provision of services</b>	<b>149,135</b>	<b>(263)</b>	<b>148,872</b>	<b>(173,238)</b>	<b>(24,366)</b>

## 8.27 Trading Operations

- 8.27.1 The council has a number of trading units where the service manager is required to operate in a commercial environment and generate income from external customers.

	2010/11 £000	2011/12 £000
<b>Markets</b>		
The council owns and manages open and closed markets, generating income from letting of premises and market stalls.	Turnover	(796) (745)
	Expenditure	500 599
	(Surplus)/deficit	(296) (146)
<b>Industrial Estates</b>		
The council owns and manages a number of industrial estates in the county.	Turnover	(1,295) (1,242)
	Expenditure	587 595
	(Surplus)/deficit	(708) (647)
<b>Retail Properties</b>		
The council owns retail premises in Hereford City centre from which it receives commercial rents.	Turnover	(688) (539)
	Expenditure	84 20
	(Surplus)/deficit	(604) (519)

- 8.27.2 The trading accounts are incorporated into the Comprehensive Income and Expenditure Statement as part of the line 'Financing and investment income and expenditure' (note 8.10). The 2010/11 comparative figures have been amended to take out the revaluations of investment properties as they are accounted for separately.

## 8.28 Agency Services

- 8.28.1 The council provides payroll services for a number of organisations, including 15 Academies. The income in total for 2011/12 amounted to £10,883.
- 8.28.2 The council also administers and prepares accounts for a number of Trust Funds (see note 8.47). However, the council does not make any charge for this service.

## 8.29 Pooled Budgets

### Herefordshire Primary Care Trust

- 8.29.1 There are four agreements between the council and Primary Care Trust (PCT) under the Section 75 of the Health Act 2006.
- 8.29.2 The three agreements hosted by the council are:

- a) Adult Social Care and NHS Continuing Healthcare,
- b) Integrated Community Equipment,
- c) Children with Complex Needs.

The one agreement hosted by the PCT is:

- a) Blanchworth Contract, Kington

8.29.3 In 2011/12 the Mental Health Pool budget with the PCT was discontinued and transferred to 2gether Foundation Trust within a new Section 75 agreement. Also in 2011/12, the Learning Disability, Hillside and Integrated Community Store were discontinued and transferred to Wye Valley NHS Trust under a new Section 75 agreement. The Adult Social Care and NHS Continuing Healthcare pool was a new arrangement for 2011/12.

**Adults Social Care and NHS Continuing Healthcare**

8.29.4 As commissioner of adult social care services, the council makes contributions to the pools, which are then used to purchase social care services. The council accounts for its share of the income and expenditure of the pools as determined by the pool budget arrangement.

	2011/12 £'000	2010/11 £'000		
Funding provided to the pooled budget:				
Herefordshire Council	(31,471)	0		
Herefordshire PCT	<u>(13,361)</u>	<u>0</u>	(44,832)	0
Expenditure met from the pooled budget:				
Herefordshire Council	38,593	0		
Herefordshire PCT	<u>12,940</u>	<u>0</u>	51,533	0
Net deficit arising on the pooled budget during the year			<u>6,701</u>	<u>0</u>
Council share of the net deficit			<u>7,122</u>	<u>0</u>

### Integrated Community Equipment Store

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

	2011/12		2010/11	
	£'000		£,000	
Funding provided to the pooled budget:				
Herefordshire Council	0		(274)	
Herefordshire PCT	(164)	(164)	(274)	(548)
Expenditure met from the pooled budget:				
Herefordshire Council			243	
Herefordshire PCT	231	231	243	486
Net (surplus)deficit arising on the pooled budget during the year		67		(62)
Council share of the net (surplus)deficit		0		(31)

### CNS Complex Needs Solution

8.29.6 Herefordshire Council and the PCT have signed a Section 75 agreement for the Joint Agency Management (JAM) of Out of County Placements for Children with complex educational, social and medical needs. The agreement pools spending in agreed proportions and spending is not separately allocated, but each child with these complex needs is funded directly from the pool irrespective of specific needs.

	2011/12		2010/11	
	£'000		£'000	
Funding provided to the pooled budget:				
Herefordshire Council	(2,719)		(1,755)	
Herefordshire PCT	(453)	(3,172)	(293)	(2,048)
Expenditure met from the pooled budget:				
Herefordshire Council	2,354		2,355	
Herefordshire PCT	392	2,746	393	2,748
Net (surplus)deficit arising on the pooled budget during the year		(426)		700
Council share of the net (surplus)deficit		(365)		600

### Blanchworth Contract, Kington

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

	2011/12		2010/11	
	£'000		£'000	
Funding provided to the pooled budget:				
Herefordshire Council	(366)		(366)	
Herefordshire PCT	<u>(645)</u>	(1,011)	<u>(528)</u>	(894)
Expenditure met from the pooled budget:				
Herefordshire Council	366		366	
Herefordshire PCT	<u>642</u>	1,008	<u>528</u>	894
Net (surplus)deficit arising on the pooled budget during the year		<u>(3)</u>		<u>0</u>
Council share of the net (surplus)deficit		<u>0</u>		<u>0</u>

### 2gether Foundation Trust

8.29.8 This Section 75 agreement has been set up to provide an integrated child and adult mental health service in Herefordshire under Section 75 of the Health Act 2006 for activities as follows; Children and Adolescent Mental Health Services (CAMHS), Older People's mental health, adults and CAMHS learning disability and Drug Advisory Service in Herefordshire.

8.29.9 As commissioner of mental health services, the council transfers agreed funding, to provide mental health and learning disability social care services. The council accounts for the income and expenditure as determined by the Section 75 partnership.

	2011/12	2010/11
	£000	£000
Funding provided by Herefordshire Council	(2,411)	<u>0</u>
Expenditure under the agreement	2,393	<u>0</u>
Net (surplus)deficit	<u>(18)</u>	
Council share of the net (surplus)deficit	<u>(18)</u>	

### Wye Valley NHS Trust

8.29.10 This Section 75 agreement has been set up to provide an integrated community health and adult social care service in Herefordshire under Section 75 of the Health Act 2006 for activities as follows; Integrated teams (including; locality, sensory impairment, hospital social care, brain injuries, central review team, welfare and financial assessment), Integrated Community Equipment Service,

Telecare, Hillside Intermediate Care, Transport, Day services, Intermediate Care, Reablement and Norfolk House

8.29.11 As commissioner of integrated community services, the council transfers agreed funding to the services outlined above. The council accounts for the income and expenditure as determined by the partnership arrangement and the risk sharing agreement.

	2011/12	2010/11
	'£000	'£000
Funding provided by Herefordshire Council	(9,869)	<u>0</u>
Expenditure under the agreement	9,769	<u>0</u>
Net (surplus)deficit	<u>(100)</u>	
Council share of the net (surplus)deficit	<u>(50)</u>	

8.29.12 The aligned fund outturn position £9.769 million against a budget of £9.869 million gave a surplus for the year of £100k. According the risk sharing agreement which states that both parties will benefit from any underspend gives the net surplus to the council of £50k.

### 8.30 Members' Allowances

The council paid the following amounts to members of the council during the year.

	2011/12	2010/11
	£	£
Basic allowances	422,782	416,999
Special allowances	195,859	221,708
Travel and subsistence	62,914	37,555
<b>Total</b>	<b><u>681,555</u></b>	<b><u>676,262</u></b>

### 8.31 Officers' Remuneration

8.31.1 The Accounts and Audit Regulations set out the requirements for publishing information about employee remuneration disclosures in the statement of accounts. Remuneration is defined as 'all amounts paid to or receivable by a person, and includes sums due by way of expenses allowances (so far as those sums are chargeable to UK income tax), and the estimated money value of any other benefits received by an employee other than in cash' (e.g. benefits in kind).

8.31.2 The 2011/12 banding information is set out below. For the banding note remuneration excludes employer's pension contributions. Where no employees fell within a particular band, this band is not shown in the table;

From	To	<u>No of employees</u>		<u>2010/11</u>		<u>2011/12</u>	
		<u>2010/11</u>	<u>2011/12</u>	<u>Non School</u>	<u>School</u>	<u>Non School</u>	<u>School</u>
£50,000	£55,000	58	47	17	41	15	32
£55,000	£60,000	34	31	12	22	12	19
£60,000	£65,000	15	14	3	12	4	10
£65,000	£70,000	4	11	2	2	4	7
£70,000	£75,000	18	6	12	6	5	1
£75,000	£80,000	9	9	6	3	6	3
£80,000	£85,000	3	2	0	3	1	1
£85,000	£90,000	0	2	0	0	0	2
£90,000	£95,000	0	1	0	0	1	0
£95,000	£100,000	1	0	1	0	0	0
£100,000	£105,000	0	1	0	0	1	0
£105,000	£110,000	2	0	2	0	0	0
£110,000	£115,000	1	1	1	0	1	0
£115,000	£120,000	0	1	0	0	1	0
£125,000	£130,000	1	1	1	0	1	0
£130,000	£135,000	0	1	0	0	1	0
£180,000	£185,000	1	1	1	0	1	0
		<b>147</b>	<b>129</b>	<b>58</b>	<b>89</b>	<b>54</b>	<b>75</b>

8.31.3 The regulations require details to be disclosed for senior employees whose salary is £50,000 or more. For senior employees whose full-time equivalent salary is between £50,000 and £150,000 the disclosure is by way of job title and for those whose salary is £150,000 or more they are identified by name.

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

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

8.31.5 The disclosure for the council for 2011/12 is set out below. The employees included are Directors and staff who report to Directors who are employed on Head of Service pay grades. These staff are also included in the table above. For this note employer's pension contributions are included.

Post holder information			Salary (inc. fees and allowances)	Compensation for loss of office	Benefits in kind	Total remuneration excluding pension contributions	Pension contributions	Total remuneration including pension contributions
	Notes	Year	£	£	£	£	£	£
<b>Employees with salaries £150,000 or more</b>								
Chief Executive - C Bull	45% recharge to the PCT	2010/11	183,724	0	0	183,724	37,479	221,203
		2011/12	183,724	0	0	183,724	38,766	222,490
<b>Employees with salaries between £50,000 and £150,000</b>								
Deputy Chief Executive	Started 12/4/10 45% recharge to the PCT	2010/11	126,027	0	0	126,027	25,709	151,736
		2011/12	129,999	0	0	129,999	27,429	157,428
Director for People Services	Started 1/1/12	2011/12	30,000	0	0	30,000	6,330	36,330
Director for Places & Communities (Formerly Director of Sustainability for Places & Communities)	Post name changed	2010/11	109,212	0	345	109,557	22,279	131,836
		2011/12	111,909	0	162	112,071	23,612	135,683
Chief Officer – Finance and Commercial (Formerly Director of Resources)	Post name changed	2010/11	109,212	0	0	109,212	22,279	131,491
		2011/12	102,808	0	0	102,808	21,692	124,500
Assistant Director, Law, Governance & Resilience	Started 13/12/10 10% recharge to the PCT	2010/11	27,096	0	0	27,096	5,527	32,623
		2011/12	90,000	0	0	90,000	18,990	108,990
Assistant Director – People, Policy & Partnerships	Started 4/7/11	2011/12	58,102	0	0	58,102	12,246	70,348
Assistant Director, - People's Services Commissioning (Formerly Assistant Director - Planning Performance & Development)	Post name changed	2010/11	78,231	0	0	78,231	15,959	94,190
		2011/12	78,231	0	0	78,231	16,506	94,737
Assistant Director - Young People Provider Services (Formerly Assistant Director - Community Operations)	Post name changed	2010/11	77,330	0	0	77,330	15,959	93,289
		2011/12	77,630	0	0	77,630	16,506	94,136
Assistant Director, Inclusion & Improvement	Left 22/7/11 Headteacher from 1/9/11	2010/11	78,231	0	0	78,231	15,959	94,190
		2011/12	26,434	55,136	0	81,570	5,102	86,672



Post holder information			Salary (inc. fees and allowances)	Compensation for loss of office	Benefits in kind	Total remuneration excluding pension contributions	Pension contributions	Total remuneration including pension contributions
	Notes	Year	£	£	£	£	£	£
Head of Service - Adult Services		2010/11	78,231	0	0	78,231	15,959	94,190
		2011/12	78,231	0	0	78,231	16,506	94,737
Head of Special Projects		2010/11	72,222	0	223	72,445	14,733	87,178
		2011/12	72,222	0	400	72,622	15,239	87,861
Head of Asset Management	Left 6/5/11	2010/11	72,222	0	0	72,222	14,733	86,955
		2011/12	7,183	57,135	0	64,318	1,515	65,833
Head of Communications	Left 24/4/11	2010/11	72,222	0	0	72,222	14,733	86,955
		2011/12	4,814	34,281	0	39,095	1,015	40,110
Assistant Director Economic, Environment & Cultural Services (Formerly Assistant Director , Environment, Planning & Waste)	Post name changed	2010/11	72,222	0	0	72,222	14,733	86,955
		2011/12	73,622	0	0	73,622	15,534	89,156
Head of Policy & Performance	Left 20/4/11	2010/11	72,222	0	0	72,222	14,733	86,955
		2011/12	4,012	34,281	0	38,293	846	39,139
Assistant Director, Homes and Community Services		2010/11	72,222	0	0	72,222	14,733	86,955
		2011/12	73,622	0	0	73,622	15,534	89,156
Project Director (Formerly Assistant Director, Economy & Culture)	Post name changed	2010/11	72,222	0	0	72,222	14,733	86,955
		2011/12	70,095	0	0	70,095	14,790	84,885
Assistant Director Place Based Commissioning (Formerly Assistant Director, Highways, transport and community)	Post name Changed	2010/11	72,787	0	0	72,787	14,848	87,635
		2011/12	76,636	0	0	76,636	16,170	92,806
Regulatory Services Programme Manager (Formerly Assistant Director Public health)	Post name Changed	2010/11	72,222	0	0	72,222	14,733	86,955
		2011/12	68,584	0	0	68,584	14,471	83,055
Assistant Director, Safeguarding & Vulnerable Children	Left 12/7/11	2010/11	76,176	0	516	76,692	15,539	92,231
		2011/12	22,081	30,381	0	52,462	4,659	57,121
Assistant Director, Customer Services and Communications		2010/11	56,643	0	0	56,643	12,141	68,784
		2011/12	75,341	0	0	75,341	15,897	91,238

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

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

## 8.32 External Audit Costs

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

	2011/12 £000	2010/11 £000
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	253	290
Fees payable to the Audit Commission in respect of statutory inspection	0	38
Fees payable to the Audit Commission for the certification of grants claims and returns	45	43
Other services	0	0

## 8.33 Dedicated Schools Grant

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

8.33.2 Details of the deployment of DSG receivable for 2011/12 are as follows:

Total 2010/11 £000	Central Expenditure 2011/12 £000	Individual Schools Budget 2011/12 £000	Total 2011/12 £000
(85,786) Final DSG allocation			(86,223)
(728) Brought forward from previous year			(531)
(86,514) Agreed budgeted distribution in year	(9,614)	(77,140)	(86,754)
8,558 Actual central expenditure	8,927		8,927
Actual Individual School Budget deployed to 77,425 schools		76,987	76,987
(531) Carry forward	(687)	(153)	(840)

The school music service had a deficit of £145,000 as part of an approved recovery plan. This deficit is deducted from the DSG underspend in the balance sheet reserve.

## 8.34 Grant Income

8.34.1 The council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2011/12:

	2011-12 £'000	2010-11 £'000
<b>Credited to Taxation and Non Specific Grant Income</b>		
Revenue Support Grant	14,212	7,301
Redistributed NNDR	45,978	50,282
Other non-ringfenced grants	3,807	14,529
Capital Grants	32,894	39,660
	<b>96,891</b>	<b>111,772</b>
<b>Credited to Services</b>		
Department for Education	97,319	108,526
Department for Communities and Local Government	3,812	5,641
Department for Work and Pensions	59,414	56,678
Young People's Learning Agency	1,761	12,336
Department for Transport	491	3,267
Defra	707	1,310
Department of Health	3,719	917
Department of Business Innovation and Skills	2,886	713
Heritage Lottery Fund	0	495
Sport England	14	447
English Heritage	144	210
Home Office	15	158
Lottery Funding	7	102
Government Office - West Midlands	0	73
Department for Culture, Media and Sport	0	58
Environment Agency	0	20
Arts Council	34	12
Forestry Commission	0	4
Other	60	438
	<b>170,383</b>	<b>191,405</b>
<b>Total</b>	<b>267,274</b>	<b>303,177</b>

## 8.35 Related Parties

8.35.1 The council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council. Disclosure of these transactions

allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the authority.

### **Central Government**

- 8.35.2 Central government has effective control over the general operations of the council. It is responsible for providing the statutory framework within which the council operates and provides the majority of its funding in the form of grants. Details of income received from government departments are set out in note 8.34.

### **Members**

- 8.35.3 Members of the council have direct control over the council's financial and operating policies. There are a number of Councillors who serve on outside bodies and school governing bodies either as a representative of the council or as a private individual. Details of these interests are recorded in the Register of Members' interests, which are updated annually. An examination of the Register indicates that the council's financial transactions with these bodies in 2011/12 are not material. In addition, one member was the sleeping partner of a fostering care home, to which the council made payments in the year of £49,000.

### **Officers**

- 8.35.4 A number of senior officers are members of professional bodies and are involved in local organisations and partnerships, such as Herefordshire College of Arts, Hoople Ltd, South Wye Regeneration Partnership, Hereford Futures, Robert Owen Society and the Marches Consortium.

### **Other Public Bodies**

- 8.35.5 During the year the council made payments of £22 million to Worcestershire County Council (£22.9 million in 2010/11), including payments to the pension scheme and for the joint waste disposal contract. The council works in partnership with the Primary Care Trust under Section 75 pooling arrangements. Payments to the PCT in 2011/12 totalled £3.2 million including £1.5 million for Section 75. A total of £9 million was also paid to Wye Valley NHS Trust and £1.9 million was paid to 2Gether in 2011/12. The total for the PCT was £13 million in 2010/11.

### **Significant long-term contracts**

- 8.35.6 Amey Wye Valley Limited  
In 2003 the council entered into a contract with Jarvis PLC for the provision of contract services of around £13 million per annum over 10 years. The contract involved establishing a joint venture company named Herefordshire Jarvis Services (HJS) with the transfer of Herefordshire Commercial services staff to the new company. On 31<sup>st</sup> August 2007 Amey Wye Valley Limited took over this contract from HJS.
- 8.35.7 Amey OW Ltd  
On 1<sup>st</sup> September 2003 the council also entered into a contract with Owen Williams for the delivery of technical consultancy services. During 2008/09 the company was taken over by Amey and is now called Amey OW Limited. Under the contract with Amey OW Ltd for the provision of technical services the council paid £410,000 in 2011/12 (£2.8 million in 2010/11).
- 8.35.8 Amey Herefordshire Managing Agent Contract (MAC)  
During 2009 elements of the two contracts above with Amey were re-negotiated to form a 'Managing Agent Contract' (MAC) through which Amey Herefordshire deliver an 'end to end' highways, parks and public right of way service for the

council and the people of Herefordshire. Through this partnership Amey also deliver a range of ancillary support services to the council, including printing, catering, courier and fleet maintenance. The above contracts remain in place for the delivery of all 'Non-MAC' services.

8.35.9 In total the council paid £32 million to Amey Wye Valley in 2011/12 (£30.8 million in 2010/11).

8.35.10 Focsa UK Limited

In 2009 the council entered into a 7 year contract with Focsa for the collection of household, recycling and commercial waste. The value of the contract over 7 years is around £30.5 million. Payments to Focsa totalled £3.9 million in 2011/12 (£4.5 million in 2010/11).

**Other organisations**

8.35.11 The council pays a management fee to Halo Leisure Trust for the provision of leisure facilities, including swimming pools and leisure centres. In 2011/12 the council paid £2.4 million to Halo Leisure Trust (£2.2 million in 2010/11). In 2011/12 the council paid £356,000 to the Courtyard Trust (£417,000 in 2010/11). The council has a commissioning agreement with the Trust based on agreed outcomes.

8.35.12 During the year the council made payments totalling £575,000 to Herefordshire Housing Ltd (£773,000 in 2010/11) including £342,000 of Supporting People Grant (£547,000 in 2010/11).

8.35.13 The council has an interest in company called Hereford Futures, whose role is to steer redevelopment in Hereford. Payments were made to Hereford Futures amounting to £481,000 (£586,000 in 2010/11).

8.35.14 The council is also represented by its elected members on the West Mercia Supplies Joint Committee. West Mercia Supplies (WMS) is a Purchasing Consortium that was established in 1987. It is constituted as a Joint Committee and Herefordshire Council is one of four constituent authorities. The other three Councils are Shropshire Council, Worcestershire County Council and Telford and Wrekin Council. Payments of £2.65 million were made 2011/12 (£2.87 million in 2010/11).

**Jointly controlled organisation**

8.35.15 Hoople Ltd is a joint venture the council entered into with Wye Valley NHS Trust (WVT) and Hereford Primary Care Trust (HPCT). It is a company limited by shares and it commenced trading from 1<sup>st</sup> April 2011. The council owns 62%, WVT owns 21% and HPCT owns 17% of the shareholding of the company. Each authority has two directors on the Board of the company.

The purpose of the joint venture was to achieve service improvements and efficiencies in back office functions, with Information Technology, Finance, Human Resources, Revenues and Benefits, Procurement.

The inter-organisation transaction between the council and Hoople Ltd amounted to £9.354 million. There were no contingent liabilities existing with Hoople Ltd that would affect the council. There were no capital commitments outstanding at 31<sup>st</sup> March 2012 payable to Hoople Ltd.

The reported year-end result of Hoople Ltd was a trading profit of £11,178. The council share of 62% is equivalent to £6,930. In view of the immateriality of the share of balance sheet value, the council has opted not to prepare the Group Accounts for this financial year.

More information on Hoople Ltd can be found on [www.hoopletd.co.uk](http://www.hoopletd.co.uk)

8.35.16 All amounts for 2011/12 shown in this section are net of value added tax; and 2010-11 amounts are also restated to net for comparison purpose.

#### **Outstanding balances with related parties**

8.35.17 As at 31<sup>st</sup> March 2012 significant amounts due to and from related parties were as follows:

Related Party	2011/12		2010/11	
	Due to £000	Due from £000	Due to £000	Due from £000
Amey Wye Valley	4,283	1,564	3,491	2,037
Courtyard Trust	5	0	142	0
FOCSA	377	0	367	0
Gloucestershire CC	15	0	1	136
Halo	0	436	93	26
Hereford and Worcs Fire	470	109	0	164
Herefordshire Housing	0	7	38	530
Herefordshire PCT	1	3,888	1,577	9,406
HM Revenue & Customs	1,904	1,795	2,894	3,605
Homepoint	140	0	-	-
Hoople Ltd	13	313	-	-
Heritage Lottery	5	171	-	-
Shaw Healthcare	7	0	40	257
Shropshire CC	9	0	0	0
West Mercia Police	0	399	40	173
West Mercia Supplies	707	1	210	48
Worcestershire County Council	615	6	2,510	69
Wye Valley Trust	897	1,143	-	-
2gether	1	1	-	-

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

8.35.19 In addition, there were capital grants of £15.6 million from government departments held in the Capital Grants Unapplied Account not yet applied to capital spend.

## **8.36 Capital Expenditure and Capital Financing**

8.36.1 The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance and PFI contracts) together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the council, the expenditure results in an increase in the Capital

Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the council that has yet to be financed.

	2011/12 £000	2010/11 £000
<b>Opening capital financing requirement</b>	<b>208,227</b>	<b>196,665</b>
<b>Opening finance leases requirement</b>	-	578
<b>Adjusted opening capital financing requirement</b>	<b>208,227</b>	<b>197,243</b>
<b>Capital investment</b>		
Property, Plant and Equipment	41,119	59,505
Investment Properties	0	316
Intangible Assets	1,904	2,085
Revenue expenditure funded from capital under statute	6,414	8,109
Assets acquired under PFI contracts	715	155
Long term debtors (including PFI prepayments)	281	567
<b>Sources of Finance</b>		
Capital Receipts	(4,493)	(8,869)
Government grants and other contributions	(34,642)	(40,465)
Sums set aside from revenue:		
Direct revenue contributions	(281)	(772)
MRP	(10,514)	(9,647)
<b>Closing capital financing requirement</b>	<b>208,730</b>	<b>208,227</b>
<b>Explanation of movements in year</b>		
Increase in underlying need to borrowing (supported by government financial assistance)	-	13,230
Increase in underlying need to borrowing (unsupported by government financial assistance)	10,302	7,246
Assets acquired under PFI contracts	715	155
MRP	(10,514)	(9,647)
<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>503</b>	<b>10,984</b>

## 8.37 Leases

### Authority as Lessee

#### **Finance Leases**

8.37.1 The council holds one car park and photocopiers under finance leases.

8.37.2 The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

	31 March 2012 £000	31 March 2011 £000
Other land and buildings	454	521
Vehicles, plant, furniture and equipment	4	24
	<b>458</b>	<b>545</b>

8.37.3 The council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property and finance costs that will be payable by the council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:



	31 March 2012 £000	31 March 2011 £000
Finance lease liabilities (net present value of minimum lease payments):		
• current	12	10
• non current	322	334
Finance costs payable in future years	2,028	2,071
Minimum lease payments	<b>2,362</b>	<b>2,415</b>

8.37.4 The minimum lease payments will be payable over the following periods:

	Minimum lease payments		Finance lease liabilities	
	31 March 2012 £000	31 March 2011 £000	31 March 2012 £000	31 March 2011 £000
Not later than one year	12	10	39	44
Later than one year and not later than five years	2	14	127	134
Later than five years	320	320	1,862	1,893
	<b>334</b>	<b>344</b>	<b>2,028</b>	<b>2,071</b>

8.37.5 The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2011/12 £116,000 contingent rents were payable by the authority (2010/11 £116,000).

### ***Operating leases***

8.37.6 The future minimum lease payments due under non-cancellable leases in future years are:

	31 March 2012 £000	31 March 2011 £000
Not later than one year	932	1,094
Later than one year and not later than five years	2,165	2,740
Later than five years	1,076	1,373
	<b>4,173</b>	<b>5,207</b>

8.37.7 The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

	2011/12 £000	2010/11 £000
Minimum lease payments	964	1,201

### **Authority as Lessor**

#### ***Finance Leases***

8.37.8 When a school changes status to become a Foundation School or an Academy the land and buildings are transferred to the school by granting a lease for 125 years at a peppercorn rent. Apart from these long leasehold transfers to schools, the council does not have any other finance leases where the council is lessor.

### **Operating leases**

8.37.9 The Authority leases out property under operating leases for the following purposes:

- Retail
- Industrial Use
- Farming
- Other Commercial Use

8.37.10 The future minimum lease payments receivable under non-cancellable leases in future years are:

	<b>31 March 2012</b>	<b>31 March 2011</b>
	<b>£000</b>	<b>£000</b>
Not later than one year	1,881	2,693
Later than one year and not later than five years	5,688	6,455
Later than five years	26,935	28,048
	<b>34,504</b>	<b>37,196</b>

8.37.11 The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

## **8.38 Private Finance Initiatives and Similar Contracts**

8.38.1 The council has 2 formal PFIs, Whitecross School and Waste disposal (in partnership with Worcestershire County Council) and one other contract identified as falling under IFRIC 12, the Shaw Healthcare Contract.

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

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

8.38.3 The original life of the contract was 25 years with the option to extend this by 5 years and there is an “in principle” agreement to exercise this agreement. As at 31<sup>st</sup> March 2012, the waste disposal contract was subject to a standstill agreement, which temporarily suspends aspects of the contract pending negotiations to secure variations to the current contract. The failure of the contractor to secure planning permission for an Energy from Waste Plant at Kidderminster has meant that the two authorities would be unable to meet current government targets for recycling and the diversion of bio-degradable waste from landfill. Negotiations continue to vary the current contract to secure longer-term waste treatment facilities within the two counties to enable targets to be met as well as securing shorter-term waste treatment capacity to ensure the Landfill Allowance Trading Scheme (LATS) targets are met. To secure LATS compliance Mercia Waste has submitted a planning application for an Energy from Waste Plant for 200,000 tonnes per annum at Hartlebury in Worcestershire to deal with waste from the two counties. Worcestershire’s Planning and

Regulatory Committee at its meeting of the 1<sup>st</sup> March 2011 unanimously agreed to approve the application. The decision by Worcestershire County Council to grant planning permission for the new Envirecover Energy from Waste plant at Hartlebury has been called in for review by the Secretary of State and is due for a decision at the end of July..

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

- 8.38.4 The Whitecross High School PFI project has delivered a fully equipped 900-place secondary school with full facilities management services. The contract with Stepnell Ltd has an overall value of £74 million and lasts for 25 years. At the end of this period the school will transfer to the council's ownership.

#### **Shaw Homes**

- 8.38.5 The council has a contract with Shaw Healthcare for the development and provision of residential homes and day care centres previously operated directly by the council. The contract expires in 2033/34 for all homes. The level of payments are dependent on the volume and nature of service elements and Shaw Healthcare's performance in providing services. The payments in respect of this contract were £3.5 million in 2011/12 (£3.4 million in 2010/11).

#### **Assets**

- 8.38.6 The property, plant and equipment used to provide the PFI services are recognised on the council's balance sheet. Movements in their value over the year are detailed in Note 8.12.1– Movement on Balances on Property, Plant and Equipment.

#### **Liabilities**

- 8.38.7 The payments to the contractors compensate them for the fair value of the services they provide, capital expenditure incurred and interest payable. The liability outstanding to pay the liability to the contractor for capital expenditure incurred is as follows:

	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
Balance outstanding at start of year	29,054	29,711
Payments during the year	(899)	(812)
Capital expenditure in the year	715	155
Balance outstanding at year-end	<b>28,870</b>	<b>29,054</b>

## Payments

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

	<b>Service Charges £000</b>	<b>Lifecycle Costs £000</b>	<b>Finance liability £000</b>	<b>Interest &amp; similar £000</b>	<b>Total £000</b>
Within one year	12,076	339	957	2,233	15,605
Within two to five years	51,300	1,437	4,707	8,624	66,068
Within six to ten years	71,542	1,979	7,618	10,302	91,441
Within eleven to fifteen years	35,258	2,195	7,331	7,590	52,374
Within sixteen to twenty years	26,506	2,072	8,024	5,325	41,927
Within twenty-one to twenty-five years	10,299	136	1,497	2,099	14,031

## 8.39 Impairment Losses

8.39.1 The following impairment losses and reversals were charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure:

<b>2010/11</b>				<b>2011/12</b>		
<b>Impairments £000</b>	<b>Reversals £000</b>	<b>Net Total £000</b>		<b>Impairments £000</b>	<b>Reversals £000</b>	<b>Net Total £000</b>
14,331	(576)	13,755	Land and buildings	6,819	(547)	6,272
0	0	0	Vehicles, plant and equipment	0	0	0
0	0	0	Community Assets	0	0	0
0	0	0	Surplus assets	0	0	0
<b>14,331</b>	<b>(576)</b>	<b>13,755</b>	<b>Total</b>	<b>6,819</b>	<b>(547)</b>	<b>6,272</b>

8.39.2 The main impairment in 2010/11 relates to the revaluation of small holdings

## 8.40 Capitalisation of Borrowing Costs

8.40.1 The council has a policy of capitalising borrowing costs on relevant projects i.e. where schemes lasting more than 12 months and with at least £10,000 of interest associated with the project. In 2011/12 there were two capital schemes which fell into this category and therefore £113,000 borrowing costs were capitalised.

## 8.41 Termination Benefits

8.41.1 The following table summarises the redundancies which occurred in 2011/12, with comparative numbers for 2010/11;

	<b>Compulsory redundancies</b>	<b>Other agreed departures</b>	<b>Total</b>
<b>2011/12</b>			
Number	132	79	211
Total Cost	£1,335,735	£1,711,476	£3,047,211
Average	£10,119	£21,664	£14,442

<b>2010/11</b>			
Number	96	27	123
Total Cost	£1,557,514	£580,052	£2,137,566
Average	£16,224	£21,483	£17,378

8.41.2 £632,928 was incurred for the actuarial strain of early retirements due to Worcestershire County Council in 2011/12.

8.41.3 A redundancy provision of £141,302 was also set aside based on the number of planned redundancies and staff identified at risk of redundancy at 31<sup>st</sup> March 2012.

8.41.4 The number and total cost per band of exit packages analyses between compulsory and other redundancies are set out in the table below. This includes exit packages agreed in the year although not yet actioned at the year end:

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other agreed departures		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2010 /11	2011 /12	2010 /11	2011 /12	2010 /11	2011 /12	2010 /11	2011 /12
£0 - £20,000	68	112	18	39	86	151	548,997	935,157
£20,001 - £40,000	23	15	6	26	29	41	865,494	1,191,057
£40,001 - £60,000	2	2	1	6	3	8	164,225	370,979
£60,001 - £80,000		2	1	7	1	9	63,161	350,334
£80,001 - £100,000	1	1			1	1	91,986	83,802
£100,001 - £150,000	2			1	2	1	245,563	115,882
£150,001 - £200,000			1		1		158,140	
<b>Total</b>	<b>96</b>	<b>132</b>	<b>27</b>	<b>79</b>	<b>123</b>	<b>211</b>	<b>2,137,566</b>	<b>3,047,211</b>

## 8.42 Pension Schemes accounted for as Defined Contribution Schemes

8.42.1 Teachers employed by the council are members of the Teachers' Pension Scheme, which is a defined benefit scheme administered by the Teachers Pensions Agency. Although the scheme is unfunded, a notional fund is used as a basis for calculating the employers' contribution rate. It is not possible for the council to identify its share of the underlying liabilities in the scheme attributable to its own employees, and therefore for the purposes of the statement of accounts it is accounted for on the same basis as a defined contribution scheme, that is, actual costs are included in the revenue accounts, with no assets and liabilities in the balance sheet.

8.42.2 However, in addition to the current scheme the council is contributing to former Hereford and Worcester teachers' unfunded added years' benefits. The actuary has valued the ongoing liability as £1.1 million, which is included in the pension fund liability in the balance sheet in 2011/12.

8.42.3 In 2011/12 the council paid employer contributions of £5.44 million in respect of teachers' pension costs, which represented 14.1% of teachers' pensionable pay. In addition, the council is responsible for all pension payments relating to added years it, or its predecessor authority, has awarded, together with the related increases. In 2011/12 these amounted to £110,000 representing 0.28% of pensionable pay. At the year-end there were contributions of £603,000 remaining payable, which related to the March 2012 contributions paid to the scheme in April 2012.

## 8.43 Defined Benefit Pension Schemes

### Participation in Pension Schemes

8.43.1 Employees are eligible to join the Local Government Pension Scheme administered by Worcestershire County Council. This is a funded scheme, which means that the council and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets. Although the benefits will not actually be payable until employees retire, the council has a commitment to make the payments and this needs to be disclosed at the time the employees earn their future entitlement.

### Transactions Relating to Post-employment Benefits

8.43.2 Under IAS 19 the cost of retirement benefits is included in the Cost of Services when it is earned by employees, rather than when it is paid as pensions. However, the charge required to be made against council tax is based on the cash payable in the year, so the real cost of the retirement benefits is reversed out via the Movement in Reserves Statement.

8.43.3 The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	<b>Local Government pension scheme</b>	
	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>
<b>Comprehensive Income and Expenditure Statement</b>		
<b>Cost of services:</b>		
• current Service cost	6,893	9,185
• past service cost/(gain)	67	(22,540)
• settlements and curtailments	(4,738)	193
<b>Financing and Investment Income and Expenditure:</b>		
• interest cost	18,382	21,295
• expected return on assets in the scheme	(14,977)	(14,854)
<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	5,627	(6,721)

**Other Post Employment Benefit Charged to the**

**Comprehensive Income and Expenditure Statement**

• actuarial (gains) and losses	31,658	(13,541)
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**Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement**

	37,285	(20,262)
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**Movement in Reserves Statement**

Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits	(5,627)	6,721
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**Amount charged to the General Fund Balance for pensions in the year**

Employer's contribution payable to the scheme	9,843	11,320
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8.43.4 The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2012 (since the introduction of the statement in the 2009/10 restated accounts) is a loss of £47.1 million.

**Assets and Liabilities in Relation to Post-employment Benefits**

8.43.5 Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	2011/12 £000	2010/11 £000
1 <sup>st</sup> April	360,994	379,544
Current Service Cost	6,893	9,185
Interest Cost	18,382	21,295
Contributions by scheme participants	2,685	3,331
Actuarial (gains)/losses	12,164	(18,961)
Curtailments	1,011	193
Settlements	(19,187)	0
Benefits/transfers Paid	(15,432)	(11,053)
Past Service (gains) costs	67	(22,540)
31 <sup>st</sup> March	<b>367,577</b>	<b>360,994</b>

8.43.7 Reconciliation of fair value of the scheme assets:

	2011/12 £000	2010/11 £000
1 <sup>st</sup> April	229,182	216,150
Expected rate of return	14,977	14,854
Actuarial gains/(losses)	(19,494)	(5,420)
Settlements	(13,438)	0
Employer contributions	9,843	11,320
Contributions by scheme participants	2,685	3,331
Benefits Paid	(15,432)	(11,053)
31 <sup>st</sup> March	<b>208,323</b>	<b>229,182</b>

8.43.8 The above figures take account of the transfer of staff to Hoople, which took place on 1 April 2011 on the basis that the transfer was fully funded at inception on the 2010 actuarial assumptions. They also make allowances for the transfer of staff to

academies over the year. The combined effect of these are shown above as 'Settlements' items. The amount of assets allocated in respect of these transfers is provisional and will be reviewed as part of the 2013 actuarial valuation of the Fund.

8.43.9 The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

8.43.10 The actual return on scheme assets in the year was £4.5 million (2010/11 £18.1 million)

### Scheme History

	2007/08 £m	2008/09 £m	2009/10 £m	2010/11 £m	2011/12 £m
Present value of liabilities	(323.5)	(276.9)	(379.5)	(361.0)	(367.6)
Value of Scheme assets	190.2	146.8	216.1	229.2	208.3
Surplus/(Deficit) in scheme	(133.3)	(130.1)	(163.4)	(131.8)	(159.3)

8.43.11 The liabilities show the underlying commitments that the council has in the long run to pay retirement benefits. The pension liability has a substantial impact on the net worth of the authority as recorded on the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

- the deficit on the local government scheme will be made good by increased contributions over the working life of employees as assessed by the scheme actuary;
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid

8.43.12 Total contributions expected to be made to the Local Government Pension Scheme by the council in the year ended 31 March 2012 is £9.5 million.

### Basis for Estimating Assets and Liabilities

8.43.13 Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Local Government Pension Scheme has been assessed by Mercers, an independent firm of actuaries.

8.43.14 The principal assumptions used by the actuary have been;

	End of period £000	Beginning of period £000
<b>Long-term expected rate of return on assets in the scheme:</b>		
Equity investments	7.0%	7.5%
Bonds	3.1%	4.4%
Other bonds	4.1%	5.1%
Cash/liquidity	0.5%	0.5%



Other	7.0%	7.5%
<b>Mortality assumptions</b>		
Longevity at 65 for current pensioners:		
• Men	22.1 years	22.0 years
• Women	24.6 years	24.5 years
Longevity at 65 for future pensioners:		
• Men	23.5 years	23.4 years
• Women	26.1 years	26.1 years
Rate of CPI inflation	2.5%	2.9%
Rate of increase in salaries	4.0%	4.4%
Rate of increase in pensions	2.5%	2.9%
Rate for discounting scheme liabilities	4.9%	5.5%
Take-up of option to convert annual pension into retirement lump sum	50% take maximum cash, 50% take 3/80ths cash	

8.43.15 The pension scheme's assets consist of the following categories, by proportion of total assets held:

	<b>31 March 2012 %</b>	<b>31 March 2011 %</b>
Equities	88.9	92.7
Government Bonds	3.2	2.6
Other Bonds	4.0	3.8
Cash/Liquidity	3.9	0.9

### History of Experience Gains and Losses

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

	<b>2007/08 %</b>	<b>2008/09 %</b>	<b>2009/10 %</b>	<b>2010/11 %</b>	<b>2011/12 %</b>
Differences between the expected and actual return on assets	(16.2)	(39.9)	27.0	(2.4)	(9.4)
Experience gains and losses on liabilities	2	0	0	4.7	0

## 8.44 Contingent Liabilities

8.44.1 Local authorities are required to maintain a register of land charges in so far as they affect properties within their county or district. The purchasers of land within the county or district must obtain a search of the local land charges register. Historically councils have charged varying rates for the provision of land charge searches. A national debate has arisen as to whether this information could or should be provided under the FOI Act or EIR at lesser or indeed no cost to the purchaser. Litigation has been threatened against the council in connection with this issue and may be in receipt of legal proceeding. If the claim succeeded it is estimated to cost the council around £175,000.

8.44.2 Several predecessor authorities of Herefordshire Council were insured by Municipal Mutual Insurance Limited (MMI) before it ceased underwriting operations in September 1992. At the time a Scheme of Arrangement was entered into which

meant those authorities effectively became Scheme Creditors and this responsibility passed onto Herefordshire Council. Under the arrangement MMI would continue to pay all creditors in full unless at any time in the future a solvent run-off could not be foreseen. Previously MMI were of the opinion that a solvent run-off could be achieved ultimately. In the event that a solvent run off is not achievable then the creditors could claw back between 0% and 100% (less £50,000) of the claims it has paid out on behalf of the authority. A recent supreme court judgement in relation to historical claims means that it is now more likely that MMI will not be able to achieve a solvent run off. It is not yet know what level of claw back there might be, but a liability in the region of £180,000 would be incurred if there was a 25% clawback.

- 8.44.3 There is an outstanding claim against the Council which falls under the MMI arrangement for a death caused to a contractor from Mesothelioma. It is claimed this was contracted from being exposed to asbestos whilst working on council buildings. Insurers are refusing cover and the council intends to defend the claim vigorously.
- 8.44.4 There is potential problem regarding safety issues at an old landfill site at Stretton Sugwas.
- 8.44.5 The council has the obligation for the after care of a number of closed landfill sites. No reliable estimate can be made of the future costs involved. However, as capital works are identified they are included in the capital programme.
- 8.44.6 Compulsory purchase order compensation payments are outstanding relating to the Rotherwas access road. The amount payable will be funded from the capital programme when settled.

## 8.45 Contingent Assets

- 8.45.1 Following a policy review Her Majesty's Revenues and Customs (HMRC) now consider the provision of trade waste collection services to be non-business activity and excluded from VAT. The council has submitted a claim to HMRC to try to reclaim VAT previously paid over to HMRC on waste collection and bags. If successful the council could be entitled to a refund of around £1 million.

## 8.46 Nature and Extent of Risks Arising from Financial Instruments

- 8.46.1 The council's activities expose it to a variety of financial risks:
- a. **Credit risk:** The possibility that other parties may fail to pay amounts owing to the council.
  - b. **Liquidity risk:** The possibility that the council may have insufficient funds available to meet its financial commitments.
  - c. **Market risk:** The possibility that the council may suffer financial loss as a result of economic changes such as interest rate fluctuations.
- 8.46.2 The council has adopted CIPFA's Treasury Management in the Public Services Code of Practice in setting out a Treasury Management Policy and strategies to control risks to financial instruments.
- 8.46.3 During the year the council's exposure to liquidity risk and market risk was

considered to be no greater than previous years. However, the weak economy and the ongoing financial crisis in the Eurozone meant that exposure to credit risk increased. Treasury management sought to control this risk by only investing in the strongest financial institutions and by reducing the length of any term deposits made.

### Credit Risk

8.46.4 Credit risk arises from deposits with banks and other financial institutions, as well as credit exposures to the council's customers. Investments are only made in institutions recommended by Arlingclose, the council's treasury adviser. For credit rated counterparties, the council looks at the lowest short-term and long-term ratings assigned by the three main credit rating agencies and the minimum criteria for 2011/12 was as follows:

Long-term minimum: A+ (Fitch); A1 (Moody's); A+ (Standard & Poor's)

Short-term minimum: F1 (Fitch); P-1 (Moody's); A-1 (Standard & Poor's)

8.46.5 During 2011/12 the council continued to restrict investments to only the largest and strongest of the UK banks, the Nationwide building society, other local authorities and instant access Money Market Funds.

8.46.6 The following analysis summarises the council's potential maximum exposure to credit risk, based on default and uncollectability over the last five financial years, adjusted to reflect current market conditions.

	Amount at 31 <sup>st</sup> March 2012	Historical experience of default	Historical experience adjusted for market conditions at 31 <sup>st</sup> March 2012	Estimated maximum exposure to default and uncollectability 31 Mar 2012	Estimated maximum exposure to default and uncollectability 31 Mar 2011
	£000	%	%	£000	£000
Deposits with banks and financial institutions	11,223	0.00%	0.00%	0	0
Customers	16,582	0.35%	0.40%	66	60

8.46.7 The amount outstanding for council debtors as at 31<sup>st</sup> March can be analysed by age as follows:

	31 March 2012 £000	31 March 2011 £000
Less than 3 months	14,772	13,450
3 to 6 months	643	622
6 months to 1 year	438	313
More than 1 year	729	674
	<u>16,582</u>	<u>15,059</u>

### Liquidity Risk

8.46.8 The council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the council has ready access to borrowings from the money markets and the PWLB.

There is no significant risk that it will be unable to raise finance to meet its commitments. Instead the risk is that the council will need to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. Therefore the strategy is to spread the maturity of the council's loans so that a significant proportion does not require repayment or refinancing at the same time.

The maturity analysis of the loan debt is as follows:

	£000	31 March 2012 £000	£000	31 March 2011 £000
<b>Less than 1 year:</b>				
Principal	15,983		23,336	
Accrued interest	1,093		943	
Other accounting adjustments	486	<b>17,562</b>	490	<b>24,769</b>
<b>More than one year (principal only):</b>				
Between 1 and 2 years	3,997		3,334	
Between 2 and 5 years	19,291		14,297	
Between 5 and 10 years	16,966		19,807	
More than 10 years	88,278	<b>128,532</b>	84,828	<b>122,266</b>
<b>Total borrowing per Balance Sheet</b>		<b>146,094</b>		<b>147,035</b>

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

### Market Risk

- 8.46.9 The council is exposed to significant risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates could have a significant impact on the council. For instance, a rise in interest rates would have the following effects:
- a. Borrowings at variable rates - the interest expense charged to the Surplus or Deficit on the Provision of Services would increase
  - b. Borrowings at fixed rates – the fair value of borrowings would fall
  - c. Investments at variable rates - the interest received credited to the Surplus or Deficit on the Provision of Services would rise
  - d. Investments at fixed rates – the fair value of the assets would fall
- 8.45.10 Borrowings and investments are not carried at fair value in the Balance Sheet and so nominal gains and losses on fixed rate financial instruments would have no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. The impact is made by changes in interest payable and receivable.
- 8.46.11 The council's loans are all fixed rate which means that when the Bank Base Rate is low the interest rate paid on borrowing is relatively high compared to the rate received on investments.
- 8.46.12 The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and is considered at quarterly strategy meetings with the council's treasury advisors. The council sets

an annual Treasury Management Strategy which includes analysing future economic interest rate forecasts. This analysis will advise whether new borrowing taken out is fixed or variable and, where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses.

- 8.46.13 If interest rates had been 1% higher, with all other variables held constant, the financial impact on the council's borrowings and investments in 2011/12 would have been as follows:

	<b>1% Increase in Interest Rates £000</b>
Increase in interest payable on new borrowing	66
Increase in interest receivable on investment balances	400

As noted above, an increase in interest rates benefits the council in the short-term as the interest received on its investments tends to be at variable rates whereas all loans are currently at fixed rates.

## **8.47 Trust Funds**

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

	<b>Balance at 31/03/11</b>	<b>Revenue Transactions</b>		<b>New funds, Investment Sales and Revaluations</b>	<b>Balance at 31/03/12</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Education (small funds)	3,932	159	(119)	8	3,980
Sylvia Short Trust	1,110,094	41,759	(56,291)	8,251	1,103,813
Buchanan Trust	2,330,895	80,574	(109,455)		2,302,014
Other Funds	44,683	1,472			46,155
	<u>3,489,604</u>	<u>123,964</u>	<u>(165,865)</u>	<u>8,259</u>	<u>3,455,962</u>

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

- 8.47.3 The Buchanan Trust is invested in agricultural land around Bosbury for the benefit of tenant farmers. The balance at 31/3/11 has been amended since the 2010/11 statement of accounts was published, as it was based on draft Buchanan Trust draft accounts. The 2011/12 accounts are not available at the time of publishing the council's Statement of Accounts and are therefore subject to change.

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

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

	<b>2010/11</b>	<b>2011/12</b>
	<b>£000</b>	<b>£000</b>
Fixed Assets	1,186	1,186
Investments	1,115	1,107
Creditors	(16)	(16)
Debtors	16	16
Bad debt provision	(1)	(1)
Cash temporarily invested with Herefordshire Council	1,190	1,164
	<u>3,490</u>	<u>3,456</u>
Represented by Trust Funds	<u>3,490</u>	<u>3,456</u>

## 9. COLLECTION FUND

9.1 The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

2010/11 £000		Note	2011/12 £000	2011/12 £000
	<b>Amounts required to be credited to the Collection Fund</b>			
92,709	Council Tax	2	93,146	
12,920	Council Tax benefits		13,049	106,195
40,874	Income collectable from business ratepayers	1		42,788
146,503				148,983
0	Contributions towards previous year's deficit			0
146,503				148,983
	<b>Amounts required to be debited to the Collection Fund</b>			
	Precepts;			
12,645	West Mercia Police Authority			12,772
5,210	Hereford & Worcester Fire Authority			5,263
87,749	Herefordshire Council (including parishes)			88,681
	Business rates			
40,572	Payment to national pool			42,487
302	Cost of Collection			301
	Impairments of debts			
247	Write off of uncollectable amounts			78
(9)	Allowance for impairment			(37)
0	Contributions towards previous year's estimated surplus			0
146,716				149,545
213	<b>(Surplus)/Deficit for the Year</b>			562
141	<b>Balance brought forward</b>			354
354	<b>Balance carried forward</b>			916

## 9.2 Notes to the Collection Fund

1. The total non-domestic rateable value at the year-end was £123,881,120 and the national non-domestic rate multiplier for 2011/12 was 43.3p

<b>Non-domestic Ratepayers Income</b>	2011/12		2010/11	
	£000	£000	£000	£000
Non-domestic debit		51,993		49,268
<b>Add:</b>				
Transitional Premium		378		517
<b>Less:</b>				
Empty Allowances	1,825		2,219	
Transitional Relief	365		1,048	
Discretionary Relief	241		246	
Mandatory Relief	6,934		4,982	
Write-offs	193		282	
Interest on Refunds	25	9,583	134	8,911
<b>Income due from non-domestic ratepayers</b>		<u>42,788</u>		<u>40,874</u>

2. Council tax income is derived from charges raised according to the value of residential properties, which have been classified into eight valuation bands. Estimated values at 1<sup>st</sup> April 1991 are used for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the collection fund by the council, West Mercia Police and Hereford & Worcester Fire & Rescue Authority, and dividing this by the council tax base (the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts etc.). The amount of council tax for a Band D property is multiplied by a specified proportion to give an amount due for other property valuation bands. The average council tax for a Band D property in 2011/12 was £1,493.25 with a range between £1,457.45 and £1,548.49. The council tax base used for setting the council tax in 2011/12 was 71,465.80.

The Band D equivalents in each valuation band are shown in the table below:

<b>Band</b>	<b>Valuation Range</b>	<b>Charge Factor</b>	<b>Band D Equivalent</b>
A	Up to £40,000	6/9	6,725
B	£40,001 to £52,000	7/9	13,031
C	£52,001 to £68,000	8/9	12,816
D	£68,001 to £88,000	9/9	11,606
E	£88,001 to £120,000	11/9	12,428
F	£120,001 to £160,000	13/9	8,669
G	£160,001 to £320,000	15/9	5,305
H	Over £320,000	18/9	305
Crown			225
			<u>71,110</u>
	Other adjustments		356
	Council Tax Base		<u>71,466</u>



<b>Council Taxpayer Income</b>	<b>£000</b>	<b>£000</b>
Council Tax debit at 1 <sup>st</sup> April		118,275
<b>Add:</b>		
Redebits	84,080	
Banding Change	231	
Additional – Second Homes	489	
Additional – Empty Properties	516	85,316
		<hr/>
<b>Less:</b>		
Discounts	9,922	
Exemptions	3,618	
Benefits – Statutory	13,050	
Disablement Relief	127	
Transitional Relief	(2)	
Void Assessments	23	
Empty Assessments	83,707	110,445
		<hr/>
		93,146
		<hr/>

3. The major preceptors share of the Collection Fund Deficit as at 31<sup>st</sup> March 2012 is as follows;

<b>Preceptor</b>	<b>£000</b>
West Mercia Police Authority	110
Hereford & Worcester Fire & Rescue Authority	45
Herefordshire Council	761

## 10. DEFINITIONS

### **Accounting Policies**

Specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

### **Assets**

A resource controlled by the authority as a result of past events and from which future economic or service potential is expected to flow to the authority.

### **Borrowing costs**

Interest and other costs that an entity incurs in connection with the borrowing of funds. This includes finance charges in respect of finance leases.

### **Carrying amount**

The amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

### **Contingent Liability**

A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the control of the authority, *or*

A present obligation that arises from past events but is not recognised because

- (a) it is not probable that an outflow of resources embodying economic benefits or
- (b) services potential will be required to settle the obligation, or
- (c) the amount of the obligation cannot be measured with sufficient reliability.

### **Creditors**

Financial liabilities arising from the contractual obligation to pay cash in the future for goods or services or other benefits that have been received or supplied and have been invoiced or formally agreed with the supplier.

### **Debtors**

Financial assets not traded in an active market with fixed or determinable payments that are contractual rights to receive cash or cash equivalents.

### **Depreciation**

The systematic allocation of the depreciable amount of the asset over its useful life.

### **Exchange Transactions**

Transactions in which one entity receives assets or services, or has liabilities extinguished, and gives approximately equal value (cash, goods, services, or use of assets) to another entity in exchange.

### **Fair value**

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

**Finance lease**

A lease that transfers substantially all the risks and rewards incidental to ownership of an asset.

**Financial Instrument**

Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

**Grants and contributions**

Transfers of resources to an authority in return for past or future compliance with certain conditions relating to the operation of activities.

**Heritage Assets**

Heritage assets are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held principally for their contribution to knowledge and culture.

**Historical cost**

The carrying amount of an asset as at 1 April 2007 or at the date of acquisition, whichever date is the later, and adjusted for any subsequent depreciation or impairment.

**IFRIC**

International Financial Reporting Interpretations Committee (IFRIC) prescribes accounting treatment within the IFRS standards.

**Impairment loss**

The amount by which the carrying amount of an asset exceeds its recoverable amount.

**Intangible Asset**

An identifiable asset without physical substance e.g. computer software.

**Inventories**

These are assets;

- a) In the form of materials or supplies to be consumed in the production process
- b) In the form of materials or supplies to be consumed or distributed in the rendering of services
- c) Held for sale or distribution in the ordinary course of operations, or
- d) In the process of production for sale or distribution

**Investment property**

Property held solely to earn rentals or for capital appreciation or both.

**Liabilities**

Present obligations arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

**Material**

Items are material if they could, individually or collectively, influence the decisions or assessments of users. Materiality depends on the nature or size of the item, or both.

**Non-Exchange Transactions**

Transactions in which an entity either receives value from another entity without giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

**Operating lease**

A lease other than a finance lease

**Property, plant and equipment**

Tangible assets held for use in the supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one year.

**Provision**

A liability of uncertain timing or amount.

**Related Party**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

**Revenue**

The gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net worth.



<b>MEETING:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>DATE:</b>	<b>21 SEPTEMBER 2012</b>
<b>TITLE OF REPORT:</b>	<b>ANNUAL GOVERNANCE REPORT 2011/12</b>
<b>PORTFOLIO AREA:</b>	<b>CORPORATE SERVICES</b>

## Wards Affected

County-wide

## Purpose

To consider and note the external auditor's statutory Annual Governance Report for 2011/12 which sets out:

- a. Their opinion on the financial statements for 2011/12
- b. Their opinion on the council's arrangements for securing value for money.
- c. Their recommendations for further improvements in the council's governance arrangements arising from their audit work.

## Recommendation(s)

**THAT:**

- (a) **The Audit & Governance Committee discuss and take note of the content of the Annual Governance Report (AGR) for 2011/12 attached to this report with the external auditor.**
- (b) **The Audit & Governance Committee approves the Draft Letter of Representation (Appendix 2 of the AGR 2011/12 attached to this report refers) for signature by the Chair of the Committee and the Chief Officer; and**
- (c) **The Audit & Governance Committee request that an action plan be brought forward to the next committee.**

## Key Points Summary

- The Audit Commission anticipates issuing an unqualified opinion on both the statement of accounts for 2011/12 and the council's arrangements for securing value for money by the statutory deadline of 30 September 2012.
- There are no important weaknesses in internal control.

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Further information on the subject of this report is available from  
David Powell, Chief Officer on 01432 383519

- Proper arrangements are in place to secure value for money.

## **Alternative Options**

- 1 This is a report reflecting the statutory Annual Governance Report process and therefore no alternative options are outlined.

## **Reasons for Recommendations**

2. The Code of Audit Practice in Local Government Bodies requires the external auditor to make a report to those charged with governance that summarises the conclusions they have drawn from their audit work and their opinion on the financial statements and value for money. The Council's Constitution sets out the Audit & Governance Committee's responsibilities for matters of governance.

## **Key Considerations**

3. The financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. The annual governance statement is produced by the Council and records its stewardship and supplements the accounts. It gives a sense of how successfully it has coped with the challenges it faces. This statement draws together position statements and evidence on governance, risk management and control, to provide a more coherent and consistent reporting mechanism.
4. The committee is required to consider the external auditors findings before adopting the financial statement and its annual governance statement. The external auditor's Annual Governance Report (AGR) confirms that the external auditor plans to issue an audit report including an unqualified opinion on the financial statements.
5. Another key part of the attached document is the external auditor's requirement to indicate if the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the statutory 'value for money' conclusion. The external auditor intends to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.
6. The auditor's report confirms that a high level of change was evident in the year. This included the introduction of the new business support arrangements via Hoople and the introduction of a new integrated financial ledger.
7. The auditor is required to obtain a signed letter of representation relating to areas where the auditor is reliant on management opinion for the accounting treatment for certain items in the accounts. The letter (Appendix 2 of the AGR) is signed by the Council's Chief Finance Officer to indicate the postholder has fulfilled their responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the 'Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice' which give a true and fair view of the financial position and financial performance of the Council.
8. The AGS includes a number of recommendations which we will need to consider carefully before developing an action plan with the Leadership Team and relevant

Cabinet Members that will need to be agreed at the next committee meeting and progress will be reported to subsequent meetings.

### **Financial Implications**

9 None arising directly from this report.

### **Legal Implications**

10 This report has no legal implications.

### **Risk Management**

11 The Audit & Governance Committee has responsibility for corporate governance and will monitor progress made by management in addressing the issues identified in the external auditor's Annual Governance Report for 2011/12. Risk is mitigated by delivering the action plan's recommendations.

### **Consultees**

12 None.

### **Appendices**

13 Annual Governance Report 2011/12 (attached as an appendix to this report).





# Annual governance report

Herefordshire Council

Audit 2011/12



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# Key messages

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**This report summarises the findings from the 2011/12 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.**

## Financial statements

The financial statements were submitted for audit on 30 June 2012. I am very grateful for the good co-operation I received from your staff which allowed me to fundamentally complete the audit by 11 September. During the audit, management agreed to make a large number of adjustments to the accounts.

The closedown of the Council's accounts this year was particularly challenging as it was the first year that the new shared services company HOOPLE has closed down the accounts and the same year that a new integrated ledger was implemented. This degree of change is rarely seen in a single year and adversely affected the approach I usually see at Herefordshire Council. Adequate working papers supporting entries in the accounts were generally only produced on request from the auditor and the elapsed time from the request to the receipt of adequate evidence and explanations impacted on the time taken to carry out the audit. A particular problem was obtaining explanations for variances from previous years and a proper analysis of the breakdown of year-end debtors and creditors. Both of these are not only essential for audit but are an important means for officers to ensure the integrity of the financial statements. Many of the errors found could have been eliminated by allowing sufficient time to carry out a detailed quality check of the accounts prior to the accounts being presented for audit.

Before I give my opinion on the financial statements, there are a few actions which must be completed. Firstly I must consider any formal questions or objections from members of the public during the accounts inspection period, which has recently commenced. Secondly I will need to obtain from the Council a signed letter of representation relating to areas where I am reliant on management opinion for the accounting treatment for certain items in the accounts. Subject to these items, I expect to issue an unqualified opinion on the financial statements. Before I issue the audit completion certificate, I need to complete the work necessary to issue my assurance statement in respect of the Council's Whole of Government Accounts consolidation pack.

## **Value for money (VFM)**

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources. The Council is starting to tackle the continued significant overspending in Adult Social Care which poses a threat to your future financial stability.

## **Certificate**

As I have yet to complete the audit of Whole Government Accounts, I am unable to certify completion of the audit. I expect to complete my review and report my findings to management in September. I plan to issue my certificate by 30 September.

# Before I give my opinion and conclusion

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**My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.**

## **Independence**

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) – Integrity, Objectivity and Independence. One member of my audit team declared that his spouse is employed occasionally by the Council in a role unrelated to the audit. I considered that this threat was of an acceptably low level. The team member did not carry out work directly relating to his spouse's area of work or the payroll

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2011/12.

## **I ask the Audit and Governance Committee to:**

- take note of the adjustments to the financial statements included in this report;
- approve the letter of representation, on behalf of the Authority before I issue my opinion and conclusion; and
- agree your response to the proposed action plan.



# Financial statements

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**The Council's financial statements and annual governance statement are important means by which the Council's accounts for its stewardship of public funds. As elected Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.**

## **Opinion on the financial statements**

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

## **Corrected errors**

During the audit, management agreed to make a number of adjustments to the accounts. I have not reported these in detail as they have been corrected in the revised financial statements being presented for approval. The main changes were in relation to capital asset notes which changed substantially. These changes reflected the omission of the valuation of smallholdings exceeding £1 million and the incorrect application of valuations. In addition there was a classification error on Garrick House. Notes on the termination and exit packages and leasing and related parties were also substantially changed.

The overall net impact of all adjustments made was to decrease the deficit on the Total Comprehensive Income and Expenditure Statement by around £3.4 million and increase net assets and reserves in the Balance Sheet by £3.4 million. These adjustments do not have any impact on the Amounts to be met by Taxpayers or the contributions to Earmarked Reserves and General Balances in the draft statements.

## **Uncorrected errors**

I am required to report all 'non trivial' errors and uncertainties that have been identified by my audit which have not been amended before I issue my Opinion. There are no such remaining uncorrected errors.

## Specific and significant risks and my findings

I reported to you in my Audit Plan the specific and significant risks that I identified relevant to my audit of your financial statements. In table 1, I report to you my findings against each of these risks.

Table 1: Risks and findings

Risk	Finding
<p>The Council implemented an integrated general, purchase, sales, payroll and capital ledger system in 2011/12. Internal Audit were requested by the Chief Financial Officer (Section 151 Officer) to review the management of this major project and the IT control environment for the system after a suspected fraud by a consultant involved in the project was promptly identified by the Finance team. They identified weaknesses in the arrangements, including insufficient monitoring of the activities of officers and consultants granted 'super-user' privileges. These weaknesses make it all the more important that service area budget monitoring controls operate effectively.</p>	<ul style="list-style-type: none"> <li>■ I identified controls and carried out tests of detail on the migration of closing balances and financial information from the old ledger to the new ledger, placing reliance where appropriate on relevant internal audit work.</li> <li>■ I identified, documented, walked-through and evaluated the IT and management controls in place</li> <li>■ I tested key controls to establish their operating effectiveness placing reliance, where appropriate, on relevant internal audit work.</li> <li>■ I substantively tested the balance sheet using larger sample sizes to reflect the high risk of the IT control environment.</li> <li>■ I obtained and tested positive assurance statements from cost centre managers confirming that there are no suspicious or unexplained revenue transactions.</li> <li>■ My testing has not identified any additional significant issues to bring to your attention. Later in this report (the internal control section) I set out some recommendations to improve controls around the financial ledger.</li> </ul>
<p>First time reliance on a service organisation (HOOPLE) for the initiation, processing, recording and reporting of financial transactions</p>	<ul style="list-style-type: none"> <li>■ I identified, evaluated and tested the design and implementation of client-side controls over management and financial accounts prepared by HOOPLE eg oversight of reconciliations, other key boundary controls, accounts closedown and preparation of financial statements.</li> <li>■ I tested the detail, including pre-statement sample checking of items of account produced by the service organisation to source documentation.</li> </ul>

## Risk

In most local authorities schools are managed through a variety of governance arrangements. This affects the way that they are accounted for. A number of the Council's schools have changed to Academies or Foundation schools in 2011/12. The Council would materially misstate its Property, Plant and Equipment assets if it incorrectly includes or omits schools in its balance sheet.

The 2011/12 Code adopts the requirements of FRS 30 Heritage Assets. A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. The Council will need to identify their heritage assets and identify their cost or value to account for them correctly. Assets are likely to include museum and archive collections, the valuation of which will involve significant judgement.

Whole of Government accounts (WGA) – the Council's draft WGA submissions in previous years have contained significant errors that required correction. HOOPLE will be preparing the WGA submission for the first time in 2011/12.

## Finding

- My audit demonstrated that this was a challenging closedown for the Council. This was evident in the absence of supporting working papers, the absence of a thorough quality review of the accounts prior to audit and the consequent large number of errors found.

I identified the finance team's arrangements for identifying schools that have changed their status and tested the accounting treatment of a sample of schools held on the balance sheet and a sample of schools not recognised on the balance sheet against the IAS 16 recognition criteria. My testing has not identified any significant issues to bring to your attention. The Council has agreed to improve its disclosure of the accounting policy for recognising and de-recognising school capital assets.

I evaluated the management controls in place to recognise and value heritage assets. I also undertook testing to check that the Council has accounted for heritage assets in accordance with FRS 30 and the Code. My testing has not identified any significant issues to bring to your attention

In line with the plan, this work is still ongoing. The WGA pack has been amended to reflect changes made to financial statements at audit. Early review of your pack suggests there are a number of significant variations in the balances with other public bodies compared to that shown in their submitted packs to explain.



## Risk

Other risks associated with the transfer of staff and functions to HOOPLE (Accounting for the Council's financial interest in HOOPLE, the Local Government Pension Scheme deficit and potential residual liabilities

## Finding

My testing provided assurance that those staff who transferred to HOOPLE under TUPE are no longer on Council's payroll. I was also satisfied with the Council's proposed accounting treatment of its financial interest in HOOPLE. The decision to admit HOOPLE to the Local Government pension scheme on a fully funded basis is not unusual but has not been formally approved. There is no agreement in place that confirms that the transfer of funds assets to HOOPLE is a 'one off' and the Council will not be required to meet the shortfall if the estimate of the deficit at 1 April 2011 changes at a later date.

## Recommendations

- R1** Ensure that sufficient time is left at the end of the closedown of the accounts for a detailed check of the statement of accounts.
- R2** Provide adequate working papers and explanations to support the figures in the statement of accounts at the start of the audit via a Council finance officer.
- R3** Ensure that there is an agreement confirming the basis of HOOPLE's admission to the Local Government Pension Scheme and the responsibility for the funding of its future pension liabilities.

## Significant weaknesses in internal control

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness. My responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

I have tested the controls of the Council only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. The internal control issues described below are only those I have identified during the audit that are relevant to preparing the financial statements. I did not identify any significant weaknesses in internal control but there are some issues I wish to bring to your attention.

As mentioned earlier, 2011/12 was the first year of the new Agresso ledger. I identified some areas where controls on processing journals could be tightened. These were:

- there are no financial limits and no authorisation controls on the input of journals to the ledger. All accountants can input journals with no limits set and no separate authorisation required;
- there are no hard copies of journal vouchers with supporting documentation. Journals are not checked and authorised prior to input; and
- there is no batch control on journal totals. A journal can be input that doesn't balance and the system will post a balancing entry to a suspense account. However there is a compensating control that these suspense accounts are reviewed and cleared.

As a result I was not able to fully rely on journal controls but I carried out substantive testing of journals to satisfactorily obtain the necessary assurance

I also identified some weaknesses in controls over the 'interface' between the general ledger and the systems that feed it such as residential care home payments and payments for supporting people. I found that there were no controls in place at the upload stage to check batch totals before and after upload and no control sheet is kept to ensure all interface files have come across to the upload routine. The feeder system upload file should be reconciled to the feeder systems themselves and any discrepancies resolved before upload to the general ledger. This check should then be evidenced on a control sheet.

The Council as a client should consider what information it needs on a routine basis from the service provider HOOPLE to provide it with assurance on the integrity of the accounting process being performed on its behalf. One such area would be obtaining assurance on the successful completion of bank and other control account reconciliations. Following the transfer to HOOPLE, bank reconciliations and control account reconciliations were not carried out regularly at the start of 2011/12 but these were up to date by the end of the year. Also some of these reconciliations (such as year-end bank reconciliation of the main account) were not independently reviewed. The Council should also insist that it receives supporting working papers at the same time it receives the statement of accounts produced by HOOPLE.

## Recommendations

**R4** Improve controls on the input of journals to the ledger.

**R5** Ensure there are adequate controls over the interface of feeder systems with the general ledger.

**R6** Consider areas where routine assurances are required from HOOPLE on the integrity of financial processes being carried out on your behalf.

## Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following.

- Qualitative aspects of your accounting practices.
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest.

There are two matters I wish to report.

My audit of a sample of highways expenditure charged to capital in the year identified some expenditure I consider could be interpreted as more appropriately classified as revenue expenditure. Further work carried out by the Council was sufficient to demonstrate that this was not material to this year's accounts. I consider that the Council should review guidance on the capitalisation of road works to Amey. Sample checking arrangements should ensure that this guidance is adhered to.

My testing of a sample of other capital expenditure identified scope to tighten closedown procedures in some areas including not accruing for retention sums and the value of works to year-end. I am satisfied that the effect of this was not material.

## Recommendations

- R7** Review guidance to staff on the capitalisation of road repairs and enhance checking arrangements to ensure that this is complied with.
- R8** Tighten closedown controls over capital expenditure.

## Whole of Government Accounts

Alongside my work on the financial statements, I also review and report to the National Audit Office on your Whole of Government Accounts return. I plan to complete my report in September.

# Value for money

**I am required to conclude whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.**

I assess your arrangements against the two criteria specified by the Commission. In my Audit Plan I reported to you the significant risks that were relevant to my conclusion. I have set out below my conclusion on the two criteria, including the findings of my work addressing each of the risks I identified.

I intend to issue an unqualified conclusion stating that the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in appendix 1.

Table 2: Value for money conclusion criteria and my findings

Criteria	Risk	Findings
<p><b>1. Financial resilience</b></p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2011/12:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>The significant reduction in grants from central government is presenting all councils with a huge challenge to respond to. There is a risk that the savings and assumptions set out in the Council's Medium Term Financial Plan are not sufficiently robust to deliver a balanced medium term position.</p>	<p>I have reviewed your medium term financial planning within the context of the impact of the comprehensive spending review. Drilling down to source data where appropriate, I found your financial planning assumptions to be reasonable. The Authority is starting to tackle the issue of continuing overspending in Adult Social Care but this significant risk will need to be closely monitored as it presents a risk to the Authority's future financial stability. In 2011/12 the service overspent by £5.5 million. Overall there was a very small overspend of £236,000 due to under-spending elsewhere in the Council. In my view the Adult Social Care budget is currently unrealistic. It is probable that the continuing pressures in Adult Social Care will require a combination of continued reform of service provision and also additional funding. This means that further difficult decisions on</p>



Criteria	Risk	Findings
<p><b>2. Securing economy efficiency and effectiveness</b></p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2011/12:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>The Council is considering varying its existing waste PFI scheme to include the provision of a waste to energy plant in Hartlebury. There is a risk that the Council cannot demonstrate that any change to the current waste disposal arrangements delivers value for money.</p>	<p>the Council's priorities need to be made. I note that the Council has agreed measures (some one-off) in 2012/13 to deal with overspending of Adult Social Care in 2012/13. The Council has recently changed the financial support arrangements in Adult Social Care.</p> <p>Overall there are adequate arrangements to challenge how the Council secures value for money. The Council's Rising to the Challenge transformation scheme has delivered significant savings. However there was some slippage in the delivery of corporate procurement savings and the Adult Social Care cost improvement plan. The Council has reviewed the value for money achieved by services provided by Amey and made a decision to test the market rather than roll over the existing contract.</p> <p>The Council has yet to vary its existing waste contract and I will continue to review this area.</p>

# Fees

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## **I reported my planned audit fee of £274,672 in the Audit Plan.**

I reported my planned audit fee of £274,672 in the Audit Plan. I will complete the audit within the planned fee.

The Audit Commission has paid a rebate of £21,974 to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission to £.252,698.

# Appendix 1 – Draft independent auditor’s report

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## INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF HEREFORDSHIRE COUNCIL

### Opinion on the Authority financial statements

I have audited the financial statements of Herefordshire Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Herefordshire Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### Respective responsibilities of the Chief Officer (Finance and Commercial Services) and auditor

As explained more fully in the Statement of the Chief Officer’s (Finance and Commercial Services) Responsibilities, the Chief Officer (Finance and Commercial Services) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Officer (Finance and Commercial Services); and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view of the financial position of Herefordshire Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

### **Opinion on other matters**

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which I report by exception**

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects.



## **Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **Respective responsibilities of the Authority and the auditor**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### **Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### **Conclusion**

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, *Herefordshire Council* put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

## **Certificate**

I certify that I have completed the audit of the accounts of Herefordshire Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Elizabeth Cave  
District Auditor  
Audit Commission  
Room 24  
West Mercia Police Authority  
Hindlip Hall  
PO Box 55  
Worcester  
WR3 8SP

September 2012

# Appendix 2 – Draft letter of management representation

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## Herefordshire Council – Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Herefordshire County Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2012. All representations cover both the Council's accounts and Pension Fund accounts included within the financial statements.

### **Compliance with the statutory authorities**

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

### **Uncorrected misstatements**

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

These misstatements have been discussed with those charged with the Audit and Governance Committee and the reasons for not correcting these items are that individually or severally the Committee did not consider that they were material.

### **Supporting records**

I have made available all relevant information and access to persons within the Council for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Council.

### **Internal control**

I have communicated to you all deficiencies in internal control of which I am aware.

### **Irregularities**

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

### **Accounting estimates including fair values**

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

### **Related party transactions**

I confirm that I have disclosed the identity of the Council's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

### **Subsequent events**

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of Herefordshire Council

I confirm that the this letter has been discussed and agreed by the Audit and Governance Committee on

Signed

David Powell

Date

# Appendix 3 – Glossary

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## **Annual Audit Letter**

Report issued by the auditor to the Council after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

## **Annual Governance Report**

The auditor's report on matters arising from the audit of the accounting statements presented to the Audit Committee before the auditor issues their opinion and conclusion.

## **Annual Governance Statement (AGS)**

The governance statement records the stewardship of the Council to supplement the accounts. It gives a sense of how successfully it has coped with the challenges it faces and of how vulnerable the organisation's performance is or might be. This statement draws together position statements and evidence on governance, risk management and control, to provide a more coherent and consistent reporting mechanism.

## **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

## **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor.

### **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

### **Auditing standards**

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

### **Auditor(s)**

Auditors appointed by the Audit Commission.

### **Code (the)**

The Code of Audit Practice issued by the Audit Commission and approved by Parliament.

### **Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

### **Ethical Standards**

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

### **Internal control**

The whole system of controls, financial and otherwise, that the Council establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.



## **Materiality**

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the accounting statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the accounting statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the accounting statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the accounting statements, which do not necessarily affect their opinion on the accounting statements.

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the accounting statements. Significance has both qualitative and quantitative aspects.

# Appendix 4 – Action plan

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## Recommendations

### Recommendation 1

Ensure that sufficient time is left at the end of the closedown of the accounts for a detailed check of the statement of accounts.

Responsibility \_\_\_\_\_

Priority \_\_\_\_\_

Date \_\_\_\_\_

Comments \_\_\_\_\_

### Recommendation 2

Provide adequate working papers and explanations to support the figures in the statement of accounts at the start of the audit via a Council finance officer.

Responsibility \_\_\_\_\_

Priority \_\_\_\_\_

Date \_\_\_\_\_

Comments \_\_\_\_\_

### Recommendation 3

Ensure that there is an agreement confirming the basis of HOOPLE's admission to the Local Government Pension Scheme and the responsibility for the funding of its future pension liabilities.

Responsibility \_\_\_\_\_

Priority \_\_\_\_\_



<b>Date</b>	
<b>Comments</b>	
<b>Recommendation 4</b>	
Improve controls on the input of journals to the ledger.	
<b>Responsibility</b>	
<b>Priority</b>	
<b>Date</b>	
<b>Comments</b>	
<b>Recommendation 5</b>	
Ensure there are adequate controls over the interface of feeder systems with the general ledger.	
<b>Responsibility</b>	
<b>Priority</b>	
<b>Date</b>	
<b>Comments</b>	
<b>Recommendation 6</b>	
Consider areas where routine assurances are required from HOOPLE on the integrity of financial processes being carried out on your behalf.	
<b>Responsibility</b>	
<b>Priority</b>	
<b>Date</b>	
<b>Comments</b>	
<b>Recommendation 7</b>	
Review guidance to staff on the capitalisation of road repairs and enhance checking arrangements to ensure that this is complied with.	
<b>Responsibility</b>	

<b>Priority</b>	
<b>Date</b>	
<b>Comments</b>	
<b>Recommendation 8</b>	
Tighten closedown controls over capital expenditure.	
<b>Responsibility</b>	
<b>Priority</b>	
<b>Date</b>	
<b>Comments</b>	

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- any third party.



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September 2012



<b>MEETING:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>DATE:</b>	<b>21 SEPTEMBER 2012</b>
<b>TITLE OF REPORT:</b>	<b>ANNUAL GOVERNANCE STATEMENT</b>
<b>PORTFOLIO AREA:</b>	<b>CORPORATE SERVICES</b>

**CLASSIFICATION:** Open

### **Wards Affected**

County-wide

### **Purpose**

The purpose of this report is to seek the Audit and Governance Committee's approval of the Annual Governance Statement for 2011/12.

### **Key Decision**

This is not a Key Decision.

### **Recommendation**

**THAT**

- (a) The Audit and Governance Committee notes the Annual Governance Statement 2011/12 attached as Appendix 1 to this report; and**
- (b) The Audit and Governance Committee approves the Annual Governance Statement 2011/12 for inclusion in the Statement of Accounts for 2011/12.**

### **Key Points Summary**

- The Annual Governance Statement 2011/12 is set out in Appendix 1.
- The Annual Governance Statement 2011/12 has been drafted in accordance with the requirements of the Accounts and Audit Regulations 2003.
- The main areas where improvements are required to the Council's governance and control processes include continuing to embed risk management, ensuring improvements are carried out to key systems where marginal assurance is given and controls are embedded within the Shared Services Partnership.

## **Alternative Options**

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

## **Reasons for Recommendations**

2. This is a statutory requirement.

## **Introduction and Background**

3. Section 12, paragraph 5.12.5 of the Audit and Governance Code sets out the terms of reference of the Audit and Governance Committee. One of the requirements of the terms of reference is that the Committee review and approve the Annual Governance Statement.
4. The Annual Governance Statement has been reviewed by the Council's Leadership Team. Prior to sign off by the Leadership Team senior managers reviewed the statement and where appropriate provided relevant comments.

## **Key Considerations**

5. The Council has a responsibility for conducting at least annually a review of the effectiveness of the governance framework including the system of internal control. This is reported through the Annual Governance Statement which is reviewed and approved by the Audit and Governance Committee prior to its inclusion within the Council's Statement of Accounts. The Annual Governance Statement also provides commentary on how the Council's governance framework including the system of internal control can be improved.
6. Actions on significant internal control issues identified in the Annual Governance Statement for 2010/11 were reported to the Audit and Governance Committee as part of the Interim Assurance Reports in 2011/12.
7. The Audit and Governance Code authorises the Audit and Governance Committee to review and approve the Council's Annual Governance Statement.
8. Whilst the Annual Statement by its nature is only signed off once a year, the process of review is continuous. As a result the reports presented to each meeting of the Audit & Governance Committee are used to inform the Annual Governance Statement.
9. The Annual Governance Statement is signed by the Leader of the Council, the Chief Executive, the Chief Officer: Finance & Commercial and the Assistant Director (Law, Governance & Resilience).

## **Financial Implications**

10. There are no financial Implications.

## **Legal Implications**

11. The Accounts and Audit Regulations include requirements for all Council's to produce an Annual Governance Statement.

## **Risk Management**

12. There is a risk that the statement does not present a full and accurate description of the Council's governance and control arrangements.

## **Appendices**

Appendix 1- Audit and Governance Statement 2011/12





### Annual Governance Statement 2011/12

#### 1. **Scope of responsibility**

- 1.1 Herefordshire Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In discharging this duty, the Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions. These include arrangements for the management of risk.
- 1.3 The Council has adopted a code of corporate governance that is consistent with the principles of the Chartered Institute of Public Finance & Accountancy ("CIPFA")/Society of Local Authority Chief Executives ("SOLACE") framework for delivering good governance in local government. A copy of the code can be obtained from the Assistant Director – Law, Governance and Resilience.
- 1.4 The Annual Governance Statement for 2011/12 explains how the Council has complied with its code of corporate governance. It also explains how the requirements of Regulation 4(2) of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) regulations 2006 in relation to the publication of a statement have been met.

#### 2. **The purpose of the Governance framework**

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

- (a) identify the risks to the achievement of the Council’s policies, aims and objectives;
- (b) evaluate the likelihood and impact of the risks should they be realised; and
- (c) identify and implement measures to reduce the likelihood of the risks being realised and to negate, or at least mitigate, their potential impact.

### 3. The Governance framework

3.1 The Council’s corporate governance framework was approved by the Audit and Corporate Governance Committee on 21 November 2008. It seeks to ensure that the principles of good governance are embedded into all aspects of the Council’s work. The five principles agreed by the Audit and Corporate Governance Committee have been linked to the six principles of good governance outlined in the SOLACE/CIPFA publication “Delivering good Governance in Local Government”.

3.2 For ease of reference, the following table matches the Council’s set of principles with those contained in the SOLACE/CIPFA guidance:

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

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

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

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

- 3.4 The Council continues to develop the partnership with NHS Herefordshire, with work being done on the best approach to shared service delivery. The Council and PCT work as one organisation to plan, purchase, design and deliver care around people's individual needs close to where they live. There is a single corporate plan with shared targets, one set of agreed values, a joint management team, and several joined up teams and services.
- 3.5 In April 2011 the Council along with NHS Herefordshire and Wyre Valley NHS Trust set up a Joint Venture (JV) Company to deliver shared services to all partners. The Company, called Hoople Ltd, was formally established on 1 October 2012, and has made year good progress in implementing the structures required to ensure sound governance and robust internal control – it has a Board and other committees in place. Hoople Ltd provides a range of services for its owners including ICT, financial services, HR and training. The Council has made substantial savings, in excess of £500k, through transferring services to Hoople Ltd.

The Council also continues to work on its 'Rising to the Challenge' programme which aims to transform the way in which services are delivered. 'Rising to the Challenge' consists of five work streams, each of which has a Executive lead sponsor, including Customer Focus, Communities First, Streamlining the Business, Better Services and People and Performance. Each work stream consists of a number of projects. The programme has been successful to date and allowed the Council to make savings of over £7m.

3.6 The Council has a Joint Risk Management and Assurance Policy and Joint Risk Management Assurance Guidance which was approved by Cabinet in September 2011.

3.7 The Council has an Environmental Management System (British Standard 14001).

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

3.8 The Constitution clarifies roles and responsibilities and ensures accountability for setting the policy framework, including the corporate objectives and long term outcomes in the Corporate Plan, for fulfilling executive functions including a much clearer scheme of delegation to officers, improved planning arrangements and greater clarity of roles for all councillors.

3.9 The Audit and Governance Committee's Terms of Reference have been enlarged to provide for regular review of the Constitution. This provides a regular forum for improvement.

3.10 The Chief Executive is the Head of Paid Service, the Chief Officer – Finance and Commercial Services is designated the Section 151 Officer and the Assistant Director – Law, Governance and Resilience is designated the Council's Monitoring Officer.

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

**Principle 3 – Require High Standards of Conduct**

3.12 A regular programme of member training has been delivered and induction for new members. A half day session on member/ officer relations was particularly well attended.

3.13 The work on ethics and standards as been dominated by the preparations for the new standards regime under the Localism Act 2011. County, parish and independent members of Standards Committee have produced a draft code and draft system for determining complaints under that code. At the year end, we were awaiting secondary legislation from government

3.14 There are Codes of Conduct for Members and Officers.

3.15 Complaints cases have continued to be determined locally, and we have dealt with 55 complaints between March 2011 and May 2012. Out of these:

- 25 required no further action;
- 1 was referred to the Monitoring Officer for training of a councillor;
- 2 were referred to the Monitoring Officer for written guidance to councillors;
- 5 were referred to the Monitoring Officer for investigation;
- 3 were withdrawn;
- 1 is awaiting assessment; and
- 18 were referred to Standards for England for investigation.

Out of these 18: Standards for England investigated eight and decided that no further action should be taken on them. It did not investigate six and decided that no further action should be taken on those, and it referred four back to the original assessment subcommittee for further consideration in view of Standards for England's impending closure. The assessment sub-committee subsequently decided to take no further action on those four.

Of the 55 complaints, 37 were made about parish/town councillors; and 18 were about Herefordshire Councillors.

- 3.16 Just over a third of all allegations related to members bringing their office into disrepute (Paragraph 5 of the Code of Conduct). Bullying, or failing to treat others with respect, accounted for another third. There were also a significant number of allegations about aspects of members failing to declare interests (Paragraphs 8-12 of the Code), and members using their positions to secure an advantage for themselves (Paragraph 6 of the Code). We also received a number of complaints about disclosing confidential information (Paragraph 4 of the Code).
- 3.17 Of the 37 complaints against parish or town councillors, 30 related to members of the same council. 18 of those required no further action, 18 were referred to Standards for England and one was withdrawn. Of the remaining seven parish/town council complaints, five required no further action, one was referred for training and one was referred for investigation.
- 3.18 In respect of Herefordshire Councillors, no action was required in 10 cases, two cases were referred to the Monitoring Officer for other action, such as training or written guidance, four were referred for investigation and two were withdrawn.
- 3.19 The Council has shared values, which act as a guide for decision-making and a basis for developing positive and trusting relationships within the Council.
- 3.20 There are procedures and policies in place to ensure that Members and Officers are not influenced by prejudice, bias or conflicts of interest when making decisions and when dealing with stakeholders.
- 3.21 A register of members' interests is maintained and updated on a regular basis.
- 3.22 An updated Anti-fraud and Anti-corruption Policy is in place.
- 3.23 A Whistle-blowing Policy is in place and forms part of the Council's Constitution. This was reviewed in December 2011.
- 3.24 There is a formal Monitoring Officer Statement in relation to the use of the Monitoring Officers powers.

- 3.25 Written assurances are received from key managers. These assurances highlight any areas of concern.

**Principle 4 – Take sound decisions on the basis of good information**

- 3.26 There is an overview and scrutiny function that encourages constructive challenge.
- 3.27 The Council has an Audit and Governance Committee, which is independent of the executive and scrutiny functions.
- 3.28 The Council has a report writing framework and template which have been developed to ensure that all reports have contributions from key support officers, eg finance, legal, risk management and consultation. Report writing guidance makes it clear what other matters should be considered when preparing reports, eg equalities and human rights, alternative options.
- 3.29 Decisions made by Cabinet and Committees are based upon written reports as presented.
- 3.30 There is a Data Quality Policy previously agreed by Cabinet in May 2008 and updated in July 2010.

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

- 3.31 All meetings are held in public unless there are legal reasons for confidentiality.
- 3.32 The format of the Cabinet meeting is designed to ensure greater transparency of decision-making and to emphasise the separate roles of cabinet members, scrutiny members, political group leaders and to ensure that those in attendance express the views of the members of the Committee or group that they represent.
- 3.33 All Committee agendas, reports and minutes are publicly available on the Council's website other than for confidentiality reasons.
- 3.34 The public are allowed to ask a question at Council as long as a copy of the question is deposited with the Assistant Director – Law, Governance and Resilience.
- 3.35 There is a Herefordshire Customer Insight Unit, established as a single point of contact for Herefordshire Council and the Primary Care Trust. The unit is made up of officers from across the Council and Primary Care Trust, who work together to administer and monitor feedback such as feedback and complaints. Every directorate receives monthly performance reports relating to feedback.
- 3.36 It should be noted that since January 2010 no complaints escalated to the Local Government Ombudsman or to the Parliamentary and Health Service Ombudsman were upheld.

- 3.37 Arrangements are in place for the Council to inform the public about council services and service developments and these include the publication of the Herefordshire Matters magazine, which is sent to every household in the county on a quarterly basis. This is supplemented by regular press and media notices.
- 3.38 Further information about services can be found on the Council's website and through other channels. For example, local election results were announced via Twitter in a pilot exercise during the 2011 local elections, which was well received. Another example, was in 2011 when a new school's closure notification system was implemented whereby rather than phoning the council to ascertain information about school's closures, parent's and carer's can now subscribe to an email/ text notification system. When the local school manager updates the system regarding closures those people who subscribe to the service get an automatic notification.
- 3.39 In line with legislation, the council publishes all information relating to expenditure of over £500 on the website. As required by the Localism Act the council has agreed and also publishes a pay policy statement, which details the remuneration of senior officers.

#### **4. Review of effectiveness**

- 4.1 Herefordshire Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control. The review of effectiveness is informed by the work of the managers within the Council, who have responsibility for the development and maintenance of the governance environment: the Head of Internal Audit reports on the audits conducted throughout the year and also by comments made by the external auditor and other review agencies and inspectorates.
- 4.2 The process of review is continuous and results in the Head of Internal Audit Annual Assurance Reports being presented to the Audit & Corporate Governance Committee. This report is used to inform the Annual Governance Statement. The Annual Governance Statement is signed by the Leader of the Council, the Chief Executive, the Chief Officer – Finance and Commercial Services and the Assistant Director – Law, Governance and Resilience.
- 4.3 The main independent sources of assurance on the operation of the corporate governance framework are the Council's Audit Services team, its external auditors, other external review bodies and the Audit and Governance Committee.
- 4.4 The review of effectiveness for the current financial year identified that the following work had been undertaken in 2010/11 in relation to the key aspects of the Council's governance framework outlined in paragraphs 4.5 to 4.76.

## **(A) Constitution**

At its meeting on 13 November 2009, the Council tasked the Monitoring Officer (Assistant Director – Law, Governance and Resilience) to undertake further work on the constitution under the direction of the Constitutional Review Working Group (CRWG). During 2010/11, the Council continued with Phases 2 and 3 of its Constitutional review.

- 4.5 The Audit and Governance Committee's Terms of Reference have been enlarged to provide for regular review of the Constitution. This provides a regular forum for improvement.
- 4.6 One decision made by Cabinet was called in during 2011/12 as follows:
  - (a) concerning a new sustainable model of business for the delivery of the Music Service.
- 4.7 On 25 May 2012, the Annual Report of the Overview and Scrutiny Committee was presented to Council. The report summarised the work undertaken by the five Scrutiny Committees in 2011/12.

## **(B) Corporate Objectives and Priorities**

- 4.8 At their meetings, respectively on 28 January 2010 and 5 February 2010, the PCT Board and Council approved the high level vision, themes, strategic objectives and long term outcomes for the Joint Corporate Plan 2010-13. On 14 June 2012 Cabinet received a report on 'Understanding Herefordshire' (the integrated evidence base and needs assessment); in light of this Cabinet have agreed that a review of the Corporate Plan be undertaken and the recommendations of Cabinet regarding a refreshed Corporate Plan are scheduled for Council consideration in November 2012.
- 4.9 The Joint Corporate Plan is supported by an annually refreshed delivery plan; the most recent iteration of the delivery plan, including measures and projects, was approved by Cabinet on 5 April 2012.
- 4.10 The Plan provides the starting point for performance monitoring reporting and management across the Council, which is supplemented by a range of organisational performance indicators.

## **(C) Medium Term Financial Strategy**

- 4.11 The Medium Term Financial Strategy was developed in line with the Council's approved financial procedures. There was an integrated approach to corporate, service and financial planning processes. It is a joint plan with Herefordshire PCT.
- 4.12 The updated Medium Term Financial Management Strategy for 2011/14 was presented to Cabinet on 19 January 2012. Cabinet recommended to Council the recommendations for updating.
- 4.13 In their Annual Audit Letter dated November 2011 the Audit Commission noted that "The Council did well to comply with the requirements of International Financial Reporting Standards (IFRS) adopted for the first time



in the 2010 CIPFA Code of Accounting Practice (the Code). The Code introduced numerous new requirements, the most significant of which related to accounting for leases, property, plant and equipment, grants and contributions. The project to implement IFRS was very well managed and included regular progress reports to the Audit & Governance Committee”.

#### **(D) Code of Governance**

- 4.14 The Audit & Corporate Governance Committee approved the Annual Governance Statement for 2010/11 at its August 2011 meeting.
- 4.15 The Audit and Governance Committee considered the Audit Commission’s Annual Governance Report at their September 2011 meeting. The Audit Commission made five recommendations which were accepted by the Council.

#### **(E) Financial management arrangements**

- 4.16 The Audit Commission’s Annual Audit and Inspection Letter dated November 2011 highlighted the Council has generally good financial management arrangements. In particular the Council had well established medium term financial planning and budgeting to support the delivery of corporate and community plans.
- 4.17 The Council had an overspend of £238,000 in 2011/12; this was funded from the general fund.
- 4.18 The Council established Hoople Ltd in October 2011. Since this date a number of the Council’s financial management processes have been undertaken by Hoople on behalf of the Council such as the production of monthly budgetary control statements which are distributed to officers within the Council. Hoople also input into the Council’s medium term financial planning process through the production of cash flow forecasts. The Council obtains assurance on how effectively financial management controls within Hoople have been applied in a number of ways. This includes Audit Services completing internal audit reviews of key systems which are then reported to the Council’s management and the Audit and Governance Committee.

For 2011/12 there is a new requirement for the Council to declare whether it conforms with the financial management arrangements prescribed in the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government* (2010) and set out in the Application Note to *Delivering Good Governance in Local Government: Framework*.

It is a matter for an individual council to assess whether it wishes to confirm with the recommended financial management arrangements in the CIPFA statement. The council has taken the view that it broadly complies with most key aspects. However, it has decided not to follow CIPFA’s statement about the position in the organisation of the lead financial role in the authority but has taken steps to allow access of the S151 role to both the Chief Executive and Leadership Team.

## **(F) Performance management arrangements**

- 4.19 The Council has a joint performance improvement framework which underpins the Joint Corporate Plan. The performance improvement framework encompasses the Council's arrangements for preparing directorate and service plans in support of corporate priorities.
- 4.20 The arrangements for monitoring performance within directorates and reporting progress to members is established and culminated in quarterly Integrated Corporate Performance Reports to Cabinet in 2011/12. The performance reports detail performance against the key priorities, performance measures and commitments as included in the Joint Corporate Plan. In addition, as part of the report, each directorate now provides a commentary highlighting other performance related issues that were not part of the original Joint Corporate Plan, including those of partners.
- 4.21 The framework is being updated for 2012-13 to better illustrate the performance of our strategic partners in enabling the Council to deliver against its agreed priorities.
- 4.22 The end of year Integrated Corporate Performance Report was presented to Cabinet on 14<sup>th</sup> June 2012. In summary the report states that:
- Direction of travel: For those indicators where data has been reported that can be compared with the same period last year, 56.8% are showing improvement (50.7% in 2010-11).
  - Achievement of targets: where either end of year or latest data is available 64% have achieved or exceeded target.
  - Delivery of projects: the majority of projects either have been delivered to schedule or are on target.

## **(G) Risk management arrangements**

- 4.23 Since April 2011, the Council has developed its approach to risk management to ensure that processes are consistent across the organisation at a Directorate level. A single framework has been adopted for the documentation of strategic and operational risks, based upon an Excel spreadsheet model. The approach includes reporting the strategic risks which arise from Directorates through to the HPS Leadership Team, with overall Directorate risks reported to the Resilience Group.
- 4.24 The role of the Resilience Group is to develop and implement a consistent approach to risk management across HPS, promoting a risk management culture. In addition, its role includes reviewing significant new and emerging risks and monitoring the effectiveness of risk escalation to the Leadership Team.
- 4.25 The Council approved its Risk Management and Assurance Policy and Guidance in September 2011; it reflects good practice principles and as a consequence the design of the process is considered effective. The Policy includes the roles and responsibilities of Officers and Groups across the

Council, and documents the process for risk identification, control, reporting and monitoring. Director's and Managers are responsible under the Risk Management Policy to manage risks assigned to them, ensuring effective risk management processes are in place. This includes the reporting of significant risks and those risks where there is inadequate control to the relevant Committee or Board.

- 4.26 The formal arrangements which have been developed are at a Directorate and Division level. Service areas and teams have been encouraged to discuss risk management and develop risk management arrangements; however, there is not prescriptive format for the recording of risks at this level, as is in the case of Division and Directorate level.

#### **(H) Anti-Fraud, anti-corruption and whistle-blowing arrangements**

- 4.27 The Council has anti fraud and corruption and Whistle-blowing policies which were last updated in October 2011. These policies are available on the Intranet. Staff induction includes ensuring employees are aware of all relevant policies and procedures. Reminders are issued throughout the year through corporate communication channels. There were 2 whistleblowing incidents recorded in 2011/12.

- 4.28 The Council suffered a suspected fraud in February 2012 whereby a false invoice was paid. This matter is with the Police and the Council has been informed that the monies will be repaid. In response to the fraud, the Council has:

- prepared a case file (through Internal Audit) which has been given to the Police to assist them;
- under the direction of the Chief Officer – Finance and Commercial reviewed the circumstance of the fraud and sought to close down weaknesses that allowed the fraud to be committed; and
- undertaken further work to assess whether there have been further fraudulent payments – no issues were found.

#### **(I) Project management arrangements**

- 4.29 The Council has adopted the Prince 2 project management methodology for all major programmes and projects. The key principles of the Prince 2 methodology are applied to the management of less major projects. There is a Corporate Programmes team with project management responsibilities.
- 4.30 The Joint Corporate Plan 2010-13 contains a large number of projects. The status of projects is monitored through the quarterly Integrated Corporate Performance Report presented to Cabinet.

#### **(J) Community engagement**

- 4.31 The Community Engagement Framework is about developing a dialogue between public agencies and the local communities - listening, talking and

working together, so that people are involved in addressing the issues that impact on their lives and feel they are able to influence service providers and vice versa.

- 4.32 Implementing the Framework is happening in tandem with the Locality Strategy. To take this forward, as well as ensuring more effective co-ordination in those areas on which HPS needs to engage with citizens, HPS and its partners are also supporting mechanisms and facilitating opportunities for communities to be proactively engaged in issues which matter to them. The latter includes existing mechanisms such as parish plans, together with new opportunities provided through locality working.

**(K) Data Quality**

- 4.33 Although the Council recognises the importance of data quality and had a data quality action plan aimed at improving the quality of arrangements in place, the organisational changes during 2011 meant that no plan was put in place for 2011/12.
- 4.34 The essential elements of the previous 2010 quality action plan were completed and 'signed off' by Cabinet on 22 July 2010 accepting that 7 tasks remained amber rated. This was an improved position when compared to the prior year when some tasks were rated as 'red'. The existing DQ action plan is now almost 2 years out-of-date. Therefore the People, Policy, and Partnerships division of Corporate Services will be reviewing the legacy data quality action plan in 2012/13 in order to create a new DQ plan.
- 4.35 The need to maintain and improve data quality remains critically important and the review and resulting 2012/13 action plan will be reported through the new Information Management & Technology (IM&T) governance arrangements. The actions agreed will then be monitored through the integrated corporate performance report to Cabinet & the Overview and Scrutiny Committee rather than by separate reports.
- 4.36 There is a Data Quality Policy previously agreed by Cabinet in May 2008 and updated in July 2010. This is due for review in May 2013.

**(L) Independent review**

- 4.37 The Audit and Governance Committee met six times during the year. The Committee received reports from officers, Audit Services and the Audit Commission in a number of areas including internal control, external audit and governance.
- 4.38 The Council's responsibility for maintaining an effective internal audit function is set out in Regulation 6 of the Accounts and Audit Regulations 2003. The responsibility is delegated to the Chief Officer - Finance and Commercial Services. This Officer also has responsibility for the administration of the Council's financial affairs as set out in section 151 of the Local Government Act 1972.

- 4.39 The Audit Services Team operates in accordance with best practice, professional standards and guidelines. The Team independently and objectively reviews, on a continual basis, the extent to which reliance can be placed on the internal control environment. This is evidenced by the opinion given on the Council's overall system of control by the Head of Audit which was a "Satisfactory – except For" opinion for 2011/12.
- 4.40 The Audit & Corporate Governance Committee receives interim and annual reports on internal audit activity and approves the annual audit plan and Audit Strategy.
- 4.41 The Audit Commission's Annual Audit and Inspection Letter dated November 2010 highlighted that they placed reliance on the work of Internal Audit in relation to substantive tests that addressed the risks of mis-statement identified.
- 4.42 Ombudsman responsibility passed this year to the CIU.
- 4.43 Audit Services have completed their work on the Council's financial and other key systems. The majority of systems were graded as either Substantial or Adequate. Seven areas were graded as providing "Limited Assurance", these were General Ledger, Accounts Payable, Agresso IT controls, Health and Safety, Business Continuity and Sustainability.

**(M) External Inspections - Audit Commission Annual Audit and Inspection Letter (November 2011)**

- 4.44 The Audit Commission in their Annual Audit Letter stated that the Council is managing and using its money, time and people to deliver value for money. The Letter notes that further work is required to ensure that more effective measures are put in place to address the main risk of adult social care over spending.
- 4.45 The Audit Commission also noted the Council has put in good governance arrangements to deliver anticipated savings. However, these processes could be improved, through clearer reporting to Cabinet.

*Information Technology Security Techniques (ISO 27001)*

- 4.46 The external assessor SGS completed their 2011/12 audit in December 2011, and concluded after a further visit in March 2012 that Herefordshire Council ICT Services has maintained its information security management system in line with the requirements of the standard.
- 4.47 The Council's ISO27001 certification was continued.

**(N) Assurances by Managers**

- 4.48 Written assurances have been received from managers. These confirm that they have examined transactions charged to their budgets in 2011/12 and that they do not include any suspicious or unexplained entries.

## 5. Significant Governance issues 2011/12

There were three significant internal control issues identified in the Annual Governance Statement for 2010/11. The progress made on these issues are set out below:

- the Council continue to embed Risk Management, improve the control framework within the Council's key systems and develop the control environment in relation to Hoople. - All of these areas have been progressed by the Council. Improvements have been made to the Risk Management framework within the Council, such as ensuring that risk is considered by the Council's senior management team through discussion and analysis at the Resilience Group, although further improvements are required to ensure that risk management practices are consistently implemented across the Council.
- The Council have also developed the control framework in relation to Hoople. Audit Services stated within their report in relation to Hoople that the organisation has made good progress in implementing the structures required to ensure sound governance and robust internal control, although further work is required so that these processes are embedded within the Company. The Council have also managed to ensure that controls within some of its key systems are consistently implemented.
- However, Audit Services have identified that significant improvements are required in key areas, such as Health and Safety and Business Continuity. This has been raised as a Significant Control Issue for 2011/12

- 5.1 The significant governance issues identified as a result of the annual review of the Council's governance arrangement are as follows:
- 5.2 Audit Services completed reviews of the Council's financial management functions undertaken on their behalf by Hoople. They concluded that further significant work was required to ensure controls are effectively implemented within the Accounts Payable and General Ledger functions. (Chief Officer – Finance and Commercial Services).
- 5.3 The Council also need to develop IT controls within its Agresso system to ensure that any data held is protected and secure. (Chief Officer – Finance and Commercial Services).
- 5.4 Three areas within the Council's corporate function also require further development. Key controls within its Health and Safety and Business Continuity functions need to be established to ensure that these functions can effectively meet their objectives. (Assistant Director – Law, Governance and Resilience). Additionally controls need to be improved within the Sustainability function (Director for Places and Communities).
- 5.5 The Council has experienced significant overspends in relation to Adult and Social Care – it has a detailed project plan to address financial management issues and has set up a Project team to address a number of control issues (Director for People Services).

Cllr John Jarvis  
Leader of the Council

Signed:  
Date:

Chris Bull  
Chief Executive & Head of Paid Services

Signed:  
Date:

David Powell  
Chief Officer – Finance and Commercial Services  
& Section 151 Officer

Signed:  
Date:

Chris Chapman  
Assistant Director – Law, Governance and Resilience  
and Monitoring Officer

Signed:  
Date:





<b>MEETING:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>DATE:</b>	<b>21 SEPTEMBER 2012</b>
<b>TITLE OF REPORT:</b>	<b>ANNUAL ASSURANCE REPORT 2011/12</b>
<b>PORTFOLIO AREA:</b>	<b>CORPORATE SERVICES</b>

**CLASSIFICATION:** Open

### **Wards Affected**

County-wide

### **Purpose**

The purpose of this report is to provide Herefordshire Council with a summary of the internal audit work undertaken in 2011/12 and to provide an overall internal audit opinion based on this work.

### **Key Decision**

This is not a Key Decision.

### **Recommendation**

**THAT subject to any comments the Committee wish to make the report be noted.**

### **Key Points Summary**

- In the opinion of Internal Audit the Council has adequate and effective risk management, control and governance processes to manage the achievement of its objectives except for those areas highlighted as limited.
- Four areas have received substantial assurance including key areas of Treasury Management and Housing Benefit.
- Significant progress in improving controls has been made to date on key areas.
- Prior year recommendations have been implemented.
- The Council can demonstrate it undertakes appropriate and timely action to improve controls in areas requiring improvement.

### **Alternative Options**

- 1 This report is for information therefore alternative options are not applicable.

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Further information on the subject of this report is available from  
Darren Gilbert – Head of Internal Audit on (01432) 260425

## Reasons for Recommendations

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

## Introduction and Background

- 3 The annual report is required to ensure that the Committee is informed of the internal audit work undertaken in 2011/12.
- 4 The report also provides the Council's Section 151 Officer (The Chief Officer – Finance and Commercial Services) with an opinion on the adequacy and effectiveness of the Council's governance, risk management and control processes.

## Key Considerations

5. The audits have been conducted in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government. This framework is required to be used by all local authorities and has led to an assurance assessment based on:
  - All audits undertaken during the year;
  - Any significant recommendations not accepted by management and the consequent risks;
  - The effects of any significant changes in the Council's objectives or systems;
  - Matters arising from previous reports to the Audit and Governance Committee; and
  - Any limitations which may have been placed on the scope of the internal audit.
6. The internal audit plan was approved by the Audit & Governance Committee on 23<sup>rd</sup> August 2011. Sufficient internal audit work has been carried out to draw a reasonable conclusion about the adequacy and effectiveness of the Council's risk management, control and governance processes. In 2011/12 a total of 28 audit reviews and reports have been either finalised or are in draft. The attached appendix provides further information on these reviews.
7. The report also assess whether the internal audit service complies with the CIPFA Code of Practice on Internal Audit, which contains 11 standards. The service fully complies with seven and partially complies with the remaining four. Actions are indicated to ensure the four partial compliance areas meet full requirements. This will be monitored by the Chief Officer - Finance & Commercial in regular liaison meetings with KPMG.
8. The report notes that the Council has faced a number of challenges in 2011/12. These range from the impact of the government's deficit reduction programme to local issues such as determining the future of the AMEY partnership.

## Financial Implications

9. There are no financial Implications.

## Legal Implications

10. There are no Legal Implications.

## **Risk Management**

11. There is a risk that the level of work required to give an opinion on the Council's systems of Internal Control is not achieved. The plan is monitored on a regular basis in order to mitigate this risk. The Chief Officer: Finance & Commercial receives monthly reports on progress.
12. It is important that the council's governance, risk management and control processes provide assurance so that no major weaknesses can be exploited. The most that can be provided to a council's section 151 officer is reasonable assurance.

## **Appendices**

### **Appendix 1- Internal Audit Opinion - 2011/12**

## **Background Papers**

- Audit Plan 2011/12 approved by the Audit and Governance Committee on 23<sup>rd</sup> August 2011.

### Internal Audit Opinion

#### 1. Section 1

##### 1.1. Introduction

1.1.1. This section sets out the respective roles of Internal Audit and Management and how we formulate our opinion on the Council's risk management, control and governance processes.

##### 1.2. Role of Management and Internal Audit

1.2.1. Under the Accounts and Audit Regulations Act, the Council has a duty to ensure that its financial management is adequate and effective, that there is a sound system of internal control and robust risk management arrangements are in place. The primary responsibility for maintaining effective risk, control and governance arrangements rests with management. It is management's responsibility to establish and maintain the systems of internal control so that activities are conducted in an efficient and well-ordered manner. This management responsibility is devolved under Section 151 of the Local Government Act 1972 to the Council's Chief Financial Officer. At Herefordshire Council this responsibility rests with the Chief Officer – Finance and Commercial Services.

1.2.2. Internal Audit is the independent appraisal function established by management to review the internal control system as a service to the Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.

1.2.3. Internal Audit also acts as an aid to management and produces reports as a result of each of the reviews undertaken. It works in partnership with management to find solutions to any issues identified and seeks its agreement to any recommendations for improvement.

#### 2. Section 2

##### 2.1. Internal Audit Opinion

2.1.1. This section sets out our opinion and how we have arrived at this based on the work undertaken.

##### 2.2. Formulation of opinion

2.2.1. Our internal audit work was carried out in accordance with the approved Internal Audit Plan. This was approved by the Audit and Governance Committee on 23 August 2011. The Plan was constructed in such a way as to allow us to make a statement on the adequacy and effectiveness of the Council's governance, risk management and control processes. Our report provides one element of the evidence that underpins the Annual Governance Statement ("AGS") the Council is required to make within its annual financial statements. This is only one aspect of the assurances available to the Council as to the adequacy of its governance, risk management and control processes. Other sources of assurance on which the Council may rely on could include:

- The work of the External Auditors;
- The result of any quality accreditation;
- The outcome of any visits by government agencies;
- Other pieces of consultancy or third party work designed to alert the Council to areas of improvement; and
- Other external review agencies (i.e. Ofsted).

## **2.3. Opinion**

2.3.1. As the providers of internal audit to the Council, we are required to provide the Section 151 Officer (The Chief Officer – Finance and Commercial Services) with an opinion on the adequacy and effectiveness of the Council's governance, risk management and control processes. In giving our opinion it should be noted that assurance can never be absolute. The most that internal audit can provide to the Section 151 Officer is reasonable assurance that there are no major weaknesses in the Council's governance, risk management and control processes. In assessing the level of assurance to be given, we have taken into account:

- All audits undertaken during the year;
- Any significant recommendations not accepted by management and the consequent risks;
- The effects of any significant changes in the Council's objectives or systems;
- Matters arising from previous reports to the Audit and Governance Committee; and
- Any limitations which may have been placed on the scope of the internal audit.

2.3.2. We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of the Council's risk management, control and governance processes. In our opinion, the Council has adequate and effective risk management, control and governance processes to manage the achievement of its objectives except for those areas highlighted as limited in Appendix 1. In these areas agreed improvement plans are in place.

## **2.4. Basis of Opinion**

2.4.1. The opinion is based on the specific results of our work and our assessment of how effectively the Council manages key aspects of its business, such as its risks, projects, performance and its staff.

## **2.5. Results of our Work**

2.5.1. We have completed all of our reviews and special assignments either in draft or in final. In many areas the Council's arrangements are adequate. We have also issued seven Limited Assurance opinions which mean that the Council needs to improve control environments in a number of areas. These were its Accounts Payable and General Ledger functions, its IT system, Agresso, and other corporate functions including Health and Safety, Business Continuity, Performance Management and Sustainability. These are critical systems and as such improvements will need to be made quickly to manage risks.

## **2.6. Overall view**

2.6.1. The Council faced and continues to face a number of challenges that have come together at a single moment in time. These include addressing key issues such as the financial management arrangements in Adult and Social Care, managing activities within a significantly reduced funding envelope as a result of government cuts, determining the future of the AMEY

partnership, working through its waste management partnership with Worcestershire, bedding in working arrangements with Hoople and driving through efficiency savings in the way in which all services are delivered. This is a significant change agenda on top of delivering business as usual. At such a time there is a requirement that core business processes – risk management, performance management, project management and people management – to be robust and effective.

2.6.2. Through our work, we have seen a number of examples which indicate that whilst on paper the right policies and procedures exist the application of them in practice, in some areas, has not delivered the expected results. We have given our view on the effectiveness of core business processes below:

- Risk management – policies and procedures are in place and the framework looks robust however the effectiveness of risk management is judged primarily through the achievement of successful outcomes. The results of work in areas such as business continuity, health and safety, adult and social care and performance management indicate that the results are mixed. Our work also indicates that the sound application of existing processes and the conviction that risk management will help achieve good results is variable. We believe the leadership needs to continue to push the importance of risk management.
- Performance management – the quest for a performance dashboard that gives real time information and assurance about how well the organisation is doing is critical. The Council continues to invest time in getting this right but there are still issues around how reliable information is, whether the right information is reported and whether the different dimensions of performance (quality, value for money, customer satisfaction etc) are adequately covered. This is reflected in our work on the Council's performance management process.
- Project management – the Council has well defined project management processes which on the whole appear to work well. However, the application of these processes is variable and the Council needs to ensure that there is greater focus on ensuring that the benefits of projects are realised.
- People management – people are the organisations greatest asset – they manage risks at the front line and are the customer face of the organisation. We have identified through our audit work, officers in some cases not following procedures that help and prevent the Council being exposed to risk. Whilst this is to some degree inevitable in an organisation of the Council's size, a re-emphasis on getting the basics right is important as in our experience it can hamper growth and transformation.

## **2.7. Significant Control Issues**

2.7.1. The Council is required to include in its Annual Governance Statement (AGS) any significant control issues. Based on the reviews undertaken by Internal Audit we believe the following issues should be included:

- The Council needs to strengthen controls within the Accounts Payable and General Ledger functions to ensure that the design and operation of systems are sufficient to manage key risks;
- The controls within the Agresso IT system need strengthening to ensure that risks in relation to inappropriate access and manipulation of data are mitigated;

- The Council need to develop controls within its key corporate systems such as Health and Safety, Business Continuity, Performance Management and Sustainability to ensure that they can meet their objectives and manage key risks; and
- The controls within the Adult and Social Care function are strengthened to ensure that the system can meet its objectives in terms of the service it delivers and the financial resources being managed.

It should be noted that there is already evidence that controls in the Agresso system have been strengthened.

### 3. Section 3

#### 3.1. Work completed

3.1.1. This section sets out the work which we completed during the year, the audit opinions given to each audit area, together with the number and priority of recommendations which we made. This section also details the results of our follow up work on recommendations made in 2010/11.

#### 3.2. Internal Audit Plan

3.2.1. The Internal Audit plan was approved by the Audit and Governance Committee on 23 August 2011. The following table provides further information on the status of these reviews:

Total number of Audit Reviews	No of Audits Completed	No of Audits completed in Draft	No of Audits in Progress	No of Audits deferred	Advice and Support provided
38	27	1	2	3	5

3.2.2. 28 audit reviews and reports have been either finalised or are in draft. We have set out in Appendix 1, the audit opinions we have given to reviews which have been finalised. This appendix also provides further detail on the findings flowing from each of the Limited reviews.

3.2.3. An overall summary of the gradings and the priority of the recommendations made over the year are set out within the graphs below. We also have provided further information in Appendix 2 and 3 of how we grade our audit reports and our audit recommendations.

3.2.4. Our draft report on the AMEY contract has been issued to management. However, the findings flowing from the report have not been agreed as negotiations with AMEY continue.

3.2.5. Two reviews are in progress. One piece of work involves Audit Services on behalf of the Council compiling the Annual Governance Statement (AGS). This is due to be completed shortly and a draft of the AGS will be submitted to the Audit and Governance Committee for approval in September 2012 prior to it being included within the Council's Financial Statements. We are also currently completing our work on the Rising to the Challenge (RTTC) project.

3.2.6. Three audits were deferred. Our reviews of HALO and the Adult and Social Care functions were deferred awaiting the outcome of separate Council led reviews. In relation to ASC KPMG were separately commissioned to input into this work. Our work in relation to the schools function was deferred due to the Financial Management Standard in Schools (FMSiS) process being withdrawn in 2011. In conjunction with the Schools Finance team we have now agreed

a new audit process and we will use this approach to undertake audits of Schools as part of our 2012/13 audit plan.

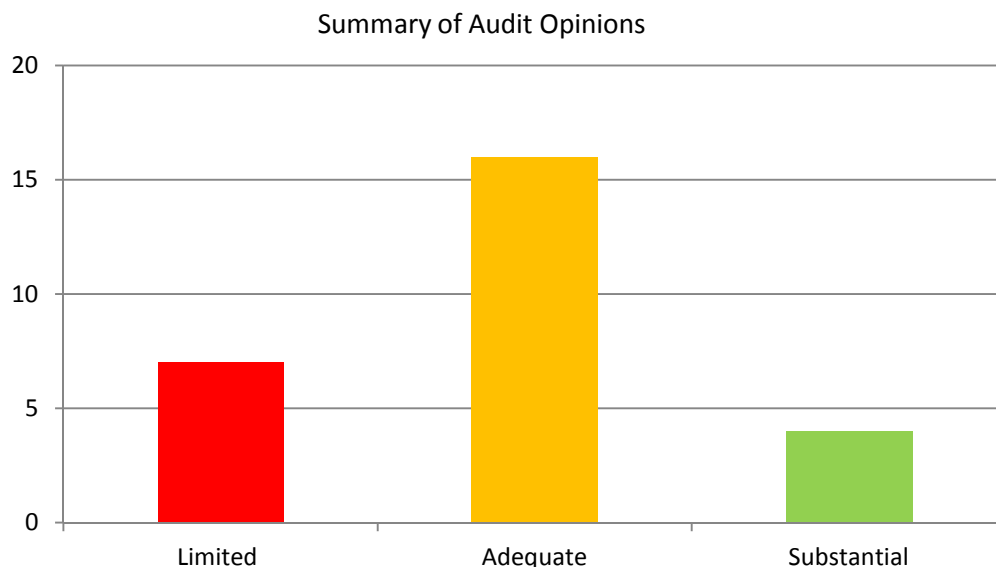
3.2.7. Audit Services has also contributed into a number of other reviews for the Council. We have provided further details on this in Appendix 2.

### 3.3. Findings from our work

3.3.1. The graphs below show the overall assurance grades we have given for the reports issued and the number and priority of recommendations made in the period. We issued a total of 28 audit reports and made 125 recommendations. Four areas were graded as 'substantial assurance' which reflects positively on the organisation and its control framework. These include areas such as Treasury Management, Member Allowances and Housing Benefit. Sixteen areas have been rated as Adequate and this assurance conclusion suggests scope to improve, but not fundamental control weaknesses. These areas include, Risk Management, Payroll and Debtors.

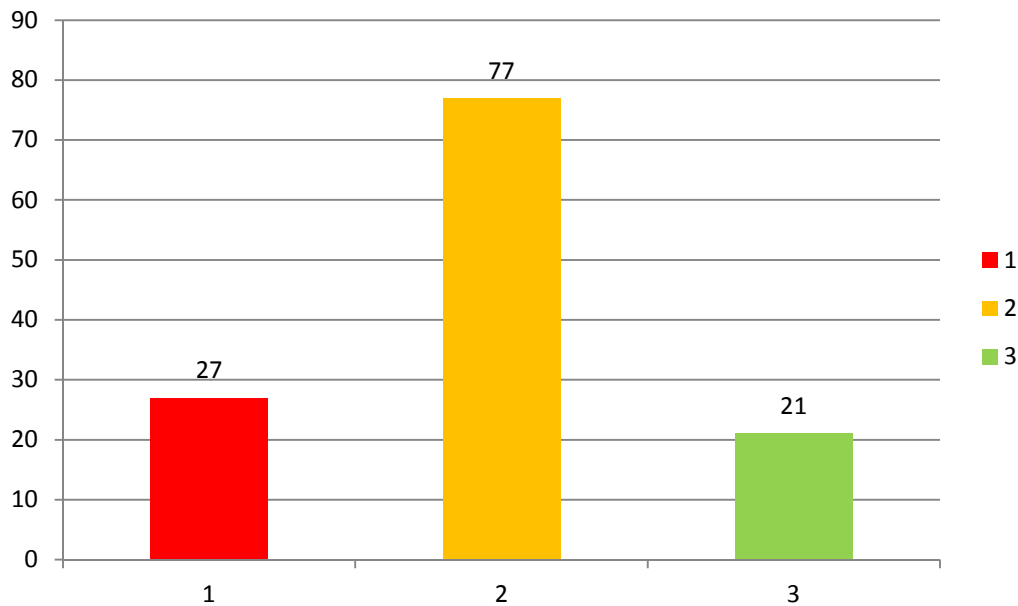
3.3.2. Seven areas were rated as Limited Assurance indicating that the control framework is weak within that area and significant improvements are required to ensure that key risks are being mitigated. Two of these areas are key financial systems, General Ledger and Accounts Payable. Other areas include corporate systems, such as Performance Management, Health and Safety and Business Continuity. The Council has recognised that significant improvements are required to these systems and has put in place action plans to resolve the issues which Internal Audit has highlighted.

#### Graph setting out a summary of Audit Opinions during the year





### Graph setting out a summary of recommendations by Grade



3.3.3. We have set out in Appendix 1, a summary of the findings flowing from each of the reviews where we have given a Limited Audit Opinion.

### 3.4. Follow up of prior year recommendations

3.4.1. As part of our work we reviewed Internal Audit work completed in 2010/11. This was split in two areas. We firstly focused on areas that were graded as providing the lowest level of assurance in the previous year. This was to assess the progress the Council had made in improving the control environment within that function. As part of this work we reviewed the Agency Payments and Education Transport areas. The results of this work are set out in Appendix 1.

3.4.2. We identified that the Council had made good progress in implementing recommendations made within these reviews with the majority having been implemented within the required timescales.

3.4.3. A second element of our work involved reviewing priority one recommendations made within audit reports issued in 2010/11 to assess if they had been effectively implemented. This was through either Internal Audit reviewing the same function as part of the Internal Audit Plan 2011/12 or requesting an update from management on the status of the recommendation they were responsible for implementing. Both of these processes only focused on Priority 1 recommendations. The table below details the findings from this assessment:

No of Rank 1 Recommendations	Implemented	No longer applicable	Outstanding	Total
50	44	6	-	50

3.4.4. It is clear overall good progress has been made in implementing prior year recommendations. This demonstrates that the Council once made aware of areas for improvement undertakes appropriate and timely action to improve controls within that area.

### 3.5. Other work completed

#### 3.5.1. Assistance and Guidance

Internal Audit has provided assistance and guidance to Chief Officers, Directors and Members in the following areas in five areas, PFI, Benefits Realisation, Performance +, Procurement processes within People Services and Fees and Charges rather than completing detailed audits.

### 3.6. Alleged Fraud

3.6.1. In the year, the Council identified that a false invoice was paid. The council's section 151 officer took very prompt action and referred the matter to the Police and Internal Audit. In response to the fraud, the Council has:

- prepared a case file (through Internal Audit) which has been given to the Police to assist them;
- reviewed the circumstance of the fraud and sought to close down weaknesses that allowed the fraud to be committed – this work is still ongoing; and
- undertaken further work to assess whether there have been further fraudulent payments – no issues were found.

## 4. Section 4

### 4.1. The Internal Audit Function

4.1.1. This section sets out how the Internal Audit function has performed against its Key Performance Indicators (KPI's) together with an analysis of the audit resource required to deliver the reviews.

### 4.2. Performance of Internal Audit

4.2.1. There a number of ways Internal Audit measures its performance. These include assessing performance against a set of Key Performance Indicators, reviewing compliance with the CIPFA Code of Practice for Internal Audit in Local Government 2006 and feedback from management through regular meetings.

### 4.3. Key Performance Indicators

4.3.1. The table below details the performance of the Internal Audit function against its KPI's:

Performance Measure	Target	Actual	Comment
<b>The percentage of Audits completed within plus 10% of target times</b>	80%	80%	-
<b>Managers review of draft reports within 15 days of receipt from the Auditor</b>	80%	100%	-

<b>Final Reports issued within 10 days of agreement by client</b>	80%	98%	-
<b>Percentage of recommendations accepted by management</b>	95%	100%	-
<b>The percentage of Service managers satisfied with the Service measured through the CIPFA Audit Satisfaction Survey.</b>	-	-	See below

#### **4.4. Feedback from management**

4.4.1. Historically there has been a very low level of response to the Audit Feedback surveys issued to Managers. Therefore, Internal Audit has obtained feedback directly from Council staff who have been involved in the audit process through face to face meetings and e-mail. We have summarised below the key themes arising from these discussions.

- Management believe that Internal Audit has worked more effectively in collaboration with officers to ensure that audits focus on key risks and do not duplicate other related work e.g. our work on fees and charges was deferred pending the Council's own scrutiny review;
- Managers believe that recommendations flowing from the audits are focused and can make real improvements to the controls within that function, for example, flowing from our ABG Grant review management commented that our recommendations made a real difference to how they monitored projects and how they ensured that projects were delivering on their objectives;
- Managers believe that Internal Audit is responsive and flexible to requests made to complete audit work in response to an urgent issue, for example, we completed audit work in relation to the attempted fraud at short notice re-prioritising our existing work; and
- Management appreciate Internal Audit bringing in specialist KPMG resource where necessary to really make a difference to the work being completed. This occurred in our reviews of the Council's Health and Safety and Business Continuity functions.

4.4.2. There were areas for development highlighted by the feedback; these included the timeliness of reporting and specifically ensuring that draft reports are sent through to management as soon as possible after the de-brief date. We have discussed these issues and made changes in working protocols to ensure reports are issued promptly.

#### **4.5. CIPFA Compliance**

4.5.1. The CIPFA Code of Practice for Internal Audit in Local Government sets out how the Internal Audit service should be provided within a local authority. On an annual basis compliance against the Code of Practice should be assessed and reported to members

4.5.2. The following table sets out the key standards within the code, if the Internal Audit function is complying with the standard, fully or partially and any comments flowing from the assessment.

Standard	Fully Met	Partially Met	Not Met	Comments
Scope of Internal Audit	-	Y	-	The Audit Charter that sets out the scope of Internal Audit requires updating. This will be completed in September 2012.
Independence	Y	-	-	-
Ethics for Internal Auditors	Y	-	-	-
Audit Committee's	-	Y	-	The Audit Committee has not had the opportunity to meet privately with the Head of Internal Audit. This issue will be raised with members at the September 2012 Audit and Governance Committee.
Relationships	Y	-	-	-
Staffing, Training and Continuing Professional Development	-	Y	-	Job descriptions for the Internal Audit Team require updating following their transfer to Hoople. This will be completed in September 2012.
Audit Strategy and Planning	Y	-	-	-
Undertaking Audit Work	Y	-	-	-
Due Professional Care	Y	-	-	-
Reporting	Y	-	-	-
Performance, Quality and Effectiveness	-	Y	-	We have redrafted our audit satisfaction questionnaire to ensure that it can be more easily completed by management and we can obtain more useful feedback on the audit process.

4.5.3. The above assessment shows that the Internal Audit function is either complying or partially complying with all of the standards set out within the Code. Where the assessment has highlighted areas of partial compliance these are to be resolved in the forthcoming months.

#### 4.6. Audit Resource

4.6.1. In 2011/12 audit days were delivered through a combination of Council staff and secondments from KPMG. For the first 3 months of the year Council staff completed work on the previous year and other ad-hoc work. In the Annual Internal Audit Plan 2011/12 which we presented to the Audit and Governance Committee in August 2011 we envisaged inputting a total of 850 days in order to complete the Internal Audit Plan. We have set out below further detail on how these days were allocated in 2011/12:

Area	Days
Council Team	600
KPMG input (secondments)	200
Subtotal	800
Other ad-hoc work	50
Total	850

4.6.2. The above analysis shows that the audit plan was delivered within the number of days set out within the Annual Internal Audit Plan for 2011/12.

## Appendix 2 – Status of Audit Plan 2011/12 – July 2012

We have set out below reviews for 2011/12. These have been split by Directorate and detail the number and priority of recommendations made (we have set out the definitions of the individual priorities in Appendix 3). Where we have finalised reviews, all recommendations made within those audits have been agreed by management.

No	Audit Review	Status	Audit Opinion	Recommendations		
				P1	P2	P3
<b>Directorate: Corporate Services</b>						
1	Member Allowances	Finalised – October 2011	Substantial	-	-	-
2	Treasury Management	Finalised – January 2012	Substantial	-	-	-
3	Anti-Fraud and Corruption – Hot Topics – Officer Expenses	Finalised – January 2012	Substantial	-	-	1
4	Anti-Fraud and Corruption – Review of Council’s arrangements.	Finalised – June 2012	Adequate	-	4	-
5	Director Annual Assurance Statements	Finalised – March 2012	Adequate	-	5	-
6	Risk Management	Finalised - August 2012	Adequate	-	7	-
7	Health and Safety including Public Health	Finalised – June 2012	Limited	8	3	-
8	Business Continuity/ Emergency Planning and ICT Disaster Recovery	Finalised – May 2012	Limited	1	2	1
9	Performance Management	Finalised – May 2012	Limited	-	10	-
10	Rising to the Challenge – Project Monitoring	In progress – to be issued shortly	-	-		
11	Benefits Realisation	Feedback provided to the Chief Officer – Finance and Commercial.	-	-		
12	Project Management – Performance Plus	Feedback provided to the Assistant Director, People, Policy and Partnerships.	-	-		
13	Annual Governance Statement	In progress – to be issued shortly	-	-		
14	Follow Up – Agency Payments	Finalised – December 2011	Adequate			

No	Audit Review	Status	Audit Opinion	Recommendations		
15	PFI	Advice and support being provided by KPMG to the Chief Officer – Finance and Commercial.	N/A	-		
16	Fees and Charges	Advice and support provided to the Task and Finish Group.	N/A	-		
<b>Hoople</b>						
17	Payroll	Finalised – February 2012	Adequate	-	4	2
18	Accounts Payable	Finalised - June 2012	Limited	3	2	2
19	Debtors	Finalised - July 2012	Adequate	-	2	-
20	General Ledger inc FMS Bank Reconciliations and Transfer of Balances on Agresso	Finalised – June 2012	Limited	2	2	
21	NNDR and Council Tax	Finalised – October 2011	Adequate	-	2	3
22	Housing Benefit	Finalised – October 2011	Substantial	-	-	2
23	Cash and Deposits	Finalised – March 2012	Adequate	-	2	-
24	ICT Services Review (ISO 27001), including IDOX and Academy	Finalised –February 2012	Adequate	-	4	-
25	Agresso IT Controls	Finalised – June 2012  The audit resource from IT Strategy audit was reallocated to this area based on discussions with management. IT Strategy will be included with the Audit Plan for 2012/13.	Limited	7	12	-
26	Hoople - Governance	Finalised – March 2012	Adequate	-	2	2
27	Gifts and Hospitality	Finalised – August 2011	Adequate	-	3	1
28	Anti Money Laundering	Finalised – January 2012	Adequate	-	-	6
<b>Directorate: People Services</b>						
29	Education Transport (Follow Up)	Finalised June 2012	Adequate	-		
30	Licensing - Taxi's	Finalised – January 2012	Adequate	-	2	-
31	Schools	We have discussed and agreed the scope of this work with management and will be completing this work in July 2012.	-	-		

No	Audit Review	Status	Audit Opinion	Recommendations		
32	Procurement Audit	Advice and support provided by KPMG to the Director for People Services	-	-		
33	Adult and Social Care including ISIS Framework 1, Children Services – Early Years and Integrated Commissioning	A separate review of this area is being undertaken by the Council. KPMG have inputted into the review and we will follow up the recommendations flowing from this as part of our 2012/13 Internal Audit Plan.	-	-		
<b>Directorate: Places and Communities</b>						
34	AMEY Contract	Draft report issued – March 2012	TBC	-		
35	HALO Leisure Management	This audit has been deferred pending the completion of an internal review. The Council are currently completing a review of its Leisure Services which will also focus on HALO and how it fits into the Council's overall aims and objectives in delivering Leisure Services.	N/A	-		
36	ABG Grant Review	Finalised – October 2011	Adequate	-	4	1
37	Sustainability	Draft Report issued –Final September 2012	Limited	6	1	-
38	Planning	Finalised – June 2012	Adequate	-	4	-

## Other work

We have also provided assistance and support into matters raised by Council officers. These include:

Area	Comment
Licensing	Information and advice provided to the Director of People Services. This involved a review of an application submitted for a County Transportation Badge.
Carers Support	Information and support being provided to the Chief Officer – Finance and Commercial. This process involved Internal Audit assisting the Chief Officer in responding to a query raised by a member of the public.
Procurement of Consultants	Information and support provided to the Chief Officer – Finance and Commercial. This involved reviewing the process by which consultants are appointed to Legal Services.
Review of Project Implementation	Information and support provided to the Assistant Director, People, Policy and Partnerships. This process involved providing guidance to the Assistant Director in the implementation of an IT project.
Whistleblowing process review	A member of the Audit Team assisted in a review of the Whistleblowing process. Feedback was provided to the Assistant Director – Law, Governance and Resilience.
Contract Compliance	Review of recruitment process to assess ways in which it could be streamlined. Feedback report provided to Head of Commercial Services.



Fraud	Review of attempted fraud. Information and support being provided to the Chief Officer – Finance and Commercial.
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## Summary of Findings

The following pages provide a summary of the findings within each of the limited assurance reports which we have issued.

### Health and Safety

The Council had already identified that this area required further significant development prior to the commencement of the audit. In conjunction with KPMG a scope of work was agreed that sought to review existing control issues and advise on how these could be resolved. As part of our audit we noted weakness in the Council's control systems which assured the management of key H&S risks particularly over legionella, fire safety and asbestos. In response to these the Council developed an action plan which outlined the key work streams for improvement. The action plan was reviewed and it was concluded that with the necessary commitment and resource agreed by senior management, it was sufficiently focused to deliver the outcomes the Council required.

### Business Continuity

The Council identified that this key area required further development and positively engaged with KPMG so that key control weaknesses could be identified and resolved. As part of our work we noted that while the Council does not have an up to date Corporate Business Continuity Plan (BCP) or key service line BCP's in place in all areas it has processes which enable it to cope in the event of a Business Continuity event occurring. These processes and the role of the Incident Team were evidenced in action when the Council's IT systems were affected. The Council is aware that the lack of up to date BCP's present a significant risk and this has been raised as an urgent action with senior managers. To mitigate this risk the Council has developed a long term strategy which seeks to develop effective Business Continuity Management processes. The Council's long term strategy was reviewed and assessed as sufficient to ensure the Council has an effective Business Continuity process in place in the future.

### Performance Management

The Council has developed an overall performance management framework; however, there are some key weaknesses in the way in which it is operated that undermine its quality and integrity. There a number of areas where the Council needs to develop its processes, these include ensuring the performance management process adequately monitors the range of the Council's services, developing controls which ensure that the information being reported is timely and accurate and linking performance and cost.

### Accounts Payable (Agresso system)

Agresso is the new integrated support services system which includes the Council's financial management system. It is used to record all the Council's financial transactions and has a number of separate modules which help the Council run its services. These modules include payroll (used for payments to staff), accounts payable (used to raise purchase orders and pay invoices) and debtors (used to raise invoices for council run services). At the request of the Council's Chief Finance Officer (CFO) audit reviewed the adequacy of the design of the accounts payable system to mitigate key operational and fraud risks. We concluded that there were some system weaknesses both from an IT and operational perspective that have exposed the Council to risk. We have issued a comprehensive report setting out the areas where procedures need to be tightened. These include management of

the supplier masterfile (the creation and amendment of supplier information), IT access to the system (who has access to what functions) and the use of direct payments (invoices where there is no order). There is evidence that improvements have been made.

### **General Ledger**

This audit reviewed the Council's controls over its key reconciliations, its suspense and holding accounts, transfer's and journals. We identified that controls operating over these areas, particularly over its bank accounts were weakened during the implementation of Agresso. However, the Council has worked hard to ensure that controls over these processes are currently being adhered to. However, further work is required by the Council to ensure that controls over suspense and journals are robustly applied by the organisation on a consistent basis.

### **Agresso IT Controls**

Alongside the work on Creditors (Agresso) the Chief Officer – Finance and Commercial requested audit services to undertake a review of the IT controls over the Agresso system. IT controls are important in ensuring that staff only have access to appropriate functions related to their role and that data is protected and secure. We identified that the IT access and security controls operating over the system were weakened during the implementation of Agresso. The Council had already tightened up controls before the end of the audit and work continues with Hoople Ltd to address other issues.

### **Sustainability**

The Council arrangements in this area are either not yet in place, or remain embryonic and require further time to develop and become embedded. For example, Cabinet has not to date received reports as to the Council's performance against its 2015 carbon reduction target. The Council recognises the need for improvement in this area and has demonstrated commitment to enhancing the infrastructure required, by appointing the Sustainability Team in January 2012, and has begun to develop a governance structure which includes a Carbon Board and a Carbon Management Team.

## Appendix 2 – Audit Opinions – Definition of Assurance Grading

<b>Conclusion</b>	<b>Definition</b>
<b>No assurance</b>	One or more priority one recommendations and fundamental design or operational weaknesses in more than one part of the area under review (i.e. the weakness or weaknesses identified have a fundamental and immediate impact preventing achievement of strategic aims and/or objectives; or result in an unacceptable exposure to reputation or other strategic risks).
<b>Limited assurance</b>	One or more priority one recommendations, <b>or</b> a high number of medium priority recommendations that taken cumulatively suggest a weak control environment (i.e. the weakness or weaknesses identified have a significant impact preventing achievement of strategic aims and/or objectives; or result in an unacceptable exposure to reputation or other strategic risks).
<b>Adequate assurance</b>	One or more priority two recommendations (i.e. that there are weaknesses requiring improvement but these are not vital to the achievement of strategic aims and objectives - however, if not addressed the weaknesses could increase the likelihood of strategic risks occurring).
<b>Substantial assurance</b>	No or priority three only recommendations (i.e. any weaknesses identified relate only to issues of good practice which could improve the efficiency and effectiveness of the system or process).

### Appendix 3 – Rating of Recommendations

We detail below how we assess the importance of recommendations which we make. Within the table we also set out how we can apply these priorities to recommendations we could make in a particular audit. This example is a review of Health and Safety.

Priority	Definition	Health and Safety Example Audit
<b>Red</b> <i>(Priority 1)</i>	A <b>significant</b> weakness in the system or process which is putting the Council at <b>serious risk</b> of not achieving its <b>strategic</b> aims and objectives. In particular: significant adverse impact on <b>reputation</b> ; non-compliance with key statutory requirements; or substantially raising the likelihood that any of the Council's strategic risks will occur. Any recommendations in this category would require <b>immediate attention</b> .	Issues that result in non-compliance with Health and Safety Legislation, i.e. No Health and Safety Policy in place.
<b>Amber</b> <i>(Priority 2)</i>	A <b>potentially significant</b> or <b>medium level</b> weakness in the system or process which <b>could</b> put the Council at risk of not achieving its strategic aims and objectives. In particular, having the potential for adverse impact on the Council's reputation or for raising the likelihood of the Council's strategic risks occurring, <b>if not addressed</b> .	Issues that may result in non-compliance with Health and Safety legislation if not corrected or improved, i.e. Health and Safety Policy in place, however, incomplete in one or two sections.
<b>Green</b> <i>(Priority 3)</i>	Recommendations which could <b>improve</b> the efficiency and/or effectiveness of the system or process but which are <b>not vital</b> to achieving the Council's strategic aims and objectives. These are generally issues of <b>good practice</b> that we consider would achieve better outcomes.	Issues that are best practice, i.e. Health and Safety Policy in place, however, could be subject to minor improvement, such as listing new job titles for staff.

<b>MEETING:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>DATE:</b>	<b>21 SEPTEMBER 2012</b>
<b>TITLE OF REPORT:</b>	<b>THE ANNUAL COUNCIL MEETING</b>
<b>REPORT BY:</b>	<b>MONITORING OFFICER</b>

**CLASSIFICATION:** Open

#### **Wards Affected**

County-wide

#### **Purpose**

To consider amending the business to be discussed at the Annual Council meeting.

#### **Recommendation(s)**

##### **THAT:**

- (a) **the business to be discussed at the Annual Council meeting in May be amended as shown in appendix 1; and**
- (b) **the Monitoring Officer be authorised to make any consequential amendments to the Constitution.**

#### **Key Points Summary**

- The current arrangements for the Annual Council meeting provide for it to consider a mix of ceremonial and normal business.
- There is a concern that this approach means that justice is not done to the civic and ceremonial role of the Annual Council meeting and that there is the potential for the consideration of normal business to be adversely affected.
- It is proposed that the annual reports from Committees and the Leader of the Council; and questions from members of the public and from Councillors are no longer considered at the annual meeting but instead are considered at a subsequent meeting of Council.

#### **Alternative Options**

1 The principal alternative options considered were:

- to maintain the existing arrangement, or
- to hold an annual Council meeting where the focus is primarily ceremonial and then to hold an additional Council meeting within two weeks of the annual meeting to consider formal business that would previously have been considered at the annual meeting.

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Further information on the subject of this report is available from  
John Jones, Head of Governance on (01432) 260222

## **Reasons for Recommendations**

- 2 The recommendations propose changes to the way in which Council operates to place a greater emphasis on Council's civic and ceremonial roles and to ensure appropriate consideration of the Council's normal business.

## **Introduction and Background**

- 3 The current arrangements for the Annual Council meeting provide for it to consider a mix of ceremonial and normal business.
- 4 The Chairman considers that this approach means that justice is not done to the civic and ceremonial role of the Annual Council meeting and that there is the potential for the consideration of normal business to be adversely affected
- 5 At the Council meeting in May 2012 the need to accommodate ceremonial considerations meant that some significant matters forming part of the normal business were agreed without the level of debate to which they would otherwise have been subject.

## **Key Considerations**

- 6 Paragraph 4.1.5.2 of the Constitution specifies what is to be considered at the Council's Annual meeting. This is attached at Appendix A showing the proposed revisions to the business to be conducted at that meeting.
- 7 The changes proposed are that the following business should no longer be considered at the annual meeting of the Council but should be considered at the next scheduled ordinary meeting of Council following the Annual Meeting:
  - the annual reports from Committees and the Leader of the Council; and
  - questions from members of the public and from Councillors.

## **Community Impact**

- 8 The proposed change would raise the profile of Council. It would also assist in ensuring that Council can give its undivided attention to the normal business put before it.

## **Equality and Human Rights**

- 9 The proposal does not have an impact on the way in which the Council discharges its equality and human rights duty.

## **Financial Implications**

- 10 The proposal entails no additional cost. Additional cost would be incurred if it was decided to schedule an additional council meeting.

## **Legal Implications**

11. The Local Government Act 1972 requires the Council to hold an annual meeting and to conduct certain specified business at that meeting. The proposal meets the legal requirements.

## **Risk Management**

12. There is a risk if the proposals are not agreed that the business considered at the Annual Council will continue to be difficult to manage. Further discussions would have to take place to consider how to address this risk

## **.Appendices**

Proposed amendments to the business to be considered at the Annual Meeting of Council

## **Background Papers**

- None identified.

## Proposed amendments to the business to be considered at the Annual Meeting of Council

Paragraph 4.5.5.2 of the Constitution (with proposed amendments)

The Annual Meeting will:

- a elect a person to preside if the Chairman or Vice-Chairman of the Council is not present
- b elect the Chairman of the Council
- c appoint the Vice Chairman of the Council
- d receive any declarations of interest
- e approve the minutes of the last meeting
- f receive any announcements from the Chairman and/or the Chief Executive
- g elect the Leader of the Council
- h appoint the Chairmen (and Vice-Chairmen) of Committees and other bodies
- i appoint at least one Scrutiny Committee, ~~a Standards Committee~~ and such other Committees as the Council considers appropriate to deal with matters which are neither reserved to the Council nor are Cabinet Functions
- j decide the size and terms of reference of those Committees
- k decide the allocation of seats to political or other groups in accordance with the political balance rules
- l receive nominations of Councillors and co-opted members to serve on each Committee and outside body or in the absence of nominations agree that the Chief Executive may make such appointments on receipt of nominations from the Political Group Leaders in accordance with its decision to allocate seats to political or other groups; and
- m appoint to those Committees and outside bodies except where appointment to those bodies has been delegated by the Council or is exercisable only by the Cabinet
- n agree the functions of those committees set out in Part 3 of this Constitution
- o approve a programme of Ordinary Meetings of the Council for the year (if not already agreed)
- p instruct the Monitoring Officer to make the necessary consequential amendments to the Constitution to give effect to these decisions.
- ~~q receive annual reports from Committees to Council except in the year of election when reports will be made to the March meeting~~
- ~~r receive an annual report from the Leader of the Council except in the year of election when reports will be made to the March meeting~~
- ~~s receive any questions from, and provide answers to, the public; [See 4.1.15.11]~~
- ~~t receive any questions from and provide answers to Members of the Council [See 4.1.15.11]~~
- u consider any other business specified in the summons to the meeting



<b>MEETING:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>DATE:</b>	<b>21 SEPTEMBER 2012</b>
<b>TITLE OF REPORT:</b>	<b>REVIEW OF OVERVIEW AND SCRUTINY STRUCTURE</b>
<b>REPORT BY:</b>	<b>MONITORING OFFICER</b>

**CLASSIFICATION:** Open

### **Wards Affected**

County-wide

### **Purpose**

To consider proposed changes to the Overview and Scrutiny Structure.

**(These changes involve alternative arrangements for the purposes of the Local Authorities (Committees and Political Groups) Regulations 1990.)**

### **Recommendation(s)**

**THAT:** it be recommended to Council that:

- (a) the recommendations of the report on the Overview and Scrutiny (O&S) Function as set out at pages 3-4 of appendix 1 to this report be adopted;**
- (b) the authority to exercise the Authority's statutory health scrutiny functions be delegated to the Health and Social Care Overview and Scrutiny Committee;**
- (c) the Terms of Reference of the General Overview and Scrutiny Committee and the Health and Social Care Overview and Scrutiny Committee be as set out at paragraph 23 of the report ;**
- (d) each Overview and Scrutiny Committee consists of 13 Councillors and seats on each Committee be allocated by political proportionality as set out at paragraph 13 of the report appointments to those seats to be confirmed by Group Leaders;**
- (e) the change to two Overview and Scrutiny Committees takes effect from Monday 15 October 2012;**
- (f) Council approves the appointments to the offices of Chairman and Vice-Chairman of the General Overview and Scrutiny Committees and the Health and Social Care Scrutiny Committee;**

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Further information on the subject of this report is available from  
John Jones, Head of Governance (01432) 260222

- (g) **statutory co-optees serve on the General Overview and Scrutiny Committee;**
- (h) **the operating principles set out at paragraph 18 of the report form the basis of the new scrutiny model;**
- (i) **the rules of proportionality are not applied to Task and Finish Groups appointed by either of the two Overview and Scrutiny Committees;**
- (j) **the Head of Governance be designated as the Authority's statutory Scrutiny Officer; and**
- (k) **the Monitoring Officer be authorised to make any consequential amendments to the Constitution.**

## **Key Points Summary**

- Council in May 2011 agreed a revised Structure for the Overview and Scrutiny Function. At Council in July 2011 the Leader committed to ensuring a review of the effectiveness of the new scrutiny model was undertaken after twelve months of operation.
- Members of the Overview and Scrutiny Committee have expressed a number of concerns about the new model over the first year.
- The principal proposal is that two Overview and Scrutiny Committees are established each with a Chairman and Vice-Chairman. The proposed Committees are: a Health and Social Care Overview and Scrutiny Committee and a General Overview and Scrutiny Committee that deals with all other matters.
- The report outlines a number of other measures to give effect to the principal proposal above.
- To ensure a smooth transition to a new scrutiny model it is proposed that this takes effect on 15 October 2012.
- It is proposed to designate the Head of Governance as the Authority's Scrutiny Officer.

## **Alternative Options**

- 1 A number of alternative structures could be considered.

## **Reasons for Recommendations**

- 2 The recommendations have been put forward following a review of the effectiveness of the new scrutiny model that it was agreed would be undertaken after twelve months of operation. The recommendations respond to concerns by Members of the Overview and Scrutiny Committee that the current system is proving impractical given the complexity and volume of Scrutiny work and the findings of an external review.

## **Introduction and Background**

- 3 Council in May 2011 agreed a revised Structure for the Overview and Scrutiny (O and S) Function.
- 4 Under the structure in place prior to May 2011 O and S was undertaken by the Overview and

Scrutiny Committee (OSC), supported by a number of themed Scrutiny Committees.

- 5 The structure approved in May 2011 consists of one politically proportionate O and S Committee with the power to set up task and finish groups, with six vice-Chairmen each responsible for a particular themed area. The Statutory Education Co-optees sit on the O and S Committee.
- 6 At Council in July 2011 the Leader committed to ensuring a review of the effectiveness of the new scrutiny model was undertaken after twelve months of operation.

## **Key Considerations**

- 7 Members of the OSC have expressed a number of concerns about the new scrutiny model during its first year of operation. They held a Scrutiny workshop on 27 April 2012 at which a proposal for structural change and the establishment of three scrutiny Committees emerged.
- 8 Members and Officers were informed of the issues raised at the workshop ( including the proposed new scrutiny structure) and invited to comment.
- 9 Subsequently the Chairman and Vice-Chairman of the Committee supported a model based on two scrutiny committees and this formed the basis of an external review undertaken by Mr John Lamb. The report of this review (Update Report on the O and S Function in Herefordshire Council 2012 is appended. Mr Lamb had conducted a previous review of the Council's scrutiny function (December 2008) and recommendations in that review had underpinned the decision by Council to change its scrutiny model in May 2011. This report is available on the Council's website alongside the agenda papers.

### **Membership of Committees**

- 10 The Localism Act 2011 (Schedule 2 part1) continues the provision in the Local Government Act 2000 that O&S Committees should be politically proportionate by virtue of the insertion of Section 9FA into the 2000 Act.
- 11 In determining the allocation of seats on a politically proportionate basis the Council must apply the following four principles as far as reasonably practicable:
  - (a) that not all the seats on the body are allocated to the same political group;
  - (b) that the majority of the seats on the body is allocated to a particular political group if the number of persons belonging to that group is a majority of the authority's membership;
  - (c) subject to paragraphs (a) and (b) above, that the number of seats on the ordinary committees of a relevant authority which are allocated to each political group bears the same proportion to the total of all the seats on the ordinary committees of that authority as is borne by the number of members of that group to the membership of the authority; and
  - (d) subject to paragraphs (a) to (c) above, that the number of the seats on the body which are allocated to each political group bears the same proportion to the number of all the seats on that body as is borne by the number of members of that group to the membership of the authority.
- 12 An arithmetic calculation of the number of seats allocated to a particular group is unlikely to result in a set of whole numbers. The 1989 Act gives no guidance on the correct approach in these circumstances, leaving authorities to follow the principles "as far as reasonably practicable". For the purposes of this report, it is assumed that part numbers of 0.5 and above

will be rounded up, while part numbers below 0.5 will be rounded down

- 13 Under the Council's current composition, if all four Political Groups on the Council were to be represented on each O and S Committee, the minimum size a Committee can be is 13. This would mean each Committee having 7 Conservative Group Members, 3 Independent Group Members, 2 It's Our County Group Members and 1 Liberal Democrat Group Member.
- 14 The Constitution provides that Council must appoint the Chairmen and Vice-Chairmen of the Committees.

### **Statutory Co-optees**

- 15 The Council is required to include diocesan and parent governor representatives with voting rights on an O and S Committee dealing with education functions. The Council has two diocesan representatives and three parent governor representatives.
- 16 It is acknowledged that the move to a single O and S Committee has made the role of the statutory co-optees less attractive than it was when there was a dedicated Children's Services Scrutiny Committee. Under the proposal above education matters would fall to be dealt with by the General OSC and it is proposed that the statutory co-optees would therefore sit on that Committee with voting powers on educational matters only.

### **Operating Principles**

- 17 The recommendations in the Lamb 2012 Update Report identified the need for further work on the detailed arrangements and proposed the establishment of a working party to consider how to implement the recommendations.
- 18 The following operating principles are proposed at this stage:
- To minimise bureaucracy the two Committees would be independent of each other. Each Committee would have the authority to make recommendations direct to the Executive, Council and others.
  - Each Committee would approve its own work programme.
  - Call-ins would be heard by the relevant Overview and Scrutiny Committee on the basis that this will provide the most effective challenge as the Members of each Committee develops its specialist knowledge.
  - The Chairmen of the General Overview and Scrutiny Committee and the Health Overview and Scrutiny Committee would by agreement manage any potential overlap between the two Committees and with the work of the Audit and Governance Committee.
  - Each Committee would have a Chairman and a Vice-Chairman.
  - Task and Finish Groups would be established by each Committee drawn from the Committee membership and the wider non-executive membership of the Council. As appropriate, people with specialist knowledge and or expertise could be co-opted to support the task. Co-opted members of Task and Finish Groups would not have voting powers. The relevant Overview and Scrutiny Committee would seek someone to lead a Task and Finish Group as and when each one is established. The nature of the work of Task and Finish Groups is that they are advisory and the rules of proportionality apply unless the Council makes alternative arrangements. Council would be required to approve this proposal with no Member voting against it.



### Future Operating Model

- 19 With the introduction of an amended scrutiny model will come a requirement to review how scrutiny is approached within the Council. The previous approach to scrutiny has been based on a very much all encompassing model, whereby the Committee and the Task and Finish Groups have tried to cover a very wide area of work and have not been strategically focused. An extensive work programme has therefore evolved on an ad hoc basis and without clearly defined outcomes. This has been difficult to resource effectively. It has also required an enormous amount of Members time and commitment.
- 20 The future operating model will need to be much more strategically focused and the Committee will need to clearly define their purposes from the outset.

### Training and Development

- 21 It is recognised that a training and development programme needs to be developed to support Members in their O and S role.

### Member Allowances

- 22 If accepted the proposals will require the Independent Remuneration Panel to meet to consider the appropriate level of special responsibility allowances.

### Constitutional Changes required

- 23 Under the Functions Scheme at Part 3 of the Constitution Council is responsible for setting the terms of reference of Committees, deciding on their composition and allocating seats on them.
- 24 The Functions Scheme will require slight amendment to reflect the roles of the two Committees.
- 25 Draft terms of reference for the two Committees are as follows:

Committee	Remit
General Overview and Scrutiny Committee	<p>Functions conferred on or exercisable by the Council in its capacity as a local education authority;</p> <p>Budget and Policy Framework Issues</p> <p>Any other matter not reserved to the Health and Social Care Scrutiny Committee.</p>
Health and Social Care Overview and Scrutiny Committee	<p>To discharge the Council's statutory health scrutiny powers including the review and scrutiny of any matter relating to the planning provision and operation of health services affecting the area and to make reports and recommendations on these matters.</p> <p>Overview and scrutiny of:</p>

	<ul style="list-style-type: none"> <li>• Children and Adult Safeguarding</li> <li>• Social care functions relating to children</li> <li>• the Health and Wellbeing Board</li> <li>• any other matters relating to health and social care</li> </ul>
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### **Transitional Arrangements**

- 26 Meetings of the current O and S Committee are scheduled to take place on 3 and 12 October. If the proposals in this report are accepted, some further preparatory work needs to be undertaken to establish the two new Committees. It is therefore proposed that the meetings on 3 and 12 October are conducted by the O and S Committee as currently constituted and that the introduction of a new scrutiny model should take effect from 15 October 2012.

### **Designation of Scrutiny Officer**

- 27 The Local Democracy, Economic Development and Construction Act 2009 required the Council to formally designate one of their officers as the authority's statutory "scrutiny officer". In May 2010 Council approved a number of changes to the Constitution including the designation of the Deputy Chief Executive as Statutory Scrutiny Officer.
- 28 The Localism Act 2011 (Schedule 2 part1) continues this provision by virtue of the insertion of Section 9FB into the Local Government Act 2000. The designated officer is required to discharge the following functions:
- (a) to promote the role of the authority's O and S committee or committees;
  - (b) to provide support to the authority's O and S committee or committees and the member of that committee or committees
  - (c) to provide support and guidance to : (i) members of the authority, (ii) members of the Executive of the authority, and (iii) Officers of the authority – in relation to the functions of the authority's O and S committee or committees.
- 29 Although the post of the authority's Scrutiny Officer is a statutory post it is not subject to the same recruitment and discipline procedures as the Council's other statutory posts. The statutory scrutiny officer role must, however, be recognised within the council's constitution and designated to a post.
- 30 The authority may not designate the Head of Paid Service, the Monitoring Officer or the Chief Finance Officer as the authority's Scrutiny Officer.
- 31 The role has to date sat with the Deputy Chief Executive. It is proposed that the Head of Governance be designated as the authority's Scrutiny Officer.

### **Community Impact**

- 32 One of the recommendations in the update report identifies the need for the scrutiny function to identify and prioritise the issues and concerns of the people of Herefordshire and the strategic issues which are key to the Council's delivery of its corporate objectives and

concentrate on these.

## **Equality and Human Rights**

33 The proposals in this report have no particular implications for equality and human rights.

## **Financial Implications**

34 The financial implications of the proposals in this report will be met from within existing budgets.

## **Legal Implications**

35 The Localism Act 2011 requires local authorities, which are operating executive arrangements to set up one or more O and S committees. The proposals in the report are consistent with that requirement. The Health and Social Care Act 2012 confers health scrutiny functions on the local authority itself, rather than on an O and S committee specifically. It is for the full council of each local authority to determine which arrangement is adopted. The Health and Social Care Scrutiny Committee would be an appropriate place for the Council to delegate its statutory health scrutiny powers.

## **Risk Management**

36 The Council is required to have an O and S function. The proposals in this report are designed to ensure that this will operate effectively.

## **Appendices**

Update Report on the Overview and Scrutiny Function in Herefordshire Council – John Lamb August 2012

## **Background Papers**

- Review of the Overview and Scrutiny Function in Herefordshire Council – December 2008 by John Lamb and Mari Davis





# **Update Report on the Overview and Scrutiny Function in Herefordshire Council**

**August 2012**

# **Herefordshire Council Update Report on the Overview and Scrutiny Function**

## **1. Introduction and Background**

During 2008 a review of the overview and scrutiny function was carried out at Herefordshire Council (Review of the Overview and Scrutiny Function in Herefordshire Council – December 2008 – herein-after referred to as the 2008 Review) . The Council has since commenced implementation of some of the key recommendations of the report and has also carried out an internal review of the effectiveness of the scrutiny function. Following the 2011 elections changes were made to the structure of overview and scrutiny and further changes are now proposed. This Update Report has been commissioned by the Council and its purpose is to provide commentary on how the current proposals are viewed by councillors, review progress that has been made since the 2008 report and make recommendations on the most effective way of taking scrutiny forward in Herefordshire. It is recommended that this Update Report is read in conjunction with the 2008 Review since some of the recommendations of the Update Report are supported by findings outlined in the 2008 Review. The recommendations from the 2008 Review are shown at Appendix 1.

## **2. Acknowledgements**

The review was carried out with the very full and excellent co-operation of the Council at member and officer level and the author of this report would like to place on record thanks to all those who contributed to the process in such an open way. Organisational help and assistance was provided by Mr Tim Brown and for this the author is grateful.

## **3. Methodology and Approach**

The update review was carried out in three phases: a short document review, on site meetings and discussions with individuals and groups and finally the ‘write up’ phase. The people who contributed to individual and group discussions during phase two of the update review is shown in Appendix 2 to this report. Responses from the on-site meetings and discussions have been used to inform the commentary and observations contained in this report and fall into four broad areas:

- Role and Purpose of Overview and Scrutiny
- Proposed Structure
- Managing Changes to the Overview and Scrutiny arrangements and relationship with Cabinet.
- Overview and Scrutiny’s Vision, the Annual Work Programme and Protocols

Where appropriate this report contains references to and extracts from the 2008 Report and are only included where this re-enforces a point or avoids the need to repeat an argument.

#### **4. Executive Summary / Recommendations**

A good understanding of the role and purpose of overview and scrutiny in the context of the overall governance arrangements of the Council is fundamental to good progress. Arguably, the structure of the overview and scrutiny function matters less. With the right approach it is possible to make the existing structure work well but a ‘flawed’ understanding of the purpose of scrutiny will always act as a barrier to progress.

The current proposals for structural changes are in line with the original recommendation and the reasons set out in the 2008 Report and should be welcomed. The establishment of a health and social care scrutiny committee recognises the huge changes occurring in the sector and would be the natural place for the Council to delegate its statutory health scrutiny powers. The emphasis on ‘task and finish’ groups is in line with good practice and would enable councillors to join a group working on a particular topic according to personal motivation, interest and perhaps prior or current expertise.

The proposals for further changes to the scrutiny structure should be made more widely available and consideration given to the establishment of a working party consisting of Party Leaders and the Chair and Vice Chair of Scrutiny with appropriate officer support to work out what needs to happen to implement the recommendations of this Update Report.

During interviews both councillors and officers commented that scrutiny appeared to have lost its way. There is a sense that there is no clear vision for Scrutiny and that councillors are not clear about where scrutiny is ‘heading for’. None of this is surprising given the ‘tension’ that exists between those who wish to revert to the thematic committee arrangements covering the breadth of council services and those who wish to see the scrutiny function doing far less but what is done, done very well. These two different approaches are difficult to reconcile but a resolution is crucial to making good progress.

##### **The Recommendations:**

- 1. That work be undertaken by O&S scrutiny chairs and cabinet members to identify and be clear about roles and responsibilities in relation to the role and purpose of the O&S function and Cabinet arrangements. (from 2008 Review)**
- 2. That methods, outside the overview and scrutiny arrangements, be developed to ensure that all councillors have opportunities to gain an understanding of the way the Council and its partners function.**
- 3. That the proposals for the establishment of two main scrutiny committees – one for health and social care and the other a general overview and scrutiny committee each with the ability to hold ‘task and finish groups’ as required**

- to undertake more detailed projects identified from the approved work programme be accepted.**
- 4. That further work be undertaken to work out and agree the detailed arrangements for the proposed overview and scrutiny structure e.g. political proportionality etc.**
  - 5. That a working party consisting of Party Leaders and the Chair and Vice Chair of Scrutiny with appropriate officer support be established to work out what needs to happen to implement the recommendations of this Update Report and the relevant recommendations of the 2008 Review.**
  - 6. That the working party established at recommendation 5 consider and agree the appropriate arrangements for on-going regular Scrutiny / Cabinet liaison.**
  - 7. That the Scrutiny function leads an annual process to identify and prioritise the issues and concerns of the people of Herefordshire and the strategic issues which are key to the Council’s delivery of its corporate objectives and concentrate on these.**
  - 8. That existing processes and protocols are reviewed and/or developed that support a disciplined approach to the delivery of the Annual Overview and Scrutiny Work Programme (e.g. topic selection criteria, scoping, terms of reference, variations etc.)**

## **5. Findings**

### **5.1 Role and Purpose of Overview and Scrutiny**

#### **Scrutiny – a simple definition**

To look at the quality of council services and other issues that affect the lives of people in Herefordshire.

Scrutiny will listen to the concerns of local people to check out how the council and other organisations are performing and where necessary recommend improvement.

(from a training session for Herefordshire Council 2009)

*The 2008 Report found that “There are some good examples of scrutiny review work that has been of value, interest and concern to the communities served by the Council (Day care services review, younger people’s transition from younger people’s services to adult social care). Members of the public are always given an opportunity to ask questions at the commencement of each formal meeting of O&S committees. These practices need to be built upon. Chairs and Vice chairs of O&S committees need to reflect on whether the*

*current approach to O&S agendas, which tends to very much mirror the work of the Cabinet, is diverting energy and attention away from addressing the concerns of the people of Herefordshire. Are members giving ‘voice’ to the issues that matter most to residents on an everyday basis? A theme that emerged from interviews and group discussion was that O&S need to “do less better”.”*

*(Review of the Overview and Scrutiny Function in Herefordshire Council – December 2008 – p. 10)*

A good understanding of the role and purpose of overview and scrutiny in the context of the overall governance arrangements of the Council is fundamental to good progress. Arguably, the structure of the overview and scrutiny function matters less. With the right approach it is possible to make the existing structure work well but a ‘flawed’ understanding of the purpose of scrutiny will always act as a barrier to progress.

From interviews with councillors, while some are very keen to see changes to the way scrutiny is conducted in the council there is still a strong sense that there is a need for an approach that ensures that all aspects of the work of the cabinet is ‘shadowed’. During interviews the view was expressed that councillors need to understand how the council works and that it is important that councillors gain service specific knowledge. The rationale for this is that only then can effective scrutiny be carried out. Frequently mentioned was the need for ‘thematic’ committees as the vehicle for both ensuring councillors gain the necessary knowledge and the means by which scrutiny is undertaken. There remains a tendency for councillors to request reports and information in pursuit of a ‘monitoring’ role. Some councillors seem to be concerned that unless this wide ranging monitoring and questioning of decisions is carried out then they may miss something serious but this is to misunderstand the role and purpose of the overview and scrutiny function.

The Local Government Act of 2000, provided for, among other governance arrangements, a cabinet system supported by overview and scrutiny arrangements. Decision making service committees were abolished. Herefordshire Council opted for the cabinet system whereby decision making is limited to a number of councillors appointed to the cabinet with limited referrals to full Council. A challenge for all councils, opting for the cabinet system, was the development of effective and meaningful scrutiny to be carried out by ‘non-executive’ councillors. By definition the adoption of the cabinet system means that ‘non-executive’ councillors are considerably less involved in decision making when compared to the pre-2000 Act arrangements i.e. decision making service committees. The Council’s constitution prescribes the decisions that need to be made by full Council – approval of the Council’s annual budget being one of these. The question raised by councillors about how they and especially new councillors learn about local government is a valid one and is asked in many local authorities. Indeed it is one of the criticisms of the cabinet system but scrutiny should not be seen as the place where councillors gain their general knowledge. The Council needs to think about how this requirement can be better met.

Councillors, including cabinet members, need to develop their thinking about the fundamental purpose of overview and scrutiny and this needs to be done in the light of the reality of the governance arrangements that the council has adopted.

The 2008 Report made the following recommendation “ *ii) That work be undertaken by O&S scrutiny chairs and cabinet members to identify and be clear about roles and responsibilities in relation to the role and purpose of the O&S function and Cabinet arrangements.*”

It appears that this remains a fundamental issue and the recommendation still stands but should be pursued in the light of the comments above. For clarity, it is not the responsibility of overview and scrutiny to provide a comprehensive performance monitoring role. What would be more appropriate is for scrutiny to check out what arrangements the Council and cabinet have in place for monitoring performance (seeking assurance) rather than actually doing it. That is not to say that there is no role for scrutiny in monitoring because that is not the case. Scrutiny has a key role to play in budget monitoring. Scrutiny needs to be very selective about the work it undertakes. Scrutiny does not have regulatory responsibilities. Ultimate accountability for the effective delivery of services is with the Cabinet in the case of Herefordshire Council and its partner organisations such as the NHS, Police and so on.

#### **Recommendations:**

- 1. That work be undertaken by O&S scrutiny chairs and cabinet members to identify and be clear about roles and responsibilities in relation to the role and purpose of the O&S function and Cabinet arrangements. (from 2008 Report)**
- 2. That methods, outside the overview and scrutiny arrangements, be developed to ensure that all councillors have opportunities to gain an understanding of the way the Council and its partners function.**

## **5.2 Proposed Structure**

The proposed structure further develops changes to the Overview and Scrutiny structure that was approved by the Council in May 2011. It is proposed that the current structure of a single scrutiny committee supported by thematic ‘task and finish’ groups is replaced by two main scrutiny committees – one for health and social care and the other a general overview and scrutiny committee each with the ability to hold ‘task and groups’ as required to more detailed projects identified from the approved work programme.

A number of councillors expressed concerns about the proposed structure which is explored in section 5.1 above and a suggestion was made to create further ‘thematic’ committees. However there was also support for the proposed arrangements and a

comment was made that ‘let’s leave things as they are and just make scrutiny work better’.

The 2008 Review made the following recommendation: v) *That the Member organisation of O&S be reviewed with an emphasis on moving more towards Task and Finish groups and away from the existing formal committee structure. (a phased approach may be helpful here perhaps with an annual review to evaluate the effectiveness of changes made)*

This recommendation was mindful of the then structure in place (Strategic Monitoring Committee supported by thematic scrutiny committees). The recommendation was supported in the 2008 Report with the following:

*“ The format and organisation of O&S committees has an impact on how business is conducted. For example, formal committee style meetings will tend to lead to formal committee style approaches to how business is conducted (officer reports, minutes, requests to officers for more information, monitoring etc.). On the other hand Task and Finish groups consisting of a smaller number of members and officers with a specific task and a short time scale will tend to operate in a very different way to that of a committee. The Task and Finish approach usually leads to research, interviewing of witnesses / specialists, focused discussion, deeper understanding and with members heavily involved in the production of the report. We heard comments from members that when they have worked in a ‘task and finish’ format they found this approach much more rewarding and productive.” (Review of the Overview and Scrutiny Function in Herefordshire Council – December 2008 – p. 11)*

The current proposals are in line with the original recommendation and the reasons set out in the 2008 Report and should be welcomed. The establishment of a health and social care scrutiny committee recognises the huge changes occurring in the sector and would be the natural place for the Council to delegate its statutory health scrutiny powers.

The emphasis on ‘task and finish’ is in line with good practice and would enable councillors to join a group working on a particular topic according to personal motivation, interest and perhaps prior or current expertise. As the work of the ‘task and finish’ groups concludes then the group can be dissolved then ‘re-constituted’ according to the next new topic. This would enable the more agile moving ‘quickly and lightly’ from topic to topic as described by one councillor during the interviews. It is more likely that the proposed structure will result in more satisfying roles for scrutiny councillors as the ‘task and finish’ group focuses on a topic and is able to get under the surface of issues and gain deeper and better understanding of the subject resulting in better and clearer recommendations to cabinet and other partner organisations.

The proposals are at an early stage but were questioned by some councillors around the working detail and this should be addressed before full Council approval is sought. For example, are the Chairs of the two main committees of equal standing? Whilst it was accepted that there would be a need for political proportionality on the main committees

does this apply to the task and finish groups? Delegation of the Council’s health scrutiny powers (the Council may wish to be mindful of the current Department of Health Local Authority Health Scrutiny Consultation proposals published on 12<sup>th</sup> July 2012)

**Recommendations:**

- 3. That the proposals for the establishment of two main scrutiny committees – one for health and social care and the other a general overview and scrutiny committee each with the ability to hold ‘task and finish groups’ as required to undertake more detailed projects identified from the approved work programme be accepted.**
- 4. That further work be undertaken to work out and agree the detailed arrangements for the proposed overview and scrutiny structure e.g. political proportionality etc.**

**5.3 Managing Changes to the Overview and Scrutiny arrangements and relationship with cabinet.**

A number of councillors commented on the way the changes to the scrutiny structure had been made following the 2011 elections. There was a sense that the new arrangements had been quickly imposed thereby removing the opportunity to comment. It is helpful that a review after 12 months was promised and this Update Report forms part of that review. The proposals for further changes to the scrutiny structure should be made more widely available and consideration given to the establishment of a working party consisting of Party Leaders and the Chair and Vice Chair of Scrutiny with appropriate officer support to work out what needs to happen to implement the recommendations of this Update Report.

**Recommendation:**

- 5. That a working party consisting of Party Leaders and the Chair and Vice Chair of Scrutiny with appropriate officer support be established to work out what needs to happen to implement the recommendations of this Update Report and the relevant recommendations of the 2008 Review.**

The internal Herefordshire Council report (Review of the Overview and Scrutiny Structure page 5) draws attention to the relationship between scrutiny and cabinet. There are many ways in which this can be carried out from an informal monthly meeting between the Chair of Scrutiny and the Leader of the Council to a more formal meeting of a larger group representing Scrutiny and the Cabinet. The ‘rolling programme’ appears to offer an opportunity for Cabinet to inform and discuss with Scrutiny future challenges facing the Council and what opportunities there might be for Scrutiny input to policy development [as long as this does not become the norm (see boxed extract below) i.e. Scrutiny must be selective about the areas it chooses to engage with].



**The 2008 Review commented:**

Cabinet members do involve O&S and invite early participation in the development of policy. This is a good approach since many O&S members complain that by the time they get involved with a major policy area, very often it is too late to influence the outcome. However, care needs to be taken that by involving O&S in policy development and “getting too close to the decision making” that O&S then finds it difficult to effectively challenge.

*(Review of the Overview and Scrutiny Function in Herefordshire Council – December 2008 – p. 6)*

It is good practice to periodically review the effectiveness of scrutiny, against agreed criteria (the Centre for Public Scrutiny has such a tool) and such reviews should involve all councillors and chief officers of the Council.

**Recommendation:**

- 6. That the working party established at recommendation 5 consider and agree the appropriate arrangements for on-going regular Scrutiny / Cabinet liaison.**

#### **5.4 Overview and Scrutiny’s Vision, the Annual Work Programme and Protocols**

During interviews both councillors and officers commented that scrutiny appeared to have lost its way. There is a sense that there is no clear vision for Scrutiny and that councillors are not clear about where scrutiny is ‘heading for’. None of this is surprising given the ‘tension’ that exists between those who wish to revert to the thematic committee arrangements covering the breadth of council services and those who wish to see the scrutiny function doing far less but what is done, done very well. These two different approaches are difficult to reconcile. To the ‘Thematic Committee’ lobby the annual work programme with the associated restriction on what is included will never make complete sense while to the ‘Less is More’ lobby there will be continual frustration as colleagues call for reports and further information in an effort to monitor the work of the Cabinet. There is a need for the Political Leadership of the Scrutiny Function to be clear and firm and provide direction. To a large extent councillor and officer resources will determine how much scrutiny work can be practically covered in any twelve month period. The Scrutiny function is not able to do all that it might wish to. By necessity there is a need for focus on the things that really matter to the delivery of services to the people of Herefordshire and this implies the need for very careful selection and prioritisation of topics. Once the annual work programme is agreed the Chairs of the scrutiny committees need to be very disciplined about any additions / variations to the topic scope.

The 2008 Review made the following two recommendations in this connection: *i) That the SMC and thematic O&S committees continue to review the business they regularly deal with and identify the strategic issues which are key to the Council’s delivery of its corporate objectives and concentrate on these. (This recommendation is concerned with ‘internally’ facing issues such as budget and performance management – see recommendation vi for ‘externally’ facing issues)*

And *vi) That a process be developed for determining and reviewing the annual programme for each O&S that captures the concerns of residents and communities of Herefordshire ( sources could include the Councils own complaints recording system, matters arising during councillors surgeries, councillors own knowledge of issues. The PACT meetings will be a source of community concerns as will be the ‘Leadership of Place’ work proposed for the Council. A very effective method of capturing issues is by getting members into groups to identify the issues that matter to their constituents. (This recommendation is concerned with ‘externally’ facing issues that matter to communities – see recommendation i for ‘internally’ facing issues)*

The 2008 recommendations remain valid but are now updated as follows:

**Recommendation:**

- 7. That the Scrutiny function leads an annual process to identify and prioritise the issues and concerns of the people of Herefordshire and the strategic issues which are key to the Council’s delivery of its corporate objectives and concentrate on these.**

If the Scrutiny function is to remain focused and deliver its work programme then the function needs to be supported by a robust set of protocols. The 2008 Review in recognising this made the following recommendation: *vii) That any existing protocols for developing O&S recommendations be reviewed for clarity and effectiveness and that a process be agreed between O&S and the Cabinet which covers timescales for, responses to, reaching consensus and monitoring of recommendations.*

In addition to this recommendation and in support of a more disciplined approach in support of delivering a focused work programme the following recommendation is made:

**Recommendation:**

- 8. That existing processes and protocols are reviewed and/or developed that support a disciplined approach to the delivery of the Annual Overview and Scrutiny Work Programme (e.g. topic selection criteria, scoping, terms of reference, variations etc.)**

## Appendix 1

### **Review of the Overview and Scrutiny Function in Herefordshire Council – December 2008 - Recommendations**

- i) That the SMC and thematic O&S committees continue to review the business they regularly deal with and identify the strategic issues which are key to the Council's delivery of its corporate objectives and concentrate on these. (This recommendation is concerned with 'internally' facing issues such as budget and performance management – see recommendation vi for 'externally' facing issues)
- ii) That work be undertaken by O&S scrutiny chairs and cabinet members to identify and be clear about roles and responsibilities in relation to the role and purpose of the O&S function and Cabinet arrangements.
- iii) That protocols be enhanced or developed which clearly set out the role of O&S in the development of policy areas in a manner which does not compromise the ability of O&S to challenge effectively.
- iv) That O&S members be provided with training to improve the effectiveness of challenge through appropriate techniques such as questioning and analytical skills and improved understanding of the subject areas covered by the various O&S committees.
- v) That the Member organisation of O&S be reviewed with an emphasis on moving more towards Task and Finish groups and away from the existing formal committee structure. (a phased approach may be helpful here perhaps with an annual review to evaluate the effectiveness of changes made)
- vi) That a process be developed for determining and reviewing the annual programme for each O&S that captures the concerns of residents and communities of Herefordshire ( sources could included the Councils own complaints recording system, matters arising during councillors surgeries, councillors own knowledge of issues. The PACT meetings will be a source of community concerns as will be the 'Leadership of Place' work proposed for the Council. A very effective method of capturing issues is by getting members into groups to identify the issues that matter to their constituents. (This recommendation is concerned with 'externally' facing issues that matter to communities – see recommendation i for 'internally' facing issues)
- vii) That any existing protocols for developing O&S recommendations be reviewed for clarity and effectiveness and that a process be agreed between O&S and the Cabinet which covers timescales for, responses to, reaching consensus and monitoring of recommendations.
- viii) That consideration be given to the appointment of a dedicated Overview and Scrutiny Manager at an appropriate grade and level within the organisational structure that reflects the value and importance attached to the O&S function by the Council.

ix) That a Chairs and Vice Chairs Group (Overview and Scrutiny Committees) be established to discuss and debate and take forward and oversee the improvement agenda. (Chairs and Vice Chairs currently make up the SMC. The recommendation here is about that group meeting in a far less formal, facilitated style to encourage an exchange of views and deeper discussion about how the O&S function can be even more effective).

x) That the Councils own free publication contains, on a regular basis, articles about the work of overview and scrutiny related to outcomes with which the people of Herefordshire can identify.

## Appendix 2

### Those Interviewed

#### REVIEW OF HEREFORDSHIRE SCRUTINY MODEL

13-14 August 2012

#### Timetable

(Phone Call to Jo Davidson (Director of People’s Services) - 2 August)

(Phone Call from Dean Taylor (Deputy Chief Executive – Director of Corporate Services )- 10 August 2.00 pm)

#### Monday 13 August

Time	Interviewee (s)	Room
9.15	Tim Brown re administrative arrangements	
9.30 – 10.30	John Jones (Head of Governance)	19A
10.30-11.30	Councillor Bob Matthews (Leader of Independent Group)	19A
11.30-12.30	Councillor Jeremy Millar (Vice-Chairman Overview and Scrutiny Committee – with responsibility for Health and Wellbeing theme)	19A
Lunch		
1.30 – 2.30	Councillor Terry James (Liberal Democrat Group Leader)	19A
2.30-3.30	Phone call to Councillor Alan Seldon (Chairman of the Overview and Scrutiny Committee)	19A
3.30 – 5.30	Session with Members of Overview and Scrutiny Committee (Cllrs Andrew Atkinson, Phil Bettington, Sebastian Bowen, Mark Cooper, Mark Hubbard, Roger Hunt, Peter Jones, Jim Kenyon, and Jeremy Millar)	22A or Council Chamber depending on numbers

**Tuesday 14 August**

<b>Time</b>	<b>Interviewee (s)</b>	<b>Room</b>
9.30 – 10.30	Councillor Mark Hubbard (It's Our County Group Leader)	19A
10.30-11.30	Tim Brown/ Paul James/David Penrose	19A
11.30-12.00	Free	
12-1	Geoff Hughes (Director for Places and Communities)	19A
Lunch		
1.30 – 2.30	Councillor John Jarvis (Leader)	Leader's Office
2.30-3.30	Cabinet Members  Russell B Hamilton (Environment Housing and Planning)  Patricia Morgan (Health and Wellbeing)  Graham Powell (Education and Infrastructure)  Phillip Price (Corporate Services – Deputy Leader)	19A
3.30 – 4.30	Dean Taylor	19A

<b>MEETING:</b>	<b>AUDIT AND GOVERNANCE COMMITTEE</b>
<b>DATE:</b>	<b>17TH SEPTEMBER 2012</b>
<b>TITLE OF REPORT:</b>	<b>GRANT OF DISPENSATION UNDER THE LOCALISM ACT 2011</b>
<b>REPORT BY:</b>	<b>MONITORING OFFICER</b>

**CLASSIFICATION:** Open

## Wards Affected

County-wide

## Purpose

To delegate the power to grant dispensations in respect of participation in decision making where a member has a disclosable pecuniary interest and to amend the Council's Procedure Rules to exclude a member with such an interest from the meeting.

## Recommendations

**That it be recommended to Council that:**

- (a) the power to grant dispensations under Section 33 (2)(b)(d) and (e) Localism Act 2011 or any subsequent amendment be delegated to Audit and Governance Committee; and**
- (b) the power to grant dispensations under Section 33 (2)(a) and (c) Localism Act 2011 or any subsequent amendment be delegated to the Monitoring Officer with a right of appeal to Audit and Governance Committee; and**
- (c) Council Procedure Rules be amended by the addition of:**

**“4.1.25 Exclusion of Members with Disclosable Pecuniary Interests**

**Where a member is prevented by virtue of a disclosable pecuniary interest from participating in a meeting, that member shall immediately vacate the room or chamber where the meeting is taking place (including any public area) unless a dispensation has been granted”**

**and the insertion of the words “clause 4.1.25” in clauses 4.1.2.1 and 4.1.22.1**

## Key Points Summary

- The Localism Act 2011 introduced a system of disclosable pecuniary interests. This has

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Further information on the subject of this report is available from  
Chris Chapman, Assistant Director Law Governance and Resilience (01432) 260200

consequences for member participation in decision making. Dispensations can be granted and this report recommends appropriate delegations to the Monitoring Officer and Audit and Governance Committee for this power.

- Standing Orders may provide for the exclusion of members from meetings where they are prevented from participating by virtue of a disclosable pecuniary interest

## **Alternative Options**

1. Dispensations could be granted solely to Audit and Governance Committee or the power could be exercised solely by Council. Either would be more cumbersome to administer and would create delay.

## **Introduction and Background**

2. The Localism Act 2011 required members to notify the Monitoring Officer of any disclosable interests, which are then entered in a register. Disclosable interests are defined in the Relevant Authorities (Disclosable Pecuniary Interest) Regulations 2012. All members have recently submitted their completed forms to the Monitoring Officer.
3. Where a member is aware that he has a disclosable pecuniary interest (DPI) in any matter to be considered at a meeting, he must disclose the interest to the meeting. If the interest is not entered in the register (or is subject to a pending notification) the member must notify the Monitoring Officer within twenty eight days from the date of disclosure.
4. The consequences of being aware as above are that the member may not participate in the discussion and may not vote. Where the function is being discharged by a member acting alone, that member may take no further steps, save to enable the matter to be handled by another member.

## **Key Considerations**

5. The Localism Act 2011 further provides for the granting of dispensations. This power can be delegated by Council to a committee and/or an officer.
6. Dispensations are granted on written application on grounds which are summarised as follows:-
  - (a) So many members have DPIs that it would impede the transaction of the business were a dispensation not to be granted
  - (b) Without the dispensation the strengths of political groups on the body would be so upset as to alter the likely outcome of any vote on the matter
  - (c) Without the dispensation, every member of Cabinet would be prohibited from participating
  - (d) The grant of the dispensation would be in the interests of the inhabitants of the authority's area
  - (e) It is otherwise appropriate to grant the dispensation
7. In (a) and (c) above the existence of grounds is purely factual whereas (b) (d) and (e) above require political judgement. It is suggested that (b) (d) and (e) be delegated to Audit and Governance Committee but that (a) and (c) are delegated to the Monitoring Officer. Delegation to an officer avoids the need to give five clear days' notice and convene a member



meeting to grant the dispensation. The delegation to the Monitoring Office could be subject to a right of appeal to the Audit and Governance Committee.

8. Although the Council under its new arrangements will consider complaints about the conduct of members of parish councils, those councils will be responsible for the grant of their own dispensations.
9. The Localism Act 2011 also allows the Council to make standing orders to provide for the exclusion of members who are prevented from participating by virtue of a disclosable pecuniary interest. The recommendations in this report include such provisions.

## **Community Impact**

10. Ethical and transparent governance is an important element of the Council's corporate governance arrangements and affects its standing within the community. Dispensations balance conflicts of interest with the need for the expeditious dispatch of the Council's business.

## **Equality and Human Rights**

11. These proposals do not engage the obligations imposed by the Equalities Act 2010

## **Financial Implications**

12. None

## **Legal Implications**

13. These are explained in the report.

## **Risk Management**

14. If an effective scheme for granting dispensations is not introduced, then decision making could be impaired.

## **Consultees**

15. None

## **Appendices**

16. None

## **Background Papers**

None identified



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