

# AGENDA

## Audit and Governance Committee

Date: **Thursday 19 March 2015**

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Time: **10.00 am**

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Place: **Committee Room 1, Shire Hall, St. Peter's Square,  
Hereford, HR1 2HX**

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

For any further information please contact:

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

## **Membership**

**Chairman**

**Vice-Chairman**

**Councillor JG Jarvis**

**Councillor EMK Chave**

**Councillor CNH Attwood**

**Councillor WLS Bowen**

**Councillor PGH Cutter**

**Councillor MAF Hubbard**

**Councillor Brig P Jones CBE**

**Councillor PJ McCaull**

**Councillor NP Nenadich**

**Councillor DB Wilcox**

## 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 28 January 2015.	7 - 10
5.	<b>EXTERNAL AUDIT UPDATE</b> To provide a progress report on the delivery of external audit's responsibilities and to provide a summary of emerging national issues and developments that may be of relevance.	11 - 22
6.	<b>EXTERNAL AUDIT PLAN 2014-15</b> To present the external audit plan 2014-15.	23 - 38
7.	<b>INFORMING THE AUDIT RISK 2014-15</b> To present to the Audit and Governance Committee the key areas of the auditor risk assessment in order to make enquiries of the Committee under auditing standards.	39 - 58
8.	<b>INTERNAL AUDIT PLAN UPDATE (SWAP)</b> To provide an update on the progress of internal audit work and to bring to Committee's attention any key internal control issues arising from work recently completed.	59 - 76
9.	<b>INTERNAL AUDIT CHARTER 2015-16 (SWAP)</b> To seek the Committee's approval of the Internal Audit Charter for the period 1 April 2015 to 31 March 2016.	77 - 82
10.	<b>INTERNAL AUDIT PLAN 2015-16 (SWAP)</b> To seek the Committee's approval of the Internal Audit plan for the period 1 April 2015 to 31 March 2016.	83 - 92
11.	<b>ANTI-FRAUD, BRIBERY AND CORRUPTION POLICY</b> To present to the Audit and Governance Committee, the revised Anti-Fraud, Bribery and Corruption Policy, for approval.	93 - 106
12.	<b>CONTRACTS AND FINANCIAL PROCEDURES RULES</b> To refresh the contracts and financial procedure rules within the council's constitution.	107 - 158

<b>13. BUDGET MONITORING REPORT</b>	159 - 186
To provide Audit & Governance with an updated position on the projected outturn for 2014/15.	
<b>14. ENERGY FROM WASTE LOAN UPDATE</b>	187 - 196
To brief the Audit and Governance Committee on the status of the Energy from Waste (EfW) loan arrangement commenced on execution of the waste PFI contract variation in May 2014, following approval to proceed with the variation by Cabinet in December 2013.	
<b>15. FUTURE WORK PROGRAMME</b>	197 - 202
To agree the future work programme for the Audit and Governance Committee for 2015-16.	

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- Inspect minutes of the Council and all Committees and Sub-Committees and written statements of decisions taken by the Cabinet or individual Cabinet Members for up to six years following a meeting.
- Inspect background papers used in the preparation of public reports for a period of up to four years from the date of the meeting. (A list of the background papers to a report is given at the end of each report). A background paper is a document on which the officer has relied in writing the report and which otherwise is not available to the public.
- Access to a public register stating the names, addresses and wards of all Councillors with details of the membership of Cabinet and of all Committees and Sub-Committees.
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The Chairman or an attendee at the meeting must take the signing in sheet so it can be checked when everyone is at the assembly point.

## HEREFORDSHIRE COUNCIL

**MINUTES of the meeting of Audit and Governance Committee held at The Council Chamber, Shire Hall, St. Peter's Square, Hereford, HR1 2HX on Wednesday 28 January 2015 at 10.30 am**

**Present:** Councillor JG Jarvis (Chairman)  
Councillor EMK Chave (Vice Chairman)

Councillors: WLS Bowen, PGH Cutter, EPJ Harvey, NP Nenadich and DB Wilcox

**39. APOLOGIES FOR ABSENCE**

Apologies were received from Councillors MAF Hubbard, Brig P Jones and CNH Attwood.

Apologies were also received from Bill Norman, Assistant Director Governance.

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

Councillor EPJ Harvey attended as substitute for Councillor Hubbard.

**41. DECLARATIONS OF INTEREST**

There were no declarations of interest received.

**42. MINUTES**

The Vice Chairman queried when Grant Thornton would be able to report on outstanding matters; it was agreed to seek clarification from Grant Thornton.

**RESOLVED: That the Minutes of the meeting held on 26 November 2014 be confirmed as a correct record and signed by the Chairman.**

**43. UPDATE FROM PIDA WORKING GROUP**

The committee was advised that, given the need to prioritise resourcing of a General Overview & Scrutiny Committee call-in, the working group meeting planned for January had been postponed. The working group had met in December and the working group chairman reported that:

- The meeting in December focused on how new data had been presented rather than the data itself;
- Data had been requested by the Working Group on complaints; this was now included in the annual report of the Monitoring Officer appearing elsewhere on the committee's agenda today;
- The group would look to form recommendations for the future work programme for the committee;
- Further dates for the PIDA working group were to be confirmed.

#### 44. ANNUAL GOVERNANCE STATEMENT ACTION PLAN UPDATE

Peter Robinson, Chief Financial Officer (CFO) introduced the report and reminded the committee that a different approach had been taken this year, focussing on an action based approach.

The purpose of the report was to give the committee confidence that agreed actions were being delivered to ensure that concerns identified in the statement were resolved and do not reappear next year.

A member queried whether historic concerns about the robustness of contract management remained unresolved.

The chief financial officer advised that the potential weaknesses identified in the annual governance statement related to 2013/14; improvements had been made since then and the actions currently being implemented were designed to ensure improvements in consistency of approach continued.

At this point the Chief Executive was welcomed to the meeting by the Chairman.

The Chairman asked the Chief Executive what position the authority was in in terms of reviewing staffing levels in key positions.

The chief executive recognised that this is an important area for members in managing resources. The last 24 months has seen a reduction in staff of 20%, however, with a staff figure of 1,050 the council remained the largest employer in the county.

Over the past four years the council has had to identify budget reductions of over £50m with another £10m next year on a net budget of £146m. This would inevitably result in pressures on staff and service delivery. The belief is that resources are being managed in the most efficient manner.

The chief executive noted the outcome of last year's staff survey, highlighting

- Significant encouragement from staff
- Improvements still to be made
- More requirements being made on individual staff
- Ambassadors for the authority
- Staff willing to work extra hours

Overall, the staff survey was a remarkable response from staff given the current economic climate.

As with all authorities, Herefordshire is having to manage with less and this obviously presents challenges.

Continuous improvement teams had been established last September, and more than 60 members of staff had volunteered to participate. These teams have now been embedded in directorates.

The chairman queried morale levels across the authority.

The chief executive stated that being in a challenging financial position, in some cases alongside poor service performance can and does affect staff morale. However, the authority had moved to a position of financial stability and services were demonstrably improving. Although there was still room for improvement, there was evidence that staff feel they can and are making a difference.



The vice chairman suggested that staff survey results should be presented on an annual basis and could be used as a tool to address operational/delivery issues. The chief executive confirmed that he would be willing to present the staff survey report on an annual basis.

A member raised concerns that the shortfall in funding for social care can and does affect morale and in turn can result in losing staff.

The Chief Executive stated that reduction in funding is a problem that all authorities face and does present challenges to staff across a number of services. It has to be accepted that as an authority we are not equipped financially to achieve all we like to.

A member made the point that the authority must offer competitive packages to attract and retain social workers.

The chief executive stated that although some social workers had left the authority some were returning to the authority which was encouraging. Seeking to attain excellence in everything we do would in turn attract good people.

A member recognised that there had been a significant reduction of resources with change agenda still on going and queried whether, in the medium term, the authority would be looking to make savings in budgets.

The chief executive stated that the authority should focus on achieving rather than just surviving. Although staff levels had been reduced by 20% there had been an improvement in services. There were no plans for further significant corporate restructuring, although there were plans to replace some senior management interim roles with permanent appointments. The authority should demonstrate that it is using all resources in the most efficient way possible. The Authority has achieved a great deal in a short time and has much to be proud of.

The point was made that the authority was focused on joined up public sector working within Herefordshire; however, in the chief executive's opinion a combined authority model would not benefit the county.

In response to a concern raised that online only services may exclude certain service users, the Chief Executive made the point that although the authority would continue to provide a service to residents unable to access services on line; however the authority had to address the changing world, e.g. digital 24/7, self-service, and delivering in innovative ways. Change should be viewed as an opportunity and should be embraced rather than feared.

The Chief Executive noted the importance of participation in the Marches Local Enterprise Partnership.

It was noted that the next draft annual governance statement would be scheduled for consideration by the committee in July.

The governance manager confirmed that a working group, reporting to the Audit & Governance Committee, had been established to identify areas for governance improvement. The first meeting was scheduled in mid-February. In addition a review of finance and contracts procedure rules had been undertaken and would report to the next committee.

#### **45. ANNUAL REPORT OF THE MONITORING OFFICER**

The governance manager presented members with the monitoring officer's annual report and drew attention to the fact that the correct figure for data breaches was 64 not 74.

It was noted that the report related to the municipal year 2013/14 and, included a range of data not previously reported therefore did not contain trend data; future annual reports would do so against the baseline set in this report.

A short discussion was had around freedom of information requests and to ensure that the authority was publishing all it could to reduce the number of requests to be resourced. It was confirmed that the general principle being followed was that if information could be published, it should be.

A member sought clarification regarding the two enquiries which had been upheld by the local government ombudsman; it was agreed that the service areas concerned and level of reparation required would be confirmed in writing to the member.

A brief discussion on the forward programme was had with the following recommendations for inclusion:

- A briefing on the LEP assurance framework
- Forward programme should always be included as the last item on the agenda on all Audit and Governance Committee meetings
- Schedule consideration of the results of the annual staff survey should be available every January

The meeting ended at Time Not Specified

**CHAIRMAN**



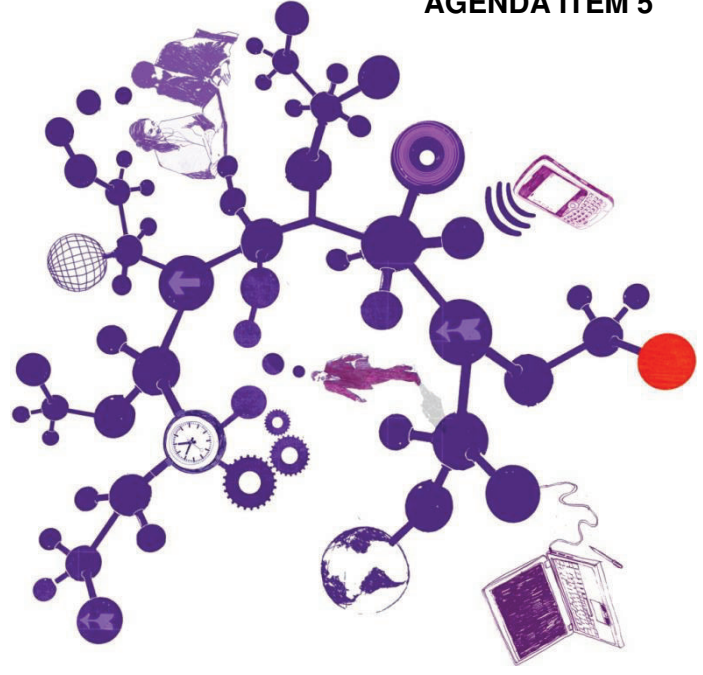
# Herefordshire Council Audit and Governance Committee Update

**Year ended 31 March 2015**  
March 2015

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# Introduction

This paper provides the Audit and Governance Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes a summary of emerging national issues and developments that may be relevant to you.

Members of the Audit and Governance Committee can find further useful material on our website [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk), where we have a section dedicated to our work in the public sector (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- All aboard? our local government governance review 2015
- Stronger futures: development of the local government pension scheme
- Rising to the challenge: the evolution of local government, summary findings from our fourth year of financial health checks of English local authorities
- 2020 Vision, exploring finance and policy future for English local government
- Where growth happens, on the nature of growth and dynamism across England

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

# Progress at March 2015

Work	Planned date	Complete?	Comments
<p><b>2014-15 Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2014-15 financial statements.</p>	January 2015	Yes	Our fee letter was sent to the Council 1 April 2014. Our detailed audit plan is being presented to March 2015 Audit and Governance Committee
<p><b>Interim accounts audit</b> Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> <li>• updating our review of the Council's control environment</li> <li>• updating our understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> <li>• proposed Value for Money conclusion.</li> </ul>	January-March 2015	Complete	No major issues emerging from interim to date.
<p><b>2014-15 final accounts audit</b> Including:</p> <ul style="list-style-type: none"> <li>• audit of the 2014-15 financial statements</li> <li>• proposed opinion on the Council's accounts</li> <li>• proposed Value for Money conclusion.</li> </ul>	July-August 2015	Not yet started	Meetings held with management to fix timescales and discuss key issues for 2014/15 accounts early. Working paper requirements shared. Training provided for officers.

## Progress at March 2015

Work	Planned date	Complete?	Comments
<p><b>Value for Money (VfM) conclusion</b></p> <p>The scope of our work to inform the 2014/15 VfM conclusion comprises the two criteria specified by the Audit Commission:</p> <ul style="list-style-type: none"> <li>The organisation has proper arrangements in place for securing financial resilience. The focus will be on whether the Council 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.</li> <li>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness. The focus will be on how the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</li> </ul>	<p>March-July 2015</p>	<p>In progress</p>	<p>Planning meeting held and evidence requirements shared.</p>



# All Aboard? - Local Government Governance Review 2015

## Grant Thornton

Our fourth annual review of local government governance is available at <http://www.grant-thornton.co.uk/en/Publications/2015/Local-Government-Governance-review-2015-All-aboard1/>.

We note that the challenges faced by local authorities are intensifying as austerity and funding reductions combine with demographic pressures and technological changes to create a potential threat to the long -term sustainability to some organisations. Maintaining effective governance is becoming ever more complex and increasingly important.

Against this background we have focused this year's review on three key areas:

**Governance of the organisation** – the main area of concern highlighted in this year's governance survey  
Is the level of dissatisfaction with the scrutiny process.

**Governance in working with others** – there is an urgent need for scrutiny to exercise good governance over the complex array of partnerships in which local authorities are now involved. Boundary issues notwithstanding, by 'shining a light' on contracted-out activities and joint operations or ventures, scrutiny committees can bring a new level of transparency and accountability to these areas

**Governance of stakeholder relations** – despite the work that a number of local authorities are doing with the public on 'co-production', almost a third of respondents to our survey did not think their organisation actively involves service users in designing the future scope and delivery of its services.

We conclude that local authorities need to ensure that their core objectives and values are fulfilled through Many other agencies . This implies a greater role for scrutiny and a need to make sure local public sector Bodies' arrangements are a transparent as possible for stakeholders.

Hard copies of our report are available from your Engagement Lead or Audit Manager.



# Independent Commission into Local Government Finance

## Local government issues

The Independent Commission on Local Government Finance was established in 2014 to examine the system of funding local government in England and bring forward recommendations on how it can be reformed to improve funding for local services and promote sustainable economic growth. It published its final report, [Financing English Devolution](#), on 18 February 2015.

The report notes that the core of the Commission's proposition is the devolution of powers, funding and taxes to sub-national entities over a 10 year period. They estimate that this could lead to over £200 billion in public expenditure being controlled at a sub-national level. The expectation is that councils and their partners would work collaboratively to manage differences in capacity and resources. They see local areas becoming self sufficient.

The Commission advocates a 'variable speed' approach to reform with 'Pioneers' able to and wishing to reform at a faster pace. Reforms advocated for all authorities include:

- An independent review of the functions and sustainability of local government in advance of the next spending review
- Freedom to set council tax and council tax discounts and full retention of business rates and business rates growth
- Multi-year financial settlements
- The ability to raise additional revenue through the relaxation of the rules on fees and charges

'Pioneer' authorities would also implement:

- Single placed-based budgets for all public services
- Management of funding equalisation across a sub-national area
- Further council tax reforms including the ability to vary council tax bands and undertake revaluations
- Newly assigned and new taxes such as stamp duty, airport taxes and tourism taxes
- The establishment of Local Public Accounts Committees to oversee value for money across the placed-base budget.

# Inspection into the governance of Rotherham Council

## Local government issues

On 4 February 2015 the Secretary of State for Communities and Local Government, Eric Pickles announced the publication of [Louise Casey's report](#). Her inspection of the exercise of functions on governance, children and young people and taxi and private hire licensing states:

"Rotherham Metropolitan Borough Council is not fit for purpose. It is failing in its legal obligation to secure continuous improvement in the way in which it exercises its functions. In particular, it is failing in its duties to protect vulnerable children and young people from harm."

It summarises the following serious failings:

- a council in denial about serious and on-going safeguarding failures
- an archaic culture of sexism, bullying and discomfort around race
- failure to address past weaknesses, in particular in Children's Social Care
- weak and ineffective arrangements for taxi licensing which leave the public at risk
- ineffective leadership and management, including political leadership
- no shared vision, a partial management team and ineffective liaisons with partners
- culture of covering up uncomfortable truths, silencing whistle-blowers and
- paying off staff rather than dealing with difficult issues

The report has had widespread press coverage and in a statement in the House of Commons the Secretary of State confirmed that he is considering exercising his powers of intervention in relation to Rotherham.

# Councils fear school place tipping point

## Local government issues

Just ahead of the 15 January 2015 deadline for parents to apply for primary school places for their child for September 2015 the LGA warned that the £12 billion cost of creating places for the 900,000 extra pupils expected at England's schools over the next decade could push schools to breaking point. Whilst the government has committed £7.35 billion to create extra school places the LGA claims that this still creates a backlog.

The LGA is calling on the Government to fully-fund the cost of all school places, now and in the future, and to give councils the powers to open new schools without bureaucratic burdens so they can be delivered according to local need. The LGA's 'Investing in our nation's future' campaign outlines measures which it claims would save the public purse £11 billion, tackle the country's housing crisis, ensure every child had a place at a good school, reduce long-term unemployment, address the pothole backlog and improve the nation's health.



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# The Audit Plan for Herefordshire Council

Year ended 31 March

2010 March 2015

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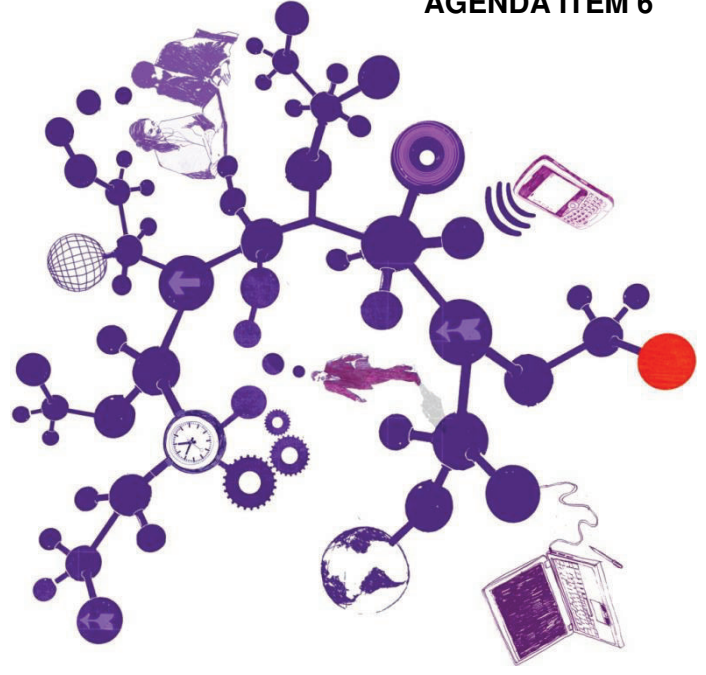
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AGENDA ITEM 6

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



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# Understanding your business

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

## Challenges/opportunities

- 1. Medium Term Financial Plan & Financial Pressures**
- Following the changes to central government funding, the Council has set a 2014/15 revenue budget and medium term financial plan which includes a savings programme amounting to £33 million to be delivered by 2017.

- 2. Adult Social Care**
- The Council is committed to the modernisation and transformation of adult social care: an area which represents the largest single area of expenditure and the most significant change agenda faced by the council

- 3. Safeguarding Children**
- Changes have been made to address issues raised by Ofsted around arrangements for the protection of children, but it is acknowledged by the Council that further work is still required.

- 4. Collaborative working with the NHS**
- Development of new working arrangements to deliver the Better Care Fund
  - NHS emergency care overload and the re-emergence of bed-blocking linked to adult social care capacity.



## Our response

- We will assess the Council's financial resilience and its financial plans as part of our value for money assessment and going concern assessment.
- We will report our findings to the Audit Committee in the Autumn

- Through discussions with key officers and document review, we will monitor progress in this area.

- Through discussions with key officers and document review, we will monitor progress in this area.

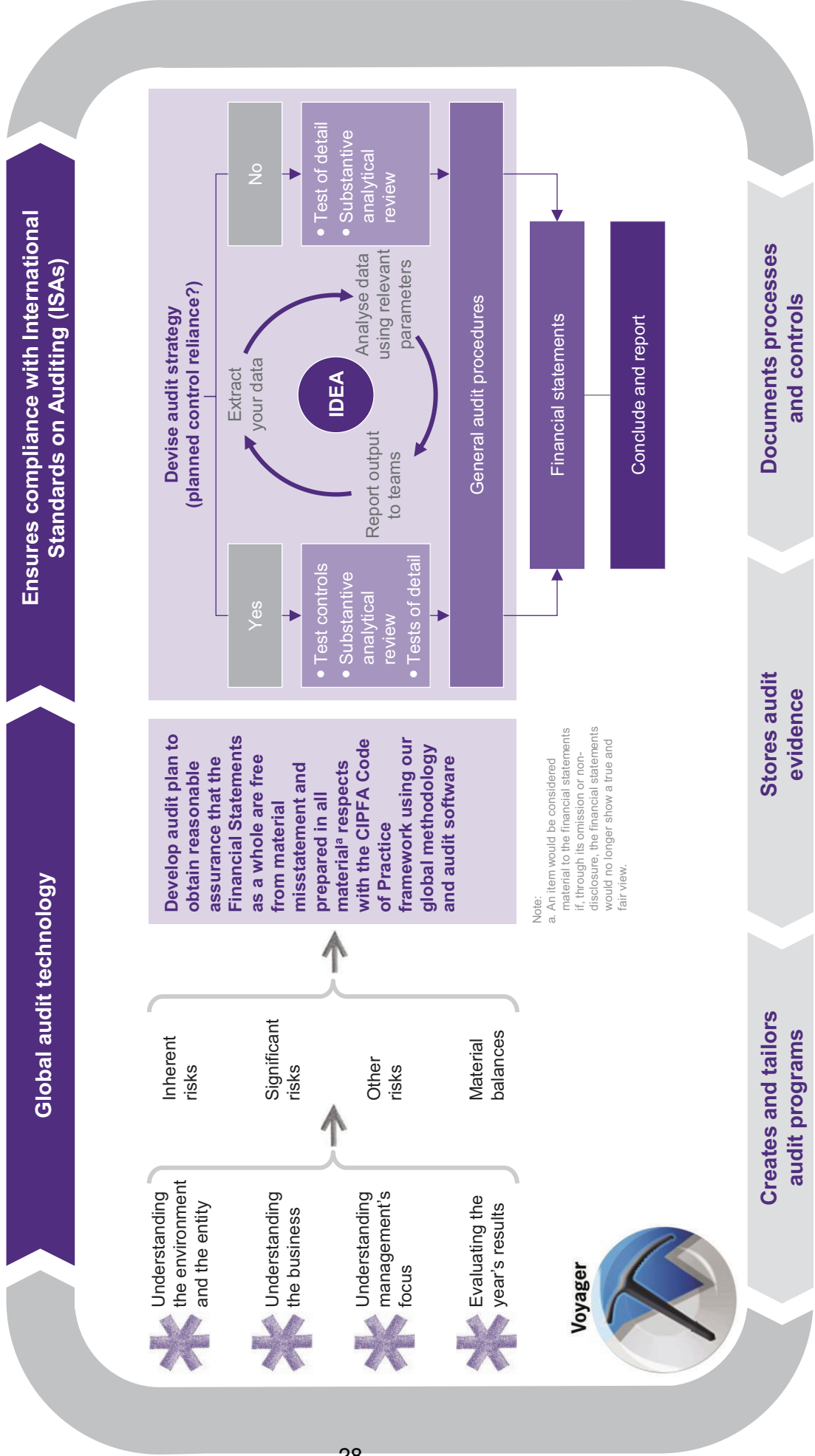
- We will meet with senior management and members on a regular basis to discuss their response to the opportunities and challenges facing the Council

# Developments relevant to your business and the audit

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

Developments and other requirements					
<p><b>1. Financial reporting</b></p> <ul style="list-style-type: none"> <li>Changes to the CIPFA Code of Practice</li> <li>Changes to the recognition of school land and buildings on local authority balance sheets</li> </ul>	<p><b>2. Legislation</b></p> <ul style="list-style-type: none"> <li>Local Government Finance settlement</li> </ul>	<p><b>3. Corporate governance</b></p> <ul style="list-style-type: none"> <li>Annual Governance Statement (AGS)</li> <li>Explanatory foreword</li> </ul>	<p><b>4. Better Care Fund</b></p> <ul style="list-style-type: none"> <li>Better Care Fund (BCF) plans and the associated pooled budgets will be operational from 1 April 2015</li> </ul>	<p><b>5. Financial Pressures</b></p> <ul style="list-style-type: none"> <li>Managing service provision with less resource</li> <li>Progress against savings plans</li> </ul>	<p><b>6. Other requirements</b></p> <ul style="list-style-type: none"> <li>The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion</li> <li>The Council completes grant claims and returns on which audit certification is required</li> </ul>
<h2 style="text-align: center;">Our response</h2>					
<p>We will ensure that</p> <ul style="list-style-type: none"> <li>the Council complies with the requirements of the CIPFA Code of Practice through discussions with management and our substantive testing</li> <li>schools are accounted for correctly and in line with the latest guidance</li> </ul>	<ul style="list-style-type: none"> <li>We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management.</li> </ul>	<ul style="list-style-type: none"> <li>We will review the arrangements the Council has in place for the production of the AGS</li> <li>We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge</li> </ul>	<ul style="list-style-type: none"> <li>We will keep a watching brief on progress on the Better Care Fund.</li> </ul>	<ul style="list-style-type: none"> <li>We will review the Council's performance against the 2014/15 budget, including consideration of performance against the savings plan</li> <li>We will undertake a review of Financial Resilience as part of our VFM conclusion</li> </ul>	<ul style="list-style-type: none"> <li>We will carry out work on the WGA pack in accordance with requirements</li> <li>We will certify the housing benefit subsidy claim in accordance with the requirements specified by Public Sector Audit Appointments Ltd. This company will take over the Audit Commission's responsibilities for housing benefit grant certification from 1 April 2015.</li> </ul>

# Our audit approach



## Significant risks identified

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

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

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Herefordshire Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Herefordshire Council, mean that all forms of fraud are seen as unacceptable.</li> </ul>
Management over-ride of controls	Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Testing of journal entries</li> <li>• Review of unusual significant transactions</li> </ul>
Financial statement level risk	On the 1st April 2015 the Authority are upgrading their ledger, which involves data transfer from one ledger to another	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• We will review the data transfer process to ensure that the data transfer was accurate and complete</li> </ul>

## Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit Approach
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	<p><b>Work planned</b></p> <ul style="list-style-type: none"> <li>the completeness of the subsidiary system interfaces and control account reconciliations</li> <li>cut off testing of purchase orders and goods received notes(both before and after year end)</li> <li>a review of the accruals process</li> <li>a sample of creditor balances at 31/3/15</li> </ul>
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<p><b>Work planned</b></p> <ul style="list-style-type: none"> <li>payroll reconciliation to ensure that information from the payroll system can be agreed to the ledger and financial statements.</li> <li>a sample of payments made in April and May to ensure payroll expenditure is recorded in the correct year.</li> <li>reviewing monthly trend analysis of total payroll</li> </ul>
Welfare Expenditure	Welfare benefit expenditure improperly computed	<p><b>Work planned</b></p> <ul style="list-style-type: none"> <li>We will carry out testing in accordance with the methodology required to certify the housing benefit subsidy claim</li> </ul>

# Value for money

## Value for money

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

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

VfM criteria	Focus of the criteria
The organisation has proper arrangements in place for securing financial resilience	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity

We will undertake a risk assessment to identify areas of risk to our VfM conclusion. We anticipate that we will undertake reviews of the:

- reasonableness of the approach adopted for 2014/15 budget setting
- adequacy of in year financial reporting and monitoring arrangements for the 2014/15 budget
- progress made in delivering the Medium Term Financial Strategy.
- level of reserves and the Council's reserves strategy
- Council's performance against key performance targets.

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

# Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

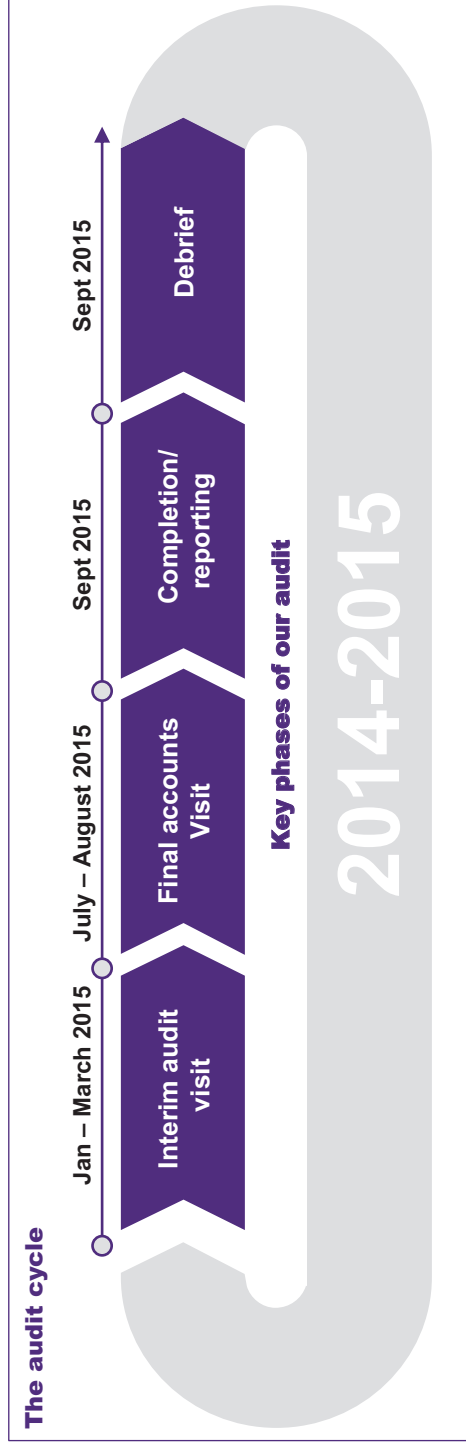
	<b>Work performed and findings</b>	<b>Conclusion</b>
<b>Internal audit</b>	We completed our review of Internal Audit's overall arrangements and their work on the Council's key financial systems to date.	We completed our assessment of Internal Audit as part of our interim audit work and concluded that the Internal Audit is credible, enjoys a satisfactory organisational status within the Council and employs a systematic and disciplined approach to its work.
<b>Walkthrough testing</b>	<p>We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.</p>	Our work has not identified any weaknesses which impact on our audit approach.
<b>Entity level controls</b>	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices</li> </ul>	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements



## Results of interim audit work cont'd

	<b>Work performed</b>	<b>Conclusion</b>
<b>Journal entry controls</b>	We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.	No issues identified based on work undertaken to date. We will complete detailed testing on journal transactions during our interim and year end audit visits.
<b>Early substantive testing</b>	We have undertaken some early testing on payroll and operating expenditure covering months 1-9.	No issues identified based on work undertaken to date. We will complete the testing at the year end,

# Key dates



<b>Date</b>	<b>Activity</b>
January 2015	Planning
January - March 2015	Interim site visit
19 March 2015	Presentation of audit plan to Audit & Governance Committee
July-August 2015	Year end fieldwork
Late August 2015 (tbc)	Audit findings clearance meeting
September 2015 (tbc)	Report audit findings to Audit & Governance Committee
By 30 September 2015	Sign financial statements opinion

# Fees and independence

## Fees

	£
Council audit	164,803
Grant certification	6,420
<b>Total fees (excluding VAT)</b>	<b>171,223</b>

### Our fee assumptions include:

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

### Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited, as the successor to the Audit Commission in this area.
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services.'

## Fees for other services

Service	Fees £
Certification of Teachers Pension return	4,200

### Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

### Independence and ethics

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

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

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

# Communication of audit matters with those charged with governance

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

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

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

## Respective responsibilities

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

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

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

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

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



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# Informing the audit risk assessment for Herefordshire Council

2014/15

8 March 2015

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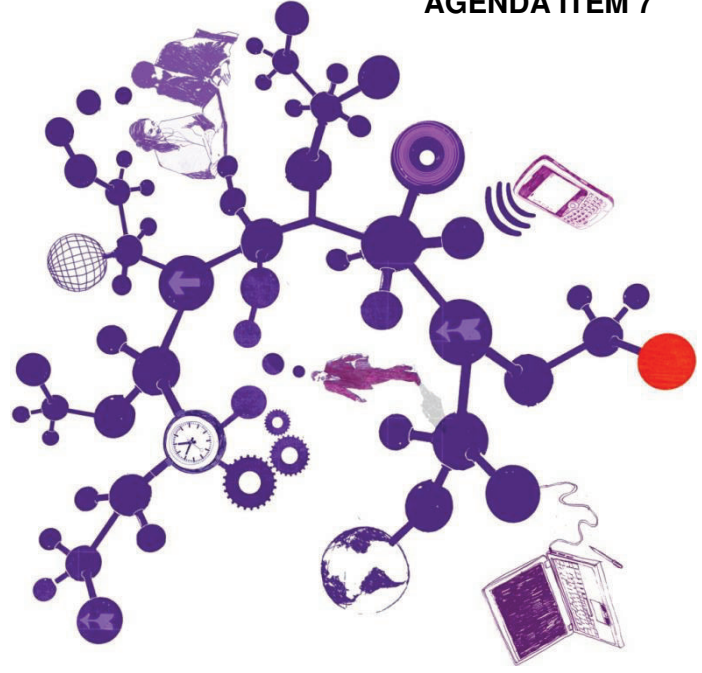
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AGENDA ITEM 7

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



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# Purpose

The purpose of this report is to contribute towards the effective two-way communication between auditors and the Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

## Background

Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

## Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Audit Committee's oversight of the following areas:

- fraud
- laws and regulations
- going concern.

This report includes a series of questions on each of these areas and the response we have received from the Council's management. The Audit Committee should consider whether these responses are consistent with the its understanding and whether there are any further comments it wishes to make.

# Fraud

## Issue

### Matters in relation to fraud

ISA(UK&I)240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud
- process for identifying and responding to risks of fraud, including any identified specific risks
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Council's management.

# Fraud risk assessment

Question	Management response
<p>Has the Council assessed the risk of material misstatement in the financial statements due to fraud? What are the results of this process?</p>	<p>The risk of material misstatement of the accounts due to undetected fraud is low. Although there is an ongoing risk of fraud being committed against the council, clear and effective arrangements are in place to both prevent and detect fraud.</p>
<p>Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?</p>	<p>There have been no specific or high risk areas of fraud identified since April 2014. Herefordshire Council returned the annual Audit Commission Survey</p>
<p>4 Do you suspect fraud may be occurring, either within the council or within specific departments?</p> <ul style="list-style-type: none"> <li>- Have you identified any specific fraud risks?</li> <li>- Do you have any concerns there are areas that are at risk of fraud?</li> <li>- Are there particular locations within the Council where fraud is more likely to occur?</li> </ul>	<p>We do not suspect fraud is occurring within the Council. However, evidence published by the National Fraud authority amongst others, suggests that fraud is committed in all organisations to varying degrees, so it is possible that some fraud is occurring at Hereford. In order to mitigate fraud occurring the Council has a number of processes in place.</p> <p>The internal audit plan incorporates consideration of potential fraud risks and how these are to be mitigated, for example through the reviews of the Council's key systems and the work it completes on the Councils Anti-Fraud processes to ensure that they are fit for purpose.</p> <p>In addition to this management is expected to identify and record fraud risks where necessary on the corporate risk register. There are some areas that are inherently at risk such as:</p> <ul style="list-style-type: none"> <li>- Council tax; and</li> <li>- Housing benefit</li> </ul> <p>However, there is a dedicated benefits team within the Corporate Finance division which investigates any potential fraud issues.</p>

# Fraud risk assessment

Question	Management response
<p>Are you satisfied that the overall control environment, including:</p> <ul style="list-style-type: none"> <li>- The process for reviewing the system of internal control;</li> <li>- Internal controls, including segregation duties; Exist and work effectively</li> <li>- If not where are the risk areas?</li> </ul> <p>What other controls are in place to help prevent, deter or detect fraud?</p>	<p>Yes</p> <p><i>In the Annual Assurance Statement issued in July 2014 for the internal audits carried out in the previous year the Head of Internal Audit concluded: We have not identified any significant findings for the key control audits, however we have identified some issues with segregation of duties at Schools and generally inadequate control framework. So yes there is a risk of fraud however our work did not identify any fraudulent activity. All schools have been responsive to the findings and have agreed action plans to address the weaknesses.</i></p> <p><i>The problems seem to stem from lack of guidance and understanding leading to poor practice rather than any intention to commit fraud.</i></p>
<p>How do you communicate to employees about your views on business practices and ethical behaviour?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p>	<p><i>The Council has an Anti-Fraud Strategy and a Whistleblowing procedure in place which explains the procedures to follow when staff need to raise any fraud concerns</i></p> <p><i>These policies and procedures are available to all staff via the Council's intranet.</i></p>
<p>From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <ul style="list-style-type: none"> <li>- How are the risks relating to these posts identified, assessed and managed?</li> </ul>	<p><i>There are not any significantly high- risk posts identified</i></p>

## Fraud risk assessment

Question	Management response
<p>Are you aware of any related party relationships or transactions that could give rise to risks of fraud?</p> <p>- How do you mitigate the risks associated with fraud related to related party relationships and transactions</p>	<p><i>We are not aware of any related party in 2014-15 which would give rise to a risk of fraud</i></p> <p><i>Members and officers are required to make full disclosure of any relationships that impact on their roles. Members are required to declare any relevant interests at Council and Committee meetings</i></p>
<p>What arrangements are in place to report fraud issues to Audit Committee?</p>	<p><i>Internal Audit provided the Audit and Governance Committee with updates of their work on fraud prevention and detection, including any significant identified frauds and the action taken.</i></p>

# Laws and regulations

## Issue

### Matters in relation to laws and regulations

ISA(UK&I)250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the entity is in compliance with laws and regulations.

→ Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

# Impact of laws and regulations

Question	Management response
<p>How does management gain assurance that all relevant laws and regulations have been complied with?</p>	<p><i>The role of the Monitoring Officer is defined in the Constitution as 'responsible for reporting the actual or potential breach of a legal requirement to the Council meeting or Cabinet'.</i></p> <p><i>The monitoring Officer is supported by a team of Legal and Democratic Services Officers and the Resilience Team. Together they advise him of any matters of concern.</i></p> <p><i>The Monitoring Officer sees all reports to the Officer Leadership Team and all reports to Members.</i></p> <p><i>All reports to Members are required to have a legal implications section and a risk section.</i></p> <p><i>The Section 151 officer is responsible for preparing the accounting statement in accordance with relevant legal and regulatory requirements.</i></p>
<p>How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p><i>The Monitoring Officer (or representative) attends Audit and Governance Committee Meetings when legal issues arise and advises members on any areas of concern.</i></p>



# Impact of laws and regulations

Question	Management response
<p>Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2014, or earlier with an on-going impact on the 2014/15 financial statements?</p>	<p>The following audits carried out since the 1st April 2014 were assessed as 'Partial' assurance – Procurement and four schools. One further school was assessed as 'No' assurance.</p> <p>Follow up audits have been completed on four audits - Legal Services, Income Collection, Gypsy and Traveller service, and Data Protection. These audits were assessed as 'Limited' assurance by the previous audit provider, one further audit assessed as 'Limited' Health &amp; Safety is currently in progress. Follow up work reviews the progress against agreed actions.</p> <p>In all cases steady progress has been made to address the issues. However I would note that the Gypsy and Traveller service still had a number of actions outstanding – all actions have been reviewed as part of the follow up and a new implementation date agreed.</p>
<p>Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>There is an ongoing case involving a claim from a care home . There is also a on-going dispute with a previous service provider around amounts due to and from them at the close of the contract.</p> <p>Legal proceedings have been commenced against the Council (and other Councils) by private search companies in relation to Land charges.</p>

# Going concern

## Issue

### Matters in relation to going concern

ISA(UK&I)570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

The Code of Practice on Local Authority Accounting requires an authority's financial statements to be prepared on a going concern basis. Although the Council is not subject to the same future trading uncertainties as private sector entities, consideration of the key features of the going concern provides an indication of the Council's financial resilience.

As auditor, we are responsible for considering the appropriateness of use of the going concern assumption in preparing the financial statements and to consider whether there are material uncertainties about the Council's ability to continue as a going concern that need to be disclosed in the financial statements. We discuss the going concern assumption with management and review the Council's financial and operating performance.

Going concern considerations have been set out below and management has provided its response.

## Going concern considerations

Question	Management response
<p>Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?</p>	<p><i>The financial plan considered the government changes in terms of grant settlement and the financial settlement. The plan is updated to reflect the financial settlement</i></p>
<p>Have there been any significant issues raised with the Audit Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control)</p>	<p>No</p>
<p>Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?</p>	<p>No</p>
<p>Does the Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives? If not, what action is being taken to obtain those skills</p>	<p>Yes</p>

# Accounting Estimates

## Issue

Local authorities need to apply appropriate estimates in the preparation of their financial statements. Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. ISA (UK&I) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard, we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Council identifies the transactions, events and conditions that may give rise to the need for an accounting estimate

We need to be aware of all estimates that the Council are using as part of their accounts preparation.

The audit procedures we conduct on the accounting estimate will demonstrate that:

- The estimate is reasonable
- Estimates have been calculated consistently with other accounting estimates within the financial statements.

# Accounting Estimates

Estimate	Method/model used to make estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions; -Assessment of degree of uncertainty -consideration of alternative estimate	Has there been a change in accounting estimates in the year?
Property Plant and Equipment Estimate	Valuations will be made by an external valuer in line with RICS guidance on the basis of 5 year valuations with interim reviews. The only valuations carried out by Property Services internally are Smallholdings, the review of property valuations < £5k and they will also do the impairment review at the year end as their local knowledge is needed.	There is a rolling program of valuations and the finance team issues terms of engagement covering specific issues for the year	The external and internal valuers are members of RICS.	Valuations are made in line with RICS guidance-reliance on expert	No
Measurement of financial instruments	Council values financial instruments at fair value based on the advice of their external treasury consultants	Take advice from professionals	Yes	Take advice from treasury management professionals	No
Overhead allocation	The finance team apportion central support costs to services based on fixed bases	All support service cost centres are allocated according to the most appropriate allocation basis for each activity	No	Apportionment bases are reviewed each year to ensure they are equitable	No

# Accounting Estimates

Estimate	Method/model used to make estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions; -Assessment of degree of uncertainty -consideration of alternative estimate	Has there been a change in accounting estimates in the year?
Provisions for liability	Provisions are made where an event has taken place that gives the Council legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. Provisions are charged as an expense to the appropriate service line in the CI&ES in the year that the council becomes aware of the obligation, taking into account relevant risks and uncertainties	Charged in the year that the council becomes aware of the obligation	The level of insurance provision was reviewed in 2014/15 by the councils insurance broker	Estimated settlements are reviewed at the end of each financial year. The insurance provision is periodically reviewed by the council's insurance broker	No
Accruals	Activity is accounted for in the financial year that it takes place, not when money is paid or received	Procedures for identifying accruals are included in the closedown instructions	No	Accruals for income and expenditure have been principally based on known values. Where accruals have had to be estimated the latest available information has been used	No

# Accounting Estimates

Estimate	Method/model used to make estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions; -Assessment of degree of uncertainty -consideration of alternative estimate	Has there been a change in accounting estimates in the year?
PFI	PFI and similar schemes contracts are agreements to receive services, where the responsibility for making available or improving the asset 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, it carries the assets used under the contracts on its balance sheet as part of the property, plant and equipment. The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment	The models for the PFI contracts are used to produce the accounts. Assets are valued in line with other PPE assets.	Use of model for calculating PFI payment elements	Valuations are made in line with RICS guidance - reliance on experts	No
Defined benefit pension amounts and disclosures	Non-teaching staff are members of the Local Government Pensions Scheme, administered by Worcestershire County Council	Rely on the calculations made by the actuary	The actuary of the pensions scheme	Reliance on the expertise of the actuaries of the pension scheme	No

# Related Parties

## Issue

For local government bodies, the Code of Practice on Local Authority Accounting in the United Kingdom (the code) requires compliance with IAS24: Related party disclosures. The Code identifies the following as related parties to local government bodies:

- Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Council (i.e subsidiaries)
- Associates
- Joint ventures in which the Council is a venturer
- An entity that has an interest in the Council that gives it significant influence over the Council
- Key officers, and close members of the family of key officers
- Post-employment benefit plan (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council

The Code notes that, in considering materiality, regard should be had to the definition of materiality, which requires materiality to be judged from the viewpoint of both the Council and the related party.

ISA (UK&I) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.



## Related Parties Consideration

Question	Management response
<p>Who are the Council's related parties?</p>	<p>The Council has a number of related parties in which there is a material impact to the financial statements via virtue of- whether the Council might have the potential either to be controlled or influenced by the party or the potential to exert control or influence over the party.</p> <p>The Council discloses its related parties under the following headings:</p> <ol style="list-style-type: none"> <li>1) Central Government</li> <li>2) Members</li> <li>3) Officers</li> <li>4) Other public bodies (Including Worcestershire County Council, Wye Valley Trust, 2Gether and the Clinical Commissioning Group)</li> <li>5) Significant long-term contracts (Including Amey Wye Valley, Balfour Beatty FOSCA UK)</li> <li>6) Other organisations (including Hoople, HALO Leisure Trust, Herefordshire Housing Ltd, Hereford Futures and West Mercia Energy)</li> </ol>
<p>What are the controls in place to identify, account for, and disclose, related party transactions and relationships?</p>	<p>A number of arrangements are in place for identifying the nature of a related party and reported value including:</p> <ul style="list-style-type: none"> <li>- Maintenance of a Register of Interests for Members</li> <li>- Annual return from senior managers/officers</li> <li>- Review of in-year income and expenditure transactions with known identified related parties from prior year or known history</li> </ul> <p>Review of year end debtors and creditors analysing systems and manual accruals records.</p>



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<b>MEETING:</b>	<b>AUDIT &amp; GOVERNANCE COMMITTEE</b>
<b>MEETING DATE:</b>	<b>19 March 2015</b>
<b>TITLE OF REPORT:</b>	<b>PROGRESS REPORT ON 2014-15 INTERNAL AUDIT PLAN</b>
<b>REPORT BY:</b>	<b>INTERNAL AUDIT – SOUTH WEST AUDIT PARTNERSHIP</b>

## Classification

Open

## Wards Affected

County-wide

## Purpose

The purpose of this Internal Audit Report is to update Members on the progress of internal audit work and to bring to their attention any key internal control issues arising from work recently completed.

The attached reports (Appendices A & B) are a summary of the activity completed at 20th February 2015 for the 2014/15 audit plan.

## Recommendation

**That subject to any comments the Committee wishes to make the report be noted.**

## Alternative Options

- 1 This report is for information and therefore alternative options are not applicable.

## Reasons for Recommendations

- 2 To ensure compliance with good practice as set out in the Public Sector Internal Audit Standards (PSIAS).

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Further information on the subject of this report is available from  
Jacqui Gooding – Assistant Director (SWAP) on Tel: 01432 260294 or 07872500675

## **Key Considerations**

3 See Appendix A

## **Community Impact**

4 The report does not impact on this area.

## **Equality and Human Rights**

5 The report does not impact on this area.

## **Financial Implications**

6 There are no financial implications.

## **Legal Implications**

7 There are no legal implications.

## **Risk Management**

8 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. This is mitigated by the regular active management and monitoring of progress against the agreed internal audit plan.

## **Consultees**

9 The Chief Financial Officer (Section 151 Officer) was consulted in the drafting of this report.

## **Appendices**

Appendix A – SWAP Plan Progress Report 2014/15

Appendix B – 2014/15 Annual Plan Progress

Appendix C - High Priority Service Recommendations

Appendix D – Audit Framework Definitions

## **Background Papers**

- None identified.



## **Herefordshire Council**

Report of Internal Audit Activity  
Plan Progress 2014-15 up to 20<sup>th</sup> February 2014

# Contents

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## Summary:

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Role of Internal Audit  
Overview of Internal Audit Activity

## Internal Audit Work Plan 2014/15:

Report on Significant Findings  
Audit Plan Progress  
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Conclusions }  
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## APPENDICES:

2014-15 Annual Plan Progress  
High Priority Service Recommendations  
Audit Framework Definitions  
Appendix 'B'  
Appendix 'C'  
Appendix 'D'



Our audit activity is split between:

- **Operational Audit**
- **School Themes**
- **Governance Audit**
- **Key Control Audit**
- **IT Audit**
- **Grants**
- **Other Reviews**

## Role of Internal Audit

The Internal Audit service for Herefordshire Council is provided by South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter approved by the Audit and Governance Committee at its meeting on 23<sup>rd</sup> June 2014.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work includes:

- Operational Audit Reviews
- School Themes
- Cross Cutting Governance Audits
- Annual Review of Key Financial System Controls
- IT Audits
- Grants
- Other Special or Unplanned Reviews

## Overview of Internal Audit Activity

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Chief Financial Officer (Section 151 Officer) following consultation with the Senior Management Team. This year's (2014/15) Plan was presented to this Committee on 23<sup>rd</sup> June 2014.

Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk.

These are actions that we have identified as being high priority or corporate risks that have been assessed as “Very High” or “High” and that we believe should be brought to the attention of the Audit Committee ‘

## Report on Significant Findings/Risk

Appendix B is a summary of the Annual Plan for 2014/15 – a list of all audits as agreed in the Annual Audit Plan 2014/15. It is important that Members are aware of the status of audits as this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

Where a review has a status of ‘Completed’ and has been assessed as ‘Partial’ or ‘No Assurance’, I will provide further detail to inform Members of the key issues identified. Since my last report Procurement and four school audits have been assessed as ‘Partial’ and one school has been assessed as ‘No Assurance’ and I include the Auditor’s Opinion as follows:

- **Procurement**

The purpose of this audit was to assess the Council’s achievement against the objective to maintain a robust procurement process, which includes up to date systems, so that best value is achieved; and to support staff in compliance with the procurement rules.

The review has been split into two main elements: review of the Council’s documentation and the activities of the Commercial Services team in supporting procurement activity, and assessment of a sample of contracts identified through purchasing records for compliance with requirements.

The Council’s guidance to staff was found to be largely satisfactory, with some minor enhancements recommended. I was also able to confirm that the Commercial Services team are appropriately equipped and resourced to support the wider organisation, with each Directorate allocated a specific officer as a point of contact. Progress in making improvements within each Directorate is ongoing, and staff demonstrated a clear knowledge of upcoming issues. The team is also involved in strategic improvements, including joint working initiatives.



These are actions that we have identified as being high priority or corporate risks that have been assessed as “Very High” or “High” and that we believe should be brought to the attention of the Audit Committee ‘

## Report on Significant Findings/Risk

However, the team is only able to advise on current and future procurement activity. The review of sampled purchases identified that many Service Managers do not hold documentation to support the contract award decision and in some cases contract documentation was not provided.

Decisions made and document retention by Service Managers is outside the control of the Commercial Services team, but indicates that the training programme currently being rolled out is a timely and appropriate initiative.

Consequently, I consider the Council’s priority should be the identification of all purchasing where a contract is or should be in place. Once the Council has identified any gaps in its current records, improvements in monitoring and supporting contract managers to prevent inappropriate procurement can be undertaken. A new e-tendering system is currently planned and should assist in maintaining an adequate contracts register. Once this is in place, monitoring should assist in identifying issues and any training needs, to feed in to the current training initiative.

These are actions that we have identified as being high priority or corporate risks that have been assessed as “Very High” or “High” and that we believe should be brought to the attention of the Audit Committee ‘

- **Schools**

Schools manage substantial sums of public money and consequently need to be safeguarded. Having adequate arrangements in place to guard against fraud and theft by staff, contractors and suppliers is also one of the 23 questions that make up the Schools Financial Value Standard (SFVS). A school needs to ensure that it has a robust system of controls to safeguard itself against fraudulent or improper use of public money and assets; and these arrangements should both prevent malpractice, and enable prompt detection should it nonetheless occur.

The Prevention of Fraud themed audit reviewed six schools. This is only a small sample of schools and the findings below do not suggest that all schools have inadequate controls in place to prevent fraud. It is also important to note that there was no evidence of fraud identified at the schools.

These findings should be taken in the context of the scope of this review and do not in any way impact on the Council’s priority of protecting and providing a good education for all children.

There were a number of key findings that we consider to be important for management to address. The following is a summary of the key findings.

- a) Not all of the governors and staff with financial responsibilities had completed a declaration of business interests
- b) There was a lack of authorisation and segregation of duties in the purchasing process and in one case evidence of password sharing for the Financial Management System
- c) The Finance Policy was not comprehensive and required updating in many areas, including fraud and theft
- d) Induction arrangements for finance governors was not in place at all schools

These are actions that we have identified as being high priority or corporate risks that have been assessed as “Very High” or “High” and that we believe should be brought to the attention of the Audit Committee ‘

- e) There was insufficient segregation of duties for the collection and banking of income for official and unofficial funds and in some cases no clear audit trail of income from receipt to banking
- f) Unofficial funds have not been audited for a number of years at some schools; are not reconciled on a regular basis; and supporting documentation was not available for all payments made
- g) There was evidence of mixing of official and unofficial funds however this was due to lack of understanding and in one case provided a manageable banking option
- h) Reconciliation of the imprest account (petty cash) not performed on a monthly basis

Each school was very receptive to the audit process and all schools have agreed to an implementation timetable to address weaknesses identified.

No significant corporate risks have been identified since my last report on 2014/15 plan.

## Completed Audit Assignments in the Period

### Audit Plan Progress

The summary of the Annual Plan for 2014/15 (Appendix B) highlights progress to date. Based on the findings of each review, an overall control assurance is offered. For a summary of Control Assurance Definitions, Categorisation of Recommendations and Risk Levels, please refer to Appendix 'C'.

As can be seen from Appendix 'B', the following audits have been progressed to date:

#### Operational:

- Complete, 1 review (Partial)
- Draft, 1 review
- In Progress, 3 reviews
- In Development, 4 reviews

#### Governance, Fraud and Corruption:

- Complete, 6 reviews – (2 Reasonable, 4 Non-Opinion)
- Draft, 1 review
- In Progress, 1 reviews
- Not Started, 1 review

#### Follow Up Reviews: (Non-Opinion)

- Complete, 4 Reviews
- Draft, 1 Review

#### School Themes –: Prevention of Fraud

- Complete, 6 reviews (1 Reasonable, 4 Partial, 1 No)
- In Progress 6 reviews

Completed Audit Assignments in the Period	Audit Plan Progress
	<p><b>Key Control:</b></p> <ul style="list-style-type: none"> <li>• Complete, 4 reviews (1 Substantial, 3 Reasonable)</li> <li>• Draft Report, 1 review</li> <li>• In Progress, 4 Reviews</li> </ul> <p><b>ICT Reviews:</b></p> <ul style="list-style-type: none"> <li>• Complete, 1 review (Substantial)</li> <li>• Draft, 1 review</li> <li>• In Progress, 2 reviews</li> </ul> <p><b>Grants:</b></p> <ul style="list-style-type: none"> <li>• Complete, 4 Claims,</li> <li>• Draft, 1 Claim</li> </ul> <p><b>Special reviews</b></p> <ul style="list-style-type: none"> <li>• Complete 1 review (Non-Opinion)</li> </ul>

We keep our audit plans under regular review, so as to ensure we are auditing the right things at the right time.

## Special Reviews

Unplanned work, special reviews or projects carried out on a responsive basis are requested by the Chief Financial Officer (Section 151 Officer).

No reviews have been requested since my last update.

## Future Planned Work

As new and emerging risks are identified, any changes to the plan will be subject to the agreement of the Chief Financial Officer. There have been a number of changes to the plan since my last report. Five audits have been removed – Registrar and Coroners, Accounts Payable follow up, Payroll follow up, Hardware Asset Management and Peer Challenge/Benefits Realisation, Safer Recruitment to provide capacity for the following additional work:

Colwall School, Troubled Families, Transport Capital Funding, Agresso upgrade, Expenses Self Serve.

## Conclusion

Good progress continues to be made against the 2014/15 plan. Four reviews have received Partial Assurance and one review No assurance but we have not identified any significant corporate risks from these.

The School theme review – Prevention of fraud was to give assurance that Schools have adequate controls in place to safeguard against fraudulent or improper use of public money and assets has identified some significant findings and it was agreed to extend the review across more Schools. This work is currently in progress but I have reported above the significant findings identified to date.



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Delivering Audit Excellence

SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the PSIAS and the CIPFA Code of Practice for Internal Audit in England and Wales.

We keep our audit plans under regular review, so as to ensure we are auditing the right things at the right time.

## Conclusion

Key Control audits that have been completed to date have not resulted in any significant findings.

The Special review reported in my last update is now at Final report. There are a number of recommendations that have been agreed with management to improve planning, procedures and to define roles and responsibilities which will help to mitigate the risk of similar situations occurring in the future.

I will continue to update Members on progress against the plan and although hope to deliver the full annual plan there will inevitably be some carry forward into the new year.





Herefordshire Council 2014-15 Audit Plan										
Audit Type	Audit Area	Quarter	Status	Opinion	No. of recs	Recommendations				
						5	4	3	2	1
Governance, Fraud &	Expense Fraud	1	Completed	Reasonable	6	0	1	5	0	0
Governance, Fraud &	Members Expenses	1	Completed	Reasonable	3	0	0	3	0	0
Governance, Fraud &	Housing - Home Point	1	Completed	Non-opinion	-	-	-	-	-	-
Governance, Fraud &	Fraud & Corruption Survey	1	Completed	Non-Opinion	-	-	-	-	-	-
Grant Certification	Green Deal Pioneer Places Grant	1	Completed	Substantial	4	0	0	0	4	0
Grant Certification	HC Adoption Reform Grant	1	Completed	Non-Opinion	-	-	-	-	-	-
Grant Certification	Care Bill grant	1	Completed	Non-Opinion	-	-	-	-	-	-
ICT	HC_User Access Management	1	Discussion Document	Reasonable	0	0	0	0	0	0
Key Control	Payroll 2014-15	1	Completed	Reasonable	9	0	0	9	0	0
Key Control	Accounts Payable 2014-15	1	Completed	Reasonable	3	0	0	3	0	0
Follow Up	Income Collection	2	Completed	Non-Opinion	5	0	1	4	0	0
Follow Up	Legal Services	2	Completed	Non-Opinion	5	0	0	5	0	0
Follow Up	Data Protection	2	Completed	Non Opinion	1	0	0	1	0	0
Follow Up	Gypsy & Traveller Service	2	Completed	Non Opinion	13	0	1	12	0	0
Governance, Fraud &	Risk Management	2	Draft	Reasonable	0	0	0	0	0	0
Governance, Fraud &	Fraud & Corruption Policy	2	Completed	Non-Opinion	-	-	-	-	-	-
Governance, Fraud &	Whistleblowing Policy	2	Completed	Non-Opinion	-	-	-	-	-	-
Grant Certification	Transport Capital Funding	2	Completed	Non-Opinion	2	0	0	2	0	0
Operational	Procurement	2	Completed	Partial	7	0	4	3	0	0
Operational	Financial Contributions & Fairer Charging	2	In Progress		0	0	0	0	0	0
Operational	Framework i-case management system	2	Draft		0	0	0	0	0	0
Operational	Looked After Children	2	In progress		0	0	0	0	0	0
Schools	Schools - Prevention of Fraud	2	Completed		0	0	0	0	0	0
Schools	St Marys C of E Primary School	2	Completed	Partial	28	0	5	19	4	0
Schools	Ewyas Harold Primary School	2	Completed	Partial	12	0	4	7	1	0
Schools	Staunton-on-Wye Endowed Primary	2	Completed	No	18	1	5	11	1	0
Schools	Weobley High School	2	Completed	Reasonable	12	0	0	11	1	0
Schools	Aylestone Business & Enterprise College	2	Completed	Partial	18	0	4	12	2	0
Schools	Walford Primary School	2	Completed	Partial	11	0	1	9	1	0
Special Investigation	Colwall Primary School- Damp Problems - Lesson Learned	2	Completed	Non-Opinion	17	2	13	2	0	0
Follow Up	Payroll	3	Removed	-	-	-	-	-	-	-
Follow Up	Accounts Payable	3	Removed	-	-	-	-	-	-	-

Audit Type	Audit Area	Quarter	Status	Opinion	No. of recs	Recommendations				
						5	4	3	2	1
Grant Certification	Troubled Families	3	Draft	Non-Opinion						
ICT	Software Asset Management	3	In Progress		0	0	0	0	0	0
ICT	Education, Health & Care Plans data	3	Removed	-	-	-	-	-	-	-
Key Control	Accounts Receivable	3	Draft	Reasonable	6	0	0	6	0	0
Key Control	Main Accounting	3	Completed	Reasonable	7	0	0	7	0	0
Key Control	Treasury Management	3	Completed	Substantial	2	0	0	2	0	0
Key Control	Capital Accounting	3	In progress		0	0	0	0	0	0
Key Control	Council Tax	3	In Progress		0	0	0	0	0	0
Key Control	NDR	3	In Progress		0	0	0	0	0	0
Key Control	Housing & Council Tax Benefits	3	In Progress		0	0	0	0	0	0
Operational	Housing - Home Point	3	Drafting Report							
Operational	Use of Agency Staff	3	Initial meeting		0	0	0	0	0	0
Operational	Preparations for the Care Bill	3	Initial meeting		0	0	0	0	0	0
Follow Up	Health & Safety	4	In progress							
Governance, Fraud &	Troubled Families 2015 New	4	Not Started	Non-Opinion						
Governance, Fraud &	Expenses - Self Serve	4	In progress							
ICT	Hardware Asset Management	4	Removed	-	-	-	-	-	-	-
ICT	Agresso Upgrade	4	In Progress	Non-Opinion						
ICT	ISO27001 Implementation	4	Completed	Substantial	1	0	0	0	1	0
Operational	Homelessness	4	Initial meeting		0	0	0	0	0	0
Operational	Peer Challenge/Benefits Realisation	4	Removed	-	-	-	-	-	-	-
Operational	Registrars & Coroners	4	Removed	-	-	-	-	-	-	-
Operational	Home School Transport	4	Initial meeting		0	0	0	0	0	0
Operational	Elections	4	Deferred to 2015-16	-	-	-	-	-	-	-
Operational	Safer Recruitment - Excluding Schools	4	Deferred to 2015-16	-	-	-	-	-	-	-
Schools	Schools - Safer Recruitment	4	Removed	-	-	-	-	-	-	-
Schools	Schools - Prevention of Fraud	4	In progress							

## Audit Framework Definitions

### Control Assurance Definitions

<b>Substantial</b>	▲ ★★★	I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
<b>Reasonable</b>	▲ ★★	I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>Partial</b>	▲ ★	I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
<b>None</b>	▲	I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

### Categorisation Of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors, however, the definitions imply the importance.

Priority 5: Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.

Priority 4: Important findings that need to be resolved by management.

Priority 3: The accuracy of records is at risk and requires attention.

Priority 2: Minor control issues have been identified which nevertheless need to be addressed.

Priority 1: Administrative errors identified that should be corrected. Simple, no-cost measures would serve to enhance an existing control.

### Definitions of Risk

Risk	Reporting Implications
<b>Low</b>	Issues of a minor nature or best practice where some improvement can be made.
<b>Medium</b>	Issues which should be addressed by management in their areas of responsibility.
<b>High</b>	Issues that we consider need to be brought to the attention of senior management.
<b>Very High</b>	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.





<b>MEETING:</b>	<b>Audit and governance committee</b>
<b>MEETING DATE:</b>	<b>19 March 2015</b>
<b>TITLE OF REPORT:</b>	<b>Internal Audit Charter</b>
<b>REPORT BY:</b>	<b>Internal Audit – South West Audit Partnership</b>

## Classification

Open

## Wards Affected

County-wide

## Key Decision

This is not an executive decision.

## Purpose

To seek the Committee's approval of the Internal Audit Charter for the period 1 April 2015 to 31 March 2016.

## Recommendation

**That subject to any comments the Internal Audit Charter be approved.**

## Alternative Options

- 1 There are no alternative options as this charter is a requirement of the arrangements between Herefordshire Council and the South West Audit Partnership.

## Reasons for Recommendations

- 2 To ensure compliance with good practice as set out in the International Professional Practices Framework of the Institute of Internal Auditors and the Public Sector Internal Audit Standards (PSIAS).

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Further information on the subject of this report is available from  
Jacqui Gooding – Assistant Director (SWAP) on Tel: 01432 260294 or 07872 500675

## **Key Considerations**

- 3 The Internal Audit Charter is set out in Appendix A.
- 4 The charter sets out the nature, role, responsibility, status and authority of internal auditing within Herefordshire Council, and to outline the scope of internal audit work.

## **Community Impact**

- 5 This report does not impact on this area.

## **Equality and Human Rights**

- 6 The report does not impact on this area.

## **Financial Implications**

- 7 There are no financial implications.

## **Legal Implications**

- 8 There are no legal implications.

## **Risk Management**

- 9 Without an approved Charter there is a risk that the South West Audit Partnership will not have:
  - the support of management and the Council
  - direct access and freedom to support to senior management including the Chief Executive and the Audit and Governance Committee
  - access to any records, personnel or physical property of the Council for audit work

## **Consultees**

- 10 The chief financial officer (section 151 officer) was consulted in the drafting of this report.

## **Appendices**

Appendix A – Internal Audit Charter

## **Background Papers**

- None identified.

## Internal Audit Charter

### **Purpose**

The purpose of this Charter is to set out the nature, role, responsibility, status and authority of internal auditing within Herefordshire Council, and to outline the scope of internal audit work.

### **Approval**

This Charter was approved by the Audit and Governance Committee<sup>1</sup> on 23<sup>rd</sup> June 2014 and is reviewed each year to confirm it remains accurate and up to date. It was last reviewed by the Audit and Governance on 19<sup>th</sup> March 2015.

### **Provision of Internal Audit Services**

The internal audit service is provided by the South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled company. This charter should be read in conjunction with the Service Agreement, which forms part of the legal agreement between the SWAP partners.

The budget for the provision of the internal audit service is determined by the Council, in conjunction with the Members Meeting. The general financial provisions are laid down in the legal agreement, including the level of financial contribution by the Council, and may only be amended by unanimous agreement of the Members Meeting. The budget is based on an audit needs assessment that was carried out when determining the Council's level of contribution to SWAP. This is reviewed each year by the Chief Financial Officer in consultation with the Chief Executive of SWAP.

### **Role of Internal Audit**

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

### **Responsibilities of Management and of Internal Audit**

#### ***Management<sup>2</sup>***

Management is responsible for determining the scope, except where specified by statute, of internal audit work and for deciding the action to be taken on the outcome of, or findings from, their work. Management is responsible for ensuring SWAP has:

- the support of management and the Council; and
- direct access and freedom to report to senior management, including the Chief Executive and the Audit and Governance Committee.

Management is responsible for maintaining internal controls, including proper accounting records and other management information suitable for running the Authority. Management is also responsible for the appropriate and effective management of risk.

#### ***Internal Audit***

Internal audit is responsible for operating under the policies established by management in line with best practice.

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<sup>1</sup> The Standards require that Internal Audit report to the Board. CIPFA have, via the Public Sector Internal Audit Standards (PSIAS) Guidelines, determined that the Audit Committee in this instance represents the Board.

<sup>2</sup> In this instance Management refers to the Management Team

Internal audit is responsible for conducting its work in accordance with the Code of Ethics and Standards for the Professional Practice of Internal Auditing as set by the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS).

Internal audit is not responsible for any of the activities which it audits. SWAP staff will not assume responsibility for the design, installation, operation or control of any procedures. SWAP staff who have previously worked for Herefordshire Council will not be asked to review any aspects of their previous department's work until one year has passed since they left that area.

### **Relationship with the External Auditors/Other Regulatory Bodies**

Internal Audit will co-ordinate its work with others wherever this is beneficial to the organisation.

### **Status of Internal Audit in the Organisation**

The Chief Executive of SWAP is responsible to the SWAP Board of Directors and the Members Meeting. The Chief Executive of SWAP and the SWAP Director also report to the Chief Financial Officer as Section 151 Officer, and reports to the Audit and Governance Committee as set out below.

Appointment or removal of the Chief Executive of SWAP is the sole responsibility of the Members Meeting.

### **Scope and authority of Internal Audit work**

There are no restrictions placed upon the scope of internal audit's work. SWAP staff engaged on internal audit work are entitled to receive and have access to whatever information or explanations they consider necessary to fulfil their responsibilities to senior management. In this regard, internal audit may have access to any records, personnel or physical property of Herefordshire Council.

Internal audit work will normally include, but is not restricted to:

- reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information;
- evaluating and appraising the risks associated with areas under review and make proposals for improving the management of risks;
- appraise the effectiveness and reliability of the enterprise risk management framework and recommend improvements where necessary;
- assist management and Members to identify risks and controls with regard to the objectives of the Council and its services;
- reviewing the systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and determining whether Herefordshire Council is in compliance;
- reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets;
- appraising the economy, efficiency and effectiveness with which resources are employed;
- reviewing operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned;
- reviewing the operations of the council in support of the Council's anti-fraud and corruption policy;



- at the specific request of management, internal audit may provide consultancy services provided:
  - the internal auditors independence is not compromised
  - the internal audit service has the necessary skills to carry out the assignment, or can obtain such skills without undue cost or delay
  - the scope of the consultancy assignment is clearly defined and management have made proper provision for resources within the annual audit plan
  - management understand that the work being undertaken is not internal audit work.

### **Planning and Reporting**

SWAP will submit to the Audit and Governance Committee, for approval, an annual internal audit plan, setting out the recommended scope of their work in the period.

The annual plan will be developed with reference to the risks the organisation will be facing in the forthcoming year, whilst providing a balance of current and on-going risks, reviewed on a cyclical basis. The plan will be reviewed on a quarterly basis to ensure it remains adequately resourced, current and addresses new and emerging risks.

SWAP will carry out the work as agreed, report the outcome and findings, and will make recommendations on the action to be taken as a result to the appropriate manager and Director. SWAP will report at least four times a year to the Audit and Governance Committee. SWAP will also report a summary of their findings, including any persistent and outstanding issues, to the Audit and Governance Committee on a regular basis.

Internal audit reports will normally be by means of a brief presentation to the relevant manager accompanied by a detailed report in writing. The detailed report will be copied to the relevant line management, who will already have been made fully aware of the detail and whose co-operation in preparing the summary report will have been sought. The detailed report will also be copied to the Chief Financial Officer and to other relevant line management.

The Chief Executive of SWAP will submit an annual report to the Audit and Governance Committee providing an overall opinion of the status of risk and internal control within the council, based on the internal audit work conducted during the previous year.

In addition to the reporting lines outlined above, the Chief Executive of SWAP and the SWAP Director have the unreserved right to report directly to the Leader of the Council, the Chairman of the Audit Committee, the Council's Chief Executive or the External Audit Manager.

Revised March 2015





<b>MEETING:</b>	<b>Audit and Governance committee</b>
<b>MEETING DATE:</b>	<b>19 March 2015</b>
<b>TITLE OF REPORT:</b>	<b>Internal Audit Plan 2015-16</b>
<b>REPORT BY:</b>	<b>Internal Audit – South West Audit Partnership</b>

## Classification

Open

## Wards Affected

County-wide

## Key Decision

This is not an executive decision.

## Purpose

To seek the Committee's approval of the Internal Audit plan for the period 1 April 2015 to 31 March 2016.

## Recommendation

**That subject to any comments the Internal Audit Plan 2015-16 be approved.**

## Alternative Options

- 1 There are no alternative options as this plan is a requirement of the Public Sector Internal Audit Standards (PSIAS).

## Reasons for Recommendations

- 2 To ensure the Council complies with recommended best practice as set out in the Public Sector Internal Audit Standards (PSIAS).

## Key Considerations

- 3 The Internal Audit Plan report is set out in Appendix A.

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Further information on the subject of this report is available from  
Jacqui Gooding – Assistant Director (SWAP) on Tel: 01432 260294 or 07872 500675

- 4 The Internal Audit Plan 2015-16 is set out in Appendix B.
- 5 The plan sets out the work required for Internal Audit to give an opinion on the adequacy and effectiveness of the Council's risk management, governance and internal control arrangements.

## **Community Impact**

- 6 This report does not impact on this area.

## **Equality and Human Rights**

- 7 The report does not impact on this area.

## **Financial Implications**

- 8 There are no financial implications.

## **Legal Implications**

- 9 There are no legal implications.

## **Risk Management**

- 10 There is the risk that the Annual Internal Audit Plan does not take into account the key issues and risks facing the Council and does not provide adequate coverage of the Council's key systems for the Head of Internal Audit to form an opinion on the Council's control environment. The process by which the plan has been compiled mitigates this risk.
- 11 There is also a risk that there may be insufficient resources available to deliver the planned programme of audit work. To mitigate this, the plan has been based on an assessment of the resources available from the South West Audit Partnership. Regular meetings will held between the SWAP Internal Audit Manager and the Chief Financial Officer which allows regular monitoring of resource availability. :

## **Consultees**

- 12 Meetings have been held with the Directors, Chief Financial Officer and other key officers to develop the Internal Audit Plan.

## **Appendices**

Appendix A – Internal Audit Plan Report 2015-16

Appendix B – Internal Audit Plan 2015-16

## **Background Papers**

- None identified.



## Herefordshire Council

Internal Audit Plan 2015/16

# Contents

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The contacts at SWAP in connection with this report are:

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Role of Internal Audit Background Page 1

The Annual Plan Page 2

The Annual Plan – Continued Page 3

Our audit activity is split between:

- Key Control Audit
- Fraud/Governance Audit
- IT Audit
- Operational Audit
- Follow Up Audit
- Urgent Work/Special Projects

## Role of Internal Audit

The Internal Audit service for Herefordshire Council is provided by the South West Audit Partnership (SWAP). SWAP has adopted and works to the Standards of the Institute of Internal Auditors and is also guided by interpretation provided by the Public Sector Internal Audit Standards. The work of the Partnership is also guided by the 'Internal Audit Charter' which was last reviewed and approved by the Audit Committee in June 2014 and is presented to the Audit Committee today for approval for 2015-16.

Internal Audit provides an independent and objective opinion on the Authority's governance, risk and control environment by evaluating its effectiveness. In order to achieve this, the audit activity is split across the review categories listed to the left.

## Background

It is recommended by the Public Sector Internal Audit Standards that organisations nominate a 'Board' to oversee (monitor and scrutinise) the work of Internal Audit. As such, in addition to senior management oversight, this Council has determined that, the Audit and Governance Committee will undertake this function. The plan is presented in Appendix B to this report and represents the internal audit activity for the 2015/16 financial year.

It should be noted that plan days are only indicative for planning our resources. At the start of each audit an initial meeting is held to agree the terms of reference for the audit which includes the objective and scope for the review. Any changes to individual plan items, in terms of days, are managed within the annual payment made by the Council. The plan is produced with a view to providing assurance to both Officers and Members that current and imminent risks faced by the Authority are adequately controlled and managed. As with previous years the plan will have to remain flexible as new and emerging risks are identified. Any changes to the agreed plan will only be made through a formal process involving the Chief Financial Officer (Section 151 Officer).



**SWAP**  
SOUTH WEST AUDIT PARTNERSHIP  
Delivering Audit Excellence

SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors and further guided by interpretation provided by the Public Sector Internal Audit Standards

## The Annual Plan

## The Annual Plan

To ensure that to the best of our ability we have covered the necessary risks, the annual internal audit plan has been developed with the co-operation and approval of the Chief Financial Officer following meetings between Internal Audit and members of the Senior Management Team. The audit plan is notionally broken down across various audit categories; the following summarises each:

**Key Control Audit** – focus primarily on key risks relating to the Council’s major financial and IT systems. It is essential that all key controls identified by the External Auditors are operating effectively to provide management with the necessary assurance. To this end we have liaised with the Council’s External Auditors and included any requirements they have in providing them with necessary assurance, in line with the Auditing Standards, against which they are required to audit.

**Fraud/Governance Audit** – SWAP operate a specialised Fraud Team who will undertake proactive fraud reviews and also provide a reactive service to Partners should the need arise. Governance reviews focus primarily on the key risks relating to cross cutting areas that are controlled and/or impact at a corporate rather than service specific level. It also provides an annual assurance review of areas of the Council that are inherently higher risk. This work will, in some cases, enable SWAP to provide management with added assurance that they are operating best practice as we will be conducting most of these reviews at all our Partner Sites.



## The Annual Plan - Continued

## The Annual Plan - Continued

**IT Audits** – are completed to provide the Authority with assurance with regards to their compliance with industry best practice. Some of these audits have come from previous year assessments and our awareness of current IT risks. As referred to above IT system Key Control work is also undertaken in accordance with the External Auditors requirements.

**Operational Audits** - are a detailed evaluation of a service or functions control environment. A risk evaluation matrix is devised and controls are tested. Where weaknesses or areas for improvement are identified, actions are agreed with management and target dated.

**Urgent Work/Special Projects** – SWAP also undertake urgent work, special investigations and projects on a responsive basis at the request of the Chief Financial Officer (Section 151 Officer).

The schedule provided at Appendix B details the Annual Internal Audit Plan for 2015/16.



**Appendix B**

<b>Herefordshire Council Annual Audit Plan 2015-16</b>		
<b>Audit Type and Area</b>	<b>Number of days</b>	<b>Cost £</b>
<b>Key Financial Control Audits</b>		
Main Accounting – follow up	10	£2,500
Account Payable - follow up	10	£2,500
Accounts Receivable	20	£5,000
Council Tax - follow up	5	£1,250
NNDR	15	£3,750
Housing and Council Tax Benefits – follow up	5	£1,250
Payroll	25	£6,250
Pensions - Auto Enrolment	5	£1,250
Treasury Management – follow up	5	£1,250
Capital Accounting	10	£2,500
<b>TOTAL</b>	<b>110</b>	<b>£27,500</b>
<b>Fraud/Governance Audits</b>		
Fraud Reviews – counter fraud work both responsive and proactive tba Chief Financial Officer	40	£10,000
National Fraud Initiative	30	£7,500
<b>TOTAL</b>	<b>70</b>	<b>£17,500</b>
<b>Operational Audits</b>		
<b>Economy, Communities &amp; Corporate</b>		
Delivery of Projects funded by the Skills Funding Agency	15	£3,750
Leisure centres – HALO – review of contract provision	5	£1,250
Democratic services	15	£3,750
Local land Charges	15	£3,750
Modern records	15	£3,750
Registrar and Coroners	20	£5,000
Income review - maximising income - income and charging guidance	20	£5,000
Commercial Properties/Rents	15	£3,750
Fastershire	10	£2,500
Planning applications	20	£5,000
Energy Supply Contract	15	£3,750
Waste Collection Contract	20	£5,000
Road Maintenance	25	£6,250
Licensing	15	£3,750
<b>TOTAL</b>	<b>225</b>	<b>£56,250</b>

## Herefordshire Council Annual Audit Plan 2015-16

Audit Type and Area	Number of days	Cost £
<b>Adults Wellbeing Service</b>		
Shaw care provider contract	20	£5,000
Peer Challenge Benefits Realisation	15	£3,750
Public Health Investment and Outcomes	20	£5,000
Deprivation of Liberty (DOLs)	20	£5,000
Better Care Fund	20	£5,000
Direct Payments	20	£5,000
Purchasing Strategy and Market Management - Care service	20	£5,000
<b>TOTAL</b>	<b>135</b>	<b>£33,750</b>
<b>Children's Wellbeing Service</b>		
Schools follow ups – Prevention of Fraud	20	£5,000
Education, Health and Care plans	20	£5,000
Safer Recruitment	25	£6,250
Troubled Families	15	£3,750
Pupil Premium - school theme	20	£5,000
Contract Management	25	£6,250
<b>TOTAL</b>	<b>125</b>	<b>£31,250</b>
<b>IT Audits</b>		
Public Service Network (PSN) code - assurance compliance	15	£3,750
Council and NHS ICT - level of shared support in respect of investment by each party.	10	£2,500
Access Controls - CIVICA and CRM	20	£5,000
Hardware Asset Management	15	£3,750
Corporate Services - Digital Channels Project	10	£2,500
Payment Card Industry (PCI) Data Security Standard compliance	15	£3,750
Mobile phone usage and strategy	10	£2,500
Incident and Problem Management	5	£1,250
<b>TOTAL</b>	<b>100</b>	<b>£25,000</b>
<b>Management</b>		
Contingency for Chief Financial Officer work	45	£11,250
Corporate/ General Advice	20	£5,000
Committee Reporting and attendance	25	£6,250
Planning /Client Liaison	40	£10,000
External Audit liaison	5	£1,250
<b>TOTAL</b>	<b>135</b>	<b>£33,750</b>
<b>PLAN TOTAL</b>	<b>900</b>	<b>£225,000</b>



<b>MEETING:</b>	<b>Audit and governance committee</b>
<b>MEETING DATE:</b>	<b>19 March 2015</b>
<b>TITLE OF REPORT:</b>	<b>Anti-fraud, bribery and corruption policy 2015</b>
<b>REPORT BY:</b>	<b>Chief financial officer and internal audit – South West Audit Partnership</b>

## Classification

Open

## Wards Affected

County-wide

## Key Decision

This is not an executive decision.

## Purpose

To present to the Audit and Governance Committee the revised Anti-Fraud, Bribery and Corruption Policy for approval.

## Recommendation

That

- (a) the Anti-Fraud, Bribery and Corruption Policy attached at appendix A be approved.

## Alternative Options

- 1 There are no alternative options as this is a requirement of the audit and governance code.

## Reasons for Recommendations

- 2 The audit and governance code requires this committee to approve the council's anti-fraud and corruption policies and to review them on a biennial basis.

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Further information on the subject of this report is available from  
Jacqui Gooding – Assistant Director (SWAP) on Tel: 01432 260294 or 07872 500675

## **Key Considerations**

- 3 The policy summarises the culture of the council with regard to its opposition to fraud and corruption.
- 4 The policy also sets out clearly to members, employees, contractors, the council's partners, and the public:
  - The council's commitment to tackling fraud, bribery and corruption
  - Its actions to promote the prevention of fraud, bribery and corruption
  - The responsibility of members and employees in minimising the risk of fraud and reporting any suspicions they may have
- 5 The draft policy was presented to the Audit and Governance Committee in November for comment. Reflecting the views of the committee, the draft policy has been amended to so that the reporting section is at the front of the policy as well as in the main body of the report.

## **Community Impact**

- 6 A robust and transparent anti-fraud bribery and corruption policy will support achievement of the councils corporate plan by helping to ensure that finances are managed effectively to secure value for money and deliver a balanced budget..

## **Equality and Human Rights**

- 7 The report does not impact on this area.

## **Financial Implications**

- 8 There are no financial implications.

## **Legal Implications**

- 9 There are no legal implications as the report is seeking comments on the draft.

## **Risk Management**

- 10 The committee is responsible for reviewing and approving the council's anti-fraud, bribery and corruption policies; if this is not done there is the risk that policies will not be sufficient and robust in addressing fraud.

## **Consultees**

- 11 The chief financial officer (section 151 officer) was consulted in the drafting of this policy.

## **Appendices**

Appendix A – Anti-Fraud, Bribery and Corruption Policy

### **Background Papers**

- None identified.







## Anti-Fraud, Bribery and Corruption Policy

Reference Number	
Approved by	Audit and Governance Committee
Date Approved	
Version	2.0
Last reviewed	12 March 2012
Review Date	5 January 2015
Next Review Date	5 January 2017
Category	Corporate Governance
Owner	Chief Financial Officer
Target Audience	All Council Staff, Councillors, Contractors, the Council's partners and the Public

**After the Review Date has expired, this document may not be up-to-date. Please contact the document owner to check the status after the Review Date shown above.**

**If you would like help to understand this document, or would like it in another format or language, please contact the document owner.**

## Appendix A

### Reporting

Employees should normally raise concerns with their immediate manager or that manager's manager. This depends, however on the seriousness of the issues involved and who is suspected of the malpractice. If staff believe that their management is involved they should approach:

- i) The Chief Executive – Tel : 01432 260044
- ii) The Chief Financial Officer - Tel: 01432 383519
- iii) The Assistant Director - Governance - Tel: 01432 260200
- iv) Internal Audit Manager - 01432 260294 or 07872500675

Elected councillors should normally report any concerns to the appropriate Senior Leadership Team Member or one of the officers listed above.

## Appendix A

### 1. Introduction

- 1.1 The council is determined to pursue a policy of zero tolerance to fraud, bribery and corruption.
- 1.2 The purpose of this policy is to set out clearly to councillors, employees, contractors, the councils partners, and the public:
  - The council's commitment to tackling fraud, bribery and corruption
  - Its actions to promote the prevention of fraud, bribery and corruption
  - The responsibility of councillors and employees in minimising the risk of fraud and reporting any suspicions they may have
- 1.3 The council controls millions of pounds of public money and takes very seriously its stewardship of this money and the high expectations of the public and the degree of scrutiny to which the affairs of the council are subject. Proper accountability achieved through probity, internal control and honest administration is therefore essential.
- 1.4 The Government has made it clear as they attempt to reduce public sector spending that they expect both central and local government to take the issue of fraud seriously and do more to tackle the issues from public sector funding to prevent fraud. In June 2011 the National Fraud Authority published 'Eliminating Public Sector Fraud' which set out four priorities to tackle fraud effectively in the public sector:
  - Collaboration
  - Zero Tolerance
  - Better assessment of risks and measurement of losses
  - Greater focus on fraud prevention activity
- 1.5 This was followed by the National Fraud Authority (NFA) producing a National Local Government Fraud Strategy (April 2012) 'Fighting Fraud Locally'. The strategy contains examples of good practice which should enhance the fight against fraud based around three key themes:
  - Acknowledge – acknowledging and understanding fraud risks
  - Prevent – Preventing and detecting fraud
  - Pursue – being stronger in punishing fraud and recovering losses

## Appendix A

- 1.6 Whilst there is a need for an anti fraud, bribery and corruption policy it is equally important to emphasise the faith the council places in the integrity and honesty of its entire staff. The council also expects that all outside individuals and organisations including suppliers, contractors and claimants will act towards the council with honesty and integrity.
- 1.7 All councillors and staff are expected to be aware of standards of conduct and the procedures designed to reduce the risk of fraud, bribery and corruption occurring.
- 1.8 All staff shall be responsible for their own conduct, with managers being additionally responsible for maintaining internal checks and control procedures within their service area.
- 1.9 Fraud, bribery and corruption risks will be considered as part of the Council's Strategic Risk Management arrangements.

## 2. What is Fraud, Bribery and Corruption

- 2.1 **The Fraud Act 2006** created a criminal offence of fraud and identifies three main ways it can be committed with a maximum penalty of 10 years imprisonment:
  - Fraud by false representation
  - Fraud by failing to disclose information
  - Fraud by abuse of position
- 2.2 The Act also created four related criminal offences of:
  - Possession of articles for use in frauds
  - Making or supplying articles for use in frauds
  - Participating in fraudulent business
  - Obtaining Services dishonestly
- 2.3 **The Bribery Act 2010** defines bribery as “giving someone a financial or other advantage to encourage that person to perform their functions or activities improperly or to reward that person for having already done so”. This Act came into force on 1<sup>st</sup> July 2011 and embraces offences of both bribery and corruption. There are four key offences under the Act:

## Appendix A

- Bribery of another person
- Accepting a bribe
- Bribing a foreign public official
- A corporate offence of failing to prevent bribery

2.4 **The Proceeds of Crime Act 2002 and the Terrorism Act 2000** place obligations on the Council and its staff with respect to suspected money laundering and makes it a criminal offence to help a criminal 'launder' the proceeds of crime.

### 3. Culture

3.1 The council is determined that the culture and tone of the organisation is one of honesty, openness and opposition to fraud, bribery and corruption. The council will not tolerate fraud or corruption of any form or degree in the administration of its responsibilities whether from inside or outside the council.

3.2 There is an expectation that and requirement that all individuals and organisations associated in whatever way with the council will act with integrity and that councillors and staff at all levels, will lead by example.

3.3 The council's staff are an important element in its stance on fraud and corruption and are positively encouraged to raise any concerns that they may have on these issues where they are associated with the council's activity. This they can do in the knowledge that such concerns will be treated in confidence and properly investigated.

### 4. Reporting

4.1 Employees should normally raise concerns with their immediate manager or that manager's manager. This depends, however on the seriousness of the issues involved and who is suspected of the malpractice. If staff believe that their management is involved they should approach:

- v) The Chief Executive – Tel : 01432 260044
- vi) The Chief Financial Officer - Tel: 01432 383519
- vii) The Assistant Director - Governance - Tel: 01432 260200
- viii) Internal Audit Manager - 01432 260294 or 07872500675

## **Appendix A**

- 4.2 Elected councillors should normally report any concerns to the appropriate Senior Leadership Team Member or one of the officers listed in 4.1
- 4.3 The council also discourages anybody who has reasonably held suspicions from doing nothing, trying to investigate the matter themselves, approaching or accusing the individual themselves. Any of these actions could result in any counter fraud investigation being compromised.
- 4.4 Senior Management are responsible for following up any allegation of fraud or corruption and will do so in line with the Council's Financial Regulations.
- 4.5 Senior Management are expected to deal swiftly and firmly with those who have defrauded the council or who are corrupt.
- 4.6 There is a need to ensure that any investigation process is not misused and therefore, any abuse such as raising unfounded malicious allegations will be dealt with as a disciplinary matter.

## **5. Prevention**

- 5.1 The council recognises that a key preventive measure in the fight against fraud, bribery and corruption is the taking of effective steps at the recruitment stage to establish, as far as possible, the previous record of potential staff, in terms of their propriety and integrity. In this regard temporary and contract staff will be treated in the same manner as permanent staff.
- 5.2 The council will regularly review and keep its Disciplinary Procedures up to date and in line with good practice.
- 5.3 The council has Standing Orders for the Regulation of Contracts, Financial Standing Orders and Financial Regulations in place that provide a lead and requirement on staff ,when dealing with the council's affairs to act in accordance with best practice.
- 5.4 The Chief Financial officer will ensure that Financial Standing Orders and Financial Regulations are kept up to date and made available to all staff.
- 5.5 The Assistant Director - Governance will ensure that the Code of Conduct and Standing Orders for the Regulation of Contracts are up to date and made available to all staff.

## **Appendix A**

- 5.6 The council has developed and is committed to continuing, with systems and procedures that incorporate efficient and effective internal controls, which include adequate separation of duties wherever possible. It is required that the Directors, Assistant Directors and Heads of Service and other key managers will ensure that such controls, including those in a computerised environment are properly maintained. Their existence and appropriateness will be independently reviewed by the council's Internal Audit Service.
- 5.7 The council will work with the primary Care Trust and NHS Trust to develop where possible a joint approach to antifraud activity.

### **6. Detection**

- 6.1 Directors, Assistant Directors, Heads of Service and other key managers shall ensure that internal control is implemented and maintained and will report any matters where internal control has failed to the Chief Internal Auditor.
- 6.2 Internal Audit shall from time to time, inspect systems to give assurance to the Audit and Governance Committee that internal control is adequate and operating satisfactorily.
- 6.3 Herefordshire Council will take part in National Fraud Initiative operated by the Audit Commission.
- 6.4 The Audit and Governance Committee will review and approve as part of the Annual Audit Plan the Internal Audit programme for fraud prevention and detection work.
- 6.5 The council's Code of Practice on Whistleblowing allows employees and councillors to raise any concerns they may have in confidence and anonymously should they wish.

### **7. Investigations**

- 7.1 The investigation of fraud, bribery and corruption is a complex and specialist area and will usually be undertaken by Internal Audit, or for less complicated cases, managers, under Internal Audit advice. Internal Audit will ensure that there is a procedure that can be implemented to ensure that all evidence is correctly obtained, stored and recorded.

## **Appendix A**

- 7.2 Depending on the nature and anticipated extent of the allegations, Internal Audit will normally work closely with management and other agencies to ensure that all allegations and evidence is properly investigated and reported on.
- 7.3 To facilitate audit work and investigations, Internal Audit staff are accorded rights, by the Accounts and Audit Regulations 2011, to access all necessary documents, records, information and explanations from any member of staff.
- 7.4 When undertaking fraud investigations, council investigators will observe the Police and Criminal Evidence Act Codes of Practice.
- 7.5 Any decision to refer an investigation to the Police will be taken by the Audit Manager in consultation with the Chief Financial Officer and others, as appropriate.

### **8. Discipline and Prosecution**

- 8.1 The council's Disciplinary Procedures will be used where the outcome of any investigation indicates improper behaviour.
- 8.2 The Chief Financial Officer is responsible for deciding in consultation with the relevant member of Management Board and the Internal Audit Manager as appropriate, whether any matter under investigation should be referred for police investigation and take recovery action as appropriate on such matters

### **9. Recovery of Losses**

- 9.1 The council will normally seek to recover losses incurred as a result of fraud, bribery and corruption.
- 9.2 If anyone under investigation offers money in settlement of any losses to the council, it should be made clear that any monies offered will be accepted:
  - Without prejudice to any other actions the council may wish to take
  - That acceptance is only in respect of losses identified to date
  - And that the council reserves the right to seek recovery any further losses that may come to light in the future
- 9.3 Consideration will be given to legal action against the perpetrator of fraud or those benefiting from fraud in order to cover the council's losses.



## **Appendix A**

### **10. The Council's Equal Opportunities Policy**

11.1 All investigations, internal procedures and codes of conduct will comply with and take account of the council's Equal Opportunity Policy.

### **11. Data Protection**

12.1 The council will share any personal data with the police or any other body in connection with the detection, investigation or prosecution of fraud in line with the Data Protection Act 1998.

### **12. Working with Other Agencies**

13.1 There are arrangements in place to continue to develop and encourage the exchange of information between the council and other agencies in relation to fraud, bribery and corruption to help prevent, deter and detect fraud. These include

- Police
- DWP
- HMRC
- Audit Commission (NFI)
- Other Authorities

### **13. Related Policies and Other Strategies**

14.1 The following policies support or are linked to the anti fraud, bribery and corruption policy.

- Anti-Money Laundering Policy
- Codes of Conduct (employees and councillors)
- Grievance Policy and Procedure
- Financial Procedure Rules
- Contracts Procedure Rules
- Whistleblowing or Confidential Reporting Code
- Code on Gifts and Hospitality
- Equality and Diversity Policy





<b>Meeting:</b>	<b>Audit &amp; Governance Committee</b>
<b>Meeting date:</b>	<b>19 March 2015</b>
<b>Title of report:</b>	<b>Contracts and financial procedure rules</b>
<b>Report by:</b>	<b>Chief financial officer</b>

## Classification

Open

## Key Decision

This is not an executive decision.

## Wards Affected

County-wide

## Purpose

To refresh the contracts and financial procedure rules within the council's constitution.

## Recommendation

**THAT:**

- (a) the monitoring officer be instructed to update the council's contracts procedure rules as attached at appendix 1; and**
- (b) the monitoring officer be instructed to update the council's financial procedure rules as attached at appendix 2.**

## Alternative Options

1. The council could continue with its current contracts procedure rules and financial procedure rules; however they would then not be compliant with current legislative requirements.

## Reason for Recommendations

2. To ensure council contracts procedure rules are compliant with legislative requirements and therefore provide adequate mitigation against potential for legal challenge.

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Further information on the subject of this report is available from  
Rachel Horne, Commercial Officer on Tel (01432) 383729

3. To ensure council financial procedure rules are up to date and provide clarity of roles, accountabilities and process in order to ensure transparency about how public resources are used and to mitigate the potential for fraud.

## **Key Considerations**

4. The contracts procedure rules and the financial procedure rules, forming part of the council's constitution, have not been updated since December 2012.
5. The council's contracts procedure rules have been updated (copy at Appendix A) to ensure they reflect the recent changes to the EU procurement rules, enacted into English law under the Public Contract Regulations 2015 on 26th February 2015 and will enable the authority to ensure that it is fully compliant with English and EU law.
6. The council's financial procedure rules have been updated (copy at Appendix B) to align with the current chief executive's scheme of delegation, to ensure transparency regarding current operational officer authorisation limits, and to ensure alignment between the contracts and financial procedure rules.
7. Changes have been made to both sets of procedure rules to reflect the move to online procurement processes and the move away from use of 'approved supplier' lists. In addition, post titles have been updated and references to any outdated partnership or service delivery arrangements (such as the partnership with the then primary care trust, contract arrangements with Amey, or part ownership of West Mercia Supplies) have been removed. The current arrangement for delivery of the internal audit service through the South West Audit Partnership is also reflected.
8. In addition, both the revised contracts procedure rules and the financial procedure rules now recognise the need to comply with the Equalities Act 2010 and other applicable financial legislation.

## **Community Impact**

9. Adopting the suggested amendments to the council's contract procedure rules will enable the council to deliver the requisite goods, services and works to the residents of Herefordshire whilst obtaining the best value for money for the council; in line with the authority's Commercial and Commissioning Strategy 2013-2016.
10. In addition, ensure clear and transparent processes are in place to govern how resources of the council are effectively managed supports the council's corporate plan objective to manage finances effectively and to demonstrate one of the council's values, namely to be open transparent and accountable.

## **Equality duty**

11. Section 149 of the Equality Act 2010 imposes a duty on the local authority when exercising its public functions to have due regard to the need to:

- a. Eliminate discrimination, harassment, victimisation

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Further information on the subject of this report is available from  
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- b. Advance equality of opportunity between persons who share a relevant protected characteristic
  - c. Foster good relations between persons who share a relevant protected characteristic and persons who do not share it
- 12. Where services are commissioned by the council the aims of the equality duty and in particular the aim of advancing equality of opportunity will almost always be relevant because commissioning is about meeting the needs of the public including people with a particular characteristic.
- 13. When the council has the need to procure services from others the requirement to have due regard needs to be taken into account alongside other relevant requirements in particular those imposed by EU procurement rules.

## **Financial Implications**

- 14. The proposed updates to the council's contract procedure rules will enable the council to ensure that it secures the best value for money from its tendering opportunities as it requires officers who are responsible for evaluating tenders to recommend the tender which poses the most economically advantageous solution as the council's preferred bidder. This criterion enables the council to select the tender which proposes a solution which offers the greatest possible benefits in terms of both quality and value to the council.
- 15. In addition, the proposed amendments to the contract procedure rules have been conducted in conjunction with the council's financial services department to ensure that the procurement regulations are aligned with the council's financial regulations.
- 16. The proposed revisions to the financial regulations are designed to ensure that the council complies with all of the relevant financial regulations which govern the council's financial conduct and ensure that the council receives the optimal value for money from its acquisitions, asset management and disposal of assets.

## **Legal Implications**

- 17. The updates to the contracts procedure rules will ensure that the council's internal procurement regulations reflect the changes to the EU procurement rules enacted into English law under the Public Contract Regulations 2015 on 26th February 2015, and with the Late Payment of Commercial Debts Regulations 2013. In addition, the proposed amendments will enable the council to ensure that it complies with its internal regulations whilst conducting a procurement exercise; thereby mitigating the risk of a challenge as a result of contravening the authority's internal rules.
- 18. The updates to the council's financial procedure rules ensure that they comply with the recent amendments to the Terrorism Act 2000, Crime and Society Act 2001, Money Laundering Regulations 2007 and Late Payment of Commercial Debts Regulations 2013, Public Contract Regulations 2015 and the Late Payment of Commercial Debts Regulations 2013.

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Further information on the subject of this report is available from  
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19. As required by legislation, Council has adopted a constitution which sets out how we operate and how we make decisions. Audit & Governance Committee has been delegated the function of reviewing the constitution and making recommendations to Council; the monitoring officer has delegated authority to amend the constitution to reflect what Council has agreed, changes to the law and technical amendments. The amendments proposed fall into the category of technical amendments or those required as a result of changes to the law.

## **Risk Management**

20. The proposed amendments will ensure that the council complies with internal rules in relation to procurement practices and thereby effectively mitigates the risk of challenge to a tender award.

### **Consultees**

None.

### **Appendices**

Appendix A - Updated contracts procedure rules

Appendix B - Updated financial procedure rules

### **Background Papers**

None identified.

## Section 7 - Financial Procedure Rules

**4.7.1 Background**

4.7.1.1 Section 151 of the Local Government Act 1972 *requires that “Every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs”*

4.7.1.2 The person with overall responsibility for Herefordshire Council’s financial affairs under the act, the Chief Financial Officer (CFO) or Section 151 Officer is the Director of Resources. Herefordshire uses the Chartered Institute of Public Finance (CIPFA) guidance in defining the role of their CFO or Section 151 Officer:

- is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the authority’s strategic objectives sustainably and in the public interest;
- must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the authority’s financial strategy; and
- must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively

4.7.1.3 To deliver these responsibilities the Chief Financial Officer:

- must lead and direct a finance function that is resourced to be fit for purpose; and
- must be professionally qualified and suitably experienced

4.7.1.3 The 1988 Local Government Act makes a requirement to have a designated qualified deputy S151 Officer to act on their behalf in his/her absence or if requested by the CFO to do so. The role designated as deputy S151 officer is the Head of Corporate Finance.

***The role of the chief financial officer in local government, CIPFA***

4.7.1.4 The Financial Procedure Rules apply these requirements and controls the way the Council manages its finances and safeguards its assets. They form part of the Council’s Constitution and are to be read in conjunction with other sections of the Constitution in particular:

Part 3 – The Functions Scheme

Part 4 – Section 3 - The Budget and Policy Framework Rules

Part 4 – Section 6 – the Contract Procedure Rules

- 4.7.1.5 The Financial Procedure Rules apply to every member and officer of the council and anyone acting on its behalf except where separate arrangements are made under the scheme for the Local Management of Schools.

#### **4.7.2 General Responsibilities**

- 4.7.2.1 Members and officers have a general responsibility for taking reasonable action to provide for the security of assets under their control and for ensuring that the use of these resources is legal, properly authorised, provides value for money and achieves best value.
- 4.7.2.2 Members, officers and others acting on behalf of the Council are required to have proper regard to the advice and guidance issued by the CFO on the Financial Procedure Rules.
- 4.7.2.3 Every report to Members shall contain a statement setting out the financial implications of the recommendation(s) proposed that has been approved by the CFO.
- 4.7.2.4 The Council's expectation of propriety and accountability is that Members and staff at all levels shall lead by example in ensuring adherence to financial and legal requirements, rules, procedures and practices.
- 4.7.2.5 Members and staff at all levels shall act in accordance with the council's Anti-fraud and Anti-corruption policies.
- 4.7.2.6 The Council also expects that individuals and organisations (e.g. suppliers, contractors, service providers) that it comes into contact with, shall act towards the Council with integrity and without thought or actions involving fraud or corruption.
- 4.7.2.7 Appendix A sets out the responsibilities of members and officers relating to the Financial Procedure Rules.
- 4.7.2.8 The council's scheme of delegation is the formal record of delegation of financial decision making.

#### **4.7.3 Urgent Decisions**

- 4.7.3.1 In exceptional circumstances, where an urgent decision is required, this shall be taken by the relevant Director in consultation with the CFO and the Assistant Director Governance. If the matter is outside the scheme of delegation then the matter can only be authorised by the Chief Executive and the Cabinet Member responsible for Resources in accordance with the procedures for the taking of urgent decisions set out in the Council's Constitution.
- 4.7.3.2 Any decisions made under the 'Urgent Decision' arrangements shall be reported to the relevant Director, Cabinet Members and Local Members.
- 4.7.3.3 Nothing in these standing orders shall prevent expenditure required to meet immediate needs caused by a sudden emergency to which Section 138 of the Local Government Act 1972 applies, provided that such expenditure shall be reported as soon as possible to the appropriate Cabinet Member and the Cabinet.



#### **4.7.4 Income Charging Policy**

4.7.4.1 Local authorities have a wide discretion to levy charges for services. Where charges can be set at the discretion of the council Directors should comply with the following principles;

- a Services should raise income wherever there is a power or duty to do so.
- b The income raised should cover the full cost of providing the service, including overheads. Any exception to this must be justified in a transparent manner which links to the council's objectives and priorities.
- c All fees and charges should be transparent and consistently applied.
- d Fees and charges must be set for a specific purpose- either as a policy tool or full cost recovery, or a combination of both.

#### **4.7.5 Income Collection**

4.7.5.1 The CFO shall agree arrangements for the collection of all income and approve procedures and systems. In order to achieve this, the following controls must be followed:

- a All income due to the Council is identified, charged correctly and billed promptly.
- b All money received by an employee on behalf of the Council is paid without delay to the CFO or to a nominated officer or into the Council's specified bank account and is properly recorded.
- c All receipts given for money should be on an official receipt form.
- d All income is collected from the correct person, at the right time using the correct procedures and appropriate stationery and effective recovery action to pursue outstanding sums is taken within defined timescales.
- e A formal approval process for write-offs of uncollectable debts using the criteria detailed below.
- f Personal cheques shall not be cashed out of money held on behalf of the Council.
- g All income received shall be receipted immediately.
- h Officers shall bank all cash received immediately; its use for either personal or official purposes is strictly forbidden.
- i All paying in records shall be retained securely in line with the Council's policies on the retention of documents.

- 4.7.5.2 The CFO has determined the following authorisations for writing off uncollectable debt:
- a Under £150 – individual Service Managers.
  - b Between £150 and £500 – Revenues & Development Operational Manager (Hoople Ltd).
  - c Between £500 and £2,000 – Revenues & Benefits Service Manager (Hoople Ltd).
  - d Between £2,000 and £20,000 – Head of Corporate Finance.
- 4.7.5.3 For write offs of amounts exceeding £20,000 the CFO shall seek agreement from the relevant Cabinet Member responsible for Resources.
- 4.7.5.4 The CFO shall report details of amounts over £2,000 written off to Cabinet twice a year for information purposes.
- 4.7.5.5 Write off of amounts above £2,000 relating to other Directorates require the recommendation of the relevant Director.

#### **4.7.6 Orders for Goods, Works and Services**

- 4.7.6.1 Orders shall not be issued for goods, work or services unless the cost is covered by an approved budget.
- 4.7.6.2 All orders given on behalf of the Council shall be approved in electronic form in accordance with signatory limits. All orders are to be authorised by officers nominated by the appropriate Director who shall be responsible for official orders issued from his or her Directorate. Orders given verbally shall be confirmed by paper or electronic order as appropriate as soon as possible.
- 4.7.6.3 All works, goods or services supplied to the Council are to be subject to formal prior authorisation, in writing and/or electronic medium, as to need and budget cover. Written or electronic orders are to be issued for all work, goods or services to be supplied to the Council unless a written contract is required. An order or contract is not required for public utility services, periodical payments such as rent or rates, for petty cash purchases or for such other expenditure as the CFO may approve. All orders and contracts are to be managed in compliance with the Council's Contract Procedure Rules and Financial Procedure Rules.
- 4.7.6.4 Each order shall conform to the directions of the Council with respect to central purchasing and the standardisation of supplies and materials and with respect to Contract Procedure Rules.
- 4.7.6.5 Written orders shall be marked with invoice details when relevant accounts are passed for payment. When an electronic procurement system is in use an appropriate entry shall be made in that system when a payment is authorised.

- 4.7.6.6 The key controls for ordering and paying for work, goods and services are:
- a All works, goods and services are ordered only by appropriate persons and recorded.
  - b All works, goods and services shall be ordered in accordance with the Contract Procedure Rules unless they are purchased from internal sources within the Council.
  - c Works, goods and services received are checked to ensure they are in accordance with the order.
  - d Payments are authorised by officers who can certify that goods have been received to price, quantity and quality.
  - e All payments are made to the correct person, for the correct amount and are properly recorded, regardless of the payment method.
  - f All appropriate payment documents are retained and stored for the defined period in accordance with the 'Herefordshire Council Records Management Policy'
  - g All expenditure, is accurately recorded against the right budget and any exceptions corrected.
  - h That processes are in place to maintain the security and integrity of data for transacting business electronically.

#### **4.7.7 Payments**

- 4.7.7.1 Individual Directors shall ensure that payments are authorised by appropriate officers who can certify that goods and services have been received and that price, quantity and quality are in accordance with the initial order, where appropriate.
- 4.7.7.2 Directors shall provide the CFO with a list of authorised officers showing their signing levels with specimen signatures. This list should be reviewed at intervals to ensure is up to date and accurate and any changes being reported promptly.
- 4.7.7.3 Unless specifically authorised otherwise by the CFO:
- a officers as authorised by the Director up to £5,000
  - b Managers who report to Heads of Service may authorise payments up to £100,000.
  - c Heads of Service (as defined by Head of Service pay grades) may authorise payments up to £250,000.
  - d Directors must authorise all payments in excess of £250,000 (excluding VAT).
  - e All amounts exclude VAT.

- 4.7.7.4 Authorisation limits for schools will be set by the governing body. Schools shall provide the CFO with a list of authorised officers showing their signing levels with specimen signatures. This list should be reviewed at intervals to ensure is up to date and accurate and any changes being reported promptly.
- 4.7.7.5 Where an electronic file contains multiple payments, an officer may authorise the whole file with one signature if his or her authorised limit is at least the value of the highest individual amount within that file.
- 4.7.7.6 References to certification and authorisation are deemed to include those made online within a system where the identity of the user is verified using the system's identification protocols.
- 4.7.7.7 Once certified, all accounts paid through the centralised payment system must be passed to the payments section that shall ensure that the required payment is made to the correct person by the agreed method of payment and that all expenditure including VAT is accurately recorded against the correct budget.
- 4.7.7.8 Requests for payment shall be rejected by the Payments Manager unless certified by an officer who has the appropriate level of authority.
- 4.7.7.9 The use of feeder systems to generate payments will only be allowed if the CFO is satisfied that the data integrity of the corporate financial system would not be compromised and that the feeder system works in accordance with these financial procedures.
- 4.7.7.10 Invoices do not need specific authorisation for payment in an electronic system where the invoice matches the authorised order and goods receipt, and all three are correctly entered into the system.
- 4.7.7.11 In accordance with the Public Contract Regulations 2015 and the Late Payment of Commercial Debts Regulations 2013, and to maximise performance under the contract; the council will process all undisputed invoices within 30 days of receipt. The same shall apply to contractors in respect of any subcontractor arrangements applied under the applicable council contract(s). All council contracts shall contain provisions to this effect. All accounts received must be date stamped with the day of receipt. In the event of a claim for damages/interest for late payment, the amount will be charged to the budget of the directorate responsible.
- 4.7.7.12 The CFO shall ensure that all appropriate payment documentation is retained for the required period of time in accordance with the Herefordshire Council records management policy.

#### **4.7.8 Salaries, Wages, Pensions, Travel and Subsistence**

- 4.7.8.1 Directors shall provide the CFO with a list of officers authorised to sign claims and other payroll documents showing their signing limits with specimen signatures. This list should be updated and reported promptly to reflect staff changes. Expense claims for less than £250 will be self authorised.

- 4.7.8.2 All claims for payment of allowances, subsistence, travelling and expenses must be submitted within one month of the period they relate to on the approved form, duly certified in a form approved by the CFO with all required supporting evidence including VAT receipts for fuel and other expenses where appropriate. Any exceptions shall require individual certification by both the Director and the Head of Service.
- 4.7.8.3 The certification of claims by or on behalf of a Director or Head of Service shall be taken to mean that the certifying officer is satisfied that the journeys and the expenses incurred were necessary and authorised as being in line with the Council's policies on travel and subsistence claims.
- 4.7.8.4 The Human Resources Service Manager (Hoople Ltd) shall ensure that all appropriate payroll documents are retained for the required period of time in accordance with the 'Herefordshire Council Records Management Policy'.

#### **4.7.9 Imprest Accounts**

- 4.7.9.1 The Head of Corporate Finance will consider requests from Heads of Service and Head Teachers to provide a cash or bank imprest account to meet minor expenditure on behalf of the Council.
- 4.7.9.2 The Head of Corporate Finance will maintain a record of all advances made and reconcile to the Council's main financial system.
- 4.7.9.3 Officers operating an imprest account will comply with the following procedures:
- a Obtain and retain vouchers to support each payment from the imprest account including official VAT receipts where appropriate.
  - b Make adequate arrangements in their office for the safe custody of the account including vouchers and any other supporting documentation.
  - c Produce upon demand by the CFO cash and all vouchers to the total value of the imprest account.
  - d Record transactions promptly.
  - e Reconcile and balance the account at least monthly with reconciliation sheets to be signed and retained by the imprest holder.
  - f Provide the Head of Corporate Finance with a certificate of the value of the account held at 31st March each year.
  - g Ensure that the imprest is never used to cash personal cheques or to make personal loans.
  - h Ensure that the only payments into the account are the reimbursement payments and any notes/coinage relating to purchases made by a cash advance from the imprest account.

- i Ensure income due to the Council is collected and banked as provided in paragraph 4.7.5 of the Council's Financial Procedure Rules and not through an imprest account.
- j On leaving the Council's employment, ceasing to be entitled to hold an imprest advance or no longer requiring an imprest advance, account to the Head of Service or Head Teacher for the amount advanced to them.
- k A bank imprest account cannot become overdrawn.
- l Submit a claim for reimbursement at least monthly.
- m Notify the Head of Corporate Finance of any new signatories.

#### **4.7.10 Banking Arrangements and Corporate Credit Cards**

- 4.7.10.1 All arrangements with the Council's bank concerning the Council's bank accounts and for the ordering and issue of cheques shall be made by, or under arrangements approved by, the CFO. The CFO shall be authorised to open and operate such banking accounts, as he or she may consider necessary. This authority shall include the power to give the necessary directions to the bank as to signatures for withdrawals. The CFO shall report periodically to the Cabinet or Audit & Governance Committee as to the opening or closing of such accounts.
- 4.7.10.2 Apart from payments from corporate cards, petty cash, imprest accounts or schools' own local bank accounts, the normal method of payment due from the council shall be by BACS or cheque. Direct debit and periodical payment arrangements shall require the prior agreement and authorisation of the CFO.
- 4.7.10.3 All cheques and cheque stationery shall be ordered only on the authority of the CFO who shall be satisfied that proper arrangements are in place for their safe custody. Where the signature is printed on the cheque by a Council system, the signature shall be that of the CFO.
- 4.7.10.4 The CFO shall be responsible for authorising the issue of corporate credit cards and determining spending limits. Cardholders are required to comply with the guidance issued by the CFO regulating the use of corporate credit cards. Purchases must be made in accordance with the contract procedure rules. This guidance will include the requirement for cardholders to provide the Payments Manager with a receipt and coding slip for each item purchased using a credit card within 14 days of the monthly card statement being received.
- 4.7.10.5 Schools are permitted by the local management of schools regulations to operate their own bank account independently of the council. In order to take advantage of new ways of purchasing books, supplies and services through the internet, schools are permitted by the council to apply for a credit card provided the card is issued by a UK bank and approved by the office of government commerce. The use of the credit card must be approved by the schools governing body and the monthly card statement

must be paid in full by a direct debit from the schools imprest bank account. Schools are required to comply with the guidance issued by the CFO regulating the use of credit cards.

#### **4.7.11 Preventing Financial Irregularities**

- 4.7.11.1 The CFO will report financial irregularities to the Chief Executive, Cabinet and the Audit and Governance Committee.
- 4.7.11.2 The CFO, in conjunction with Audit, will determine the scope of any internal enquiries or investigations, subject to consultation with the relevant member of the Management Board.
- 4.7.11.3 The CFO, in consultation with the relevant member of the Management Board, will decide whether any matter under investigation should be referred for police investigation and take recovery action as appropriate on such matters.
- 4.7.11.4 The CFO will inform the Chief Executive and Monitoring Officer if a suspected irregularity occurs involving staff who are his or her responsibility.
- 4.7.11.5 Directors, Heads of Service and officers will report financial irregularities to the CFO and Audit.
- 4.7.11.6 Directors, Heads of Service and officers will instigate the Council's disciplinary procedures where the outcome of an audit investigation indicates improper behaviour.

#### **4.7.12 Money Laundering**

- 4.7.12.1 The CFO shall appoint a Money Laundering Reporting Officer (MLRO). This officer shall ensure that all staff likely to receive payments from the public, businesses or professions are aware of the Authority's responsibilities under the Proceeds of Crime Act 2002, the Money Laundering Regulations 2007 and any other relevant acts and regulations, such as the Terrorism Act 2000 and Anti-terrorism, Crime and Security Act 2001.
- 4.7.12.2 The MLRO, or the Deputy MLRO in the MLRO's absence, shall receive reports from staff about suspicious payments of any value for any purpose and payments in cash in excess of £10,000 or €15,000.
- 4.7.12.3 The MLRO shall report any instance of suspected money laundering to the Serious Organised Crime Agency.

#### **4.7.13 Asset Management**

##### **Introduction**

- 4.7.13.1 The Asset Management section of the Council's Financial Procedure Rules provides a framework of principles, minimum requirements, levels

of authority and delegations to ensure that Herefordshire Council's asset portfolio is managed effectively to achieve maximum value for money.

### **Overarching principles**

4.7.13.3. A set of overarching principles govern the operation of this section of the Council's Financial Procedure Rules.

4.7.13.4 These are:

#### **Property**

- a All property owned or leased by Herefordshire Council is held corporately (including Herefordshire Council-owned schools).
- b The CFO is responsible for ensuring that the occupation of all Herefordshire Council property by Directorates is in the interests of the Council as a whole.
- c Directorates have discretion to manage the operations within the property they occupy in order to promote effective service delivery. However, this discretion operates subject to the corporate responsibilities of the CFO who has the authority to intervene in property matters to protect Herefordshire Council's overall interests. Directorates will not occupy property without the prior approval of the CFO.
- d Resolution of disputes on property matters is through the Chief Executive.
- e All property transactions should be referred to the CFO who shall seek the comments of all interested parties, including relevant Cabinet Members, Directorates and local Members, before the decision is taken to proceed. All decisions must be taken in accordance with the delegations set out in this section of the Council's Financial Procedure Rules and the decision making procedures set out in the Council's Constitution.

#### **General**

- a Capital investment on assets must be linked to priorities identified through the corporate planning process using a clear and objective prioritisation policy.
- b Capital investment must be directed to obtain maximum benefit from available resources, taking account of economy, efficiency and effectiveness.
- c Revenue implications of capital investment must be considered and spend to save funding may be available to pump prime investment that can demonstrate a clear financial pay back.

#### **Acquisitions and improvements to assets**



- 4.7.13.5 Before an asset is acquired or improved the need for investment must be clearly identified and appraised.
- 4.7.13.6 Prior to allocation of resources a business case must be prepared and approved by the relevant Director and submitted to the Capital Strategy Working Group (CSWG).
- 4.7.13.7 The CSWG will rank and score business cases based on clear criteria linked to priorities, including affordability using whole life costing, sustainability and value for money.
- 4.7.13.8 The CFO will present the scored business case to the Management Board. Where the acquisition is part of the annual budget setting process the Management Board will make recommendations to Cabinet for inclusion in the Medium Term Financial Strategy. Where the proposal is outside of the budget setting process the approval will follow the council's virement procedures.
- 4.7.13.9 The use of compulsory purchase powers must be approved by Cabinet.
- 4.7.13.10 Where appropriate, local members will be kept informed and views sought as outlined in paragraph 4.7.13.4.
- 4.7.13.11 The CFO may action acquisitions for highway purposes provided the scheme is in an approved programme or the property concerned has as a consequence been blighted.
- 4.7.13.12 The CFO shall ensure that acquisitions for highways purposes that are part of a scheme that is not in an approved programme is referred for formal decision in accordance with the Council's Constitution and Financial Procedure Rules.
- 4.7.13.13 Where the value of highways land to be acquired is less than £5,000 this may be approved by the Director of Economy, Communities and Corporate or any officer nominated to act on his/her behalf providing that there is a budget to cover the acquisition.

#### **Property**

- 4.7.13.14 Property is to be used efficiently, effectively and economically with due regard to legislative requirements. When any property is no longer required for operational purposes it is to be formally declared surplus, at which point its management reverts to the CFO. The budgetary implications of this are to be identified and reported to the Cabinet Member responsible for Resources.
- 4.7.13.15 The occupation and use of property by a Directorate is subject to the CFO responsibility for approving all material changes to property, including change of use, appropriations, granting/taking of interests, alterations or additions. Such changes must be reported to the Head of Corporate Finance for correct accounting treatment and apportionment of charges.
- 4.7.13.16 The CFO has the authority to undertake reviews of the property portfolio, or parts of it, to determine if it is optimised in terms of its utilisation, cost and value and within this to challenge the retention or use of existing properties occupied by Directorates.

### Disposals

4.7.13.17 Land, property and any other assets which are surplus to operational need are either to be reallocated to meet alternative needs or disposed of in line with statutory requirements and/or Herefordshire Council policies.

4.7.13.18 Directorates shall notify the CFO of:

- a Any property (or part) that is:
  - Vacant.
  - Held against a future operational need.
  - Not used for the principal purpose for which it is held.
  - Likely to be surplus to requirements (with estimated timescale).
- b Any operational issues associated with such property (e.g. longer-term requirements).
- c Any statutory/process issues relevant to its disposal (e.g. prescribed consultation processes, reference to the Secretary of State, etc.).
- d Any other issues which need to be considered prior to disposal.

4.7.13.19 The CFO may identify any property (or part) that is considered, or could be made, surplus to operational requirements.

### Treatment of Capital Receipts

4.7.13.20 In general capital receipts from disposals are deemed to be a corporate capital resource available for allocation in line with corporate priorities, excluding schools.

4.7.13.21 Use of capital receipts are subject to the following rules:

- a Overspending on schemes dependent on receipts must be contained within the budget allocated to the directorate concerned.
- b Capital schemes dependent on receipts are included in the Capital Programme only after full vetting and valuation by CSWG and ultimate approval by Cabinet or as appropriate within the virement rules.
- c All dependencies, assumptions and risks to be clearly identified by the project sponsor leading to prudent valuation adopted in project sign-off.
- d Scheme assumptions about the quantum, timing and phasing of receipts to be explicit and receipts cannot generally be “counted” until the sale is complete.

- e Monitoring shall be undertaken by CSWG with Property Services using a traffic light system to assess the level of risk around the receipts.

### **Financial Procedure Rules**

- 4.7.13.22 All of the protocols set out in the Council's Financial Procedure Rules and the Functions Scheme (Part3) and officer Schemes of Delegation must be adhered to. No transaction should be approved unless specific budgetary provision is identified, except where the purchase is approved under the authority given in paragraph 4.7.3.

### **Delegation to Officers**

- 4.7.13.23 Subject to the consultation and approval provisions set out in this section of the Council's Financial Procedure Rules, the CFO is authorised to:
- a Determine and settle the disposal of any land or property, or an interest in land or property.
  - b Determine and settle the terms of a lease (taken or granted) for any land or property.
- 4.7.13.24 As provided by arrangements made in the Constitution for the discharge of executive functions, the Chief Executive may exercise any power delegated under this section of the Council's Financial Procedure Rules to the CFO. The CFO may delegate his/her powers in writing to other officers.

## **4.7.14 Audit**

- 4.7.14.1 The CFO has responsibility for maintaining an adequate and effective internal audit service. This service has been delegated to the South West Audit Partnership (SWAP).
- 4.7.14.2 The CFO shall maintain strategic and annual audit plans that take account of the relative risks of the activities involved. He/she shall liaise with the Management Board on the audit strategy and plan.
- 4.7.14.3 SWAP is responsible for providing the Audit & Governance Committee with regular assurance reports that highlight any areas of concern regarding the effectiveness or level of compliance with agreed systems of internal control.
- 4.7.14.4 SWAP shall provide the Chairman of Audit & Governance Committee with a copy of audit review reports with an unsound, unsatisfactory or marginal audit opinion. The Council's procedures for maintaining confidentiality shall apply.
- 4.7.14.5 SWAP shall submit an annual report to the Audit and Governance Committee detailing internal audit activity for the previous year and reporting significant findings and areas of concern.
- 4.7.14.6 SWAP shall provide an annual summary to the Leader, Chairman of Audit and Governance Committee and relevant Cabinet Member(s) of audit review reports with a satisfactory or good audit opinion.

- 4.7.14.7 The CFO is responsible for producing an Annual Governance Statement for inclusion with the annual Statement of Accounts based on assurances provided by SWAP.
- 4.7.14.8 Officers shall ensure that internal and external auditors are provided with:
- a Access at reasonable times to premises or land used by the Council.
  - b Access at reasonable times to any employee or employees.
  - c Access to all assets, records, documents, correspondence and control systems relating to any matter or business of the Council.
  - d Any information and explanation considered necessary concerning any matter under examination.
- 4.7.14.9 Officers must account for cash, stores or any other Council property under their control and produce such items for inspection if required by SWAP.
- 4.7.14.10 Officers are required to consider and respond to audit reports and audit recommendations within two weeks.
- 4.7.14.11 Officers must ensure that any agreed actions arising from audit recommendations are carried out in a timely and efficient manner.
- 4.7.14.12 Where an appropriate response to audit recommendations has not been made within the agreed period, the CFO shall refer the matter to the Chief Executive and/or the Audit and Governance Committee.
- 4.7.14.13 Officers are responsible for notifying the CFO or SWAP immediately in writing/electronic medium of any suspected or alleged fraud, theft, irregularity, improper use or misappropriation of Council property or resources. Pending investigation, all necessary steps should be taken to prevent further loss and secure records and documents against removal, destruction or alterations.
- 4.7.14.14 The CFO is to investigate promptly any apparent, suspected or reported irregularity or fraud he/she becomes aware of. He/she shall report his/her findings to the Chief Executive to discuss and agree appropriate legal proceedings and disciplinary action, consulting with the relevant member(s) of the Management Board as appropriate.
- 4.7.14.15 Officers are responsible for ensuring that new systems for maintaining financial records, or records of assets, or changes to such systems are discussed and agreed with the CFO prior to implementation.
- 4.7.14.16 Officers are responsible for ensuring that all paperwork and systems are up to date, kept securely and are made available for inspection by audit.
- 4.7.14.17 Officers shall ensure that all fundamental systems and other financial systems are reconciled on a monthly basis and that records are up to date and available for audit inspection when required.

#### **4.7.15 Revenue Budget Management**

- 4.7.15.1 The Head of Corporate Finance shall prepare and review annually a three-year financial plan and strategy to provide an estimate of resources available to the Council and identify budget pressures.
- 4.7.15.2 Proposed budgets over periods of one year or longer shall be prepared by Directors, in consultation with the CFO, for submission through the Cabinet to the Council.
- 4.7.15.3 Directors shall evaluate the financial implications of any new policy option, initiative or major project in conjunction with the CFO and Head of Corporate Finance prior to a report to the Cabinet and/or Council.
- 4.7.15.4 The Cabinet shall recommend an annual budget to Council that includes the following:
- a Annual capital and revenue budget.
  - b Proposed contingencies, general reserves and specific reserves.
  - c Statutory Council tax calculations;
  - d Treasury management policy and borrowing limits.
  - e The CFO statutory declaration on budget setting.
  - f Virement limits.
  - g Scale of fees and charges.
- 4.7.15.5 Budget management ensures that resources allocated by Members are used for their intended purposes and that these resources are properly accounted for. Budgetary control is a continual process enabling the Council to review and adjust its budget targets during the financial year. It also provides the mechanism to call to account managers responsible for defined elements of the budget.
- 4.7.15.6 The structure and format of the revenue budget should be sufficient to permit effective financial management.
- 4.7.15.7 The overall budget setting process for both revenue and capital is controlled by the Head of Corporate Finance.
- 4.7.15.8 Budgets will be distributed to budget holders for consultation. Budget holders will work with finance staff to prepare detailed income and expenditure estimates for the forthcoming year taking into account known service level changes, contractual commitments and financial constraints
- 4.7.15.9 Budget holders should provide information on any legislative changes, statutory duties, demographic changes, which impact upon service trends and activity levels to inform the financial planning and budget setting process.
- 4.7.16 Capital Budget Management**
- 4.7.16.1 The Cabinet shall, following the submission of proposals by the Management Board, recommend to Council:

- a A capital programme for each financial year.
  - b A future indication of a capital programme over a three-year period.
  - c The recommended funding method for each capital project (including the use of Prudential Borrowing, capital receipts, revenue or other financing methods).
- 4.7.16.2 All capital spending proposals should be subject to approval through the Council's capital planning processes.
- 4.7.16.3 Following the approval of a capital programme, and subject to any conditions specified in that programme, or specified by the relevant Cabinet Member, the relevant Director shall take all appropriate action to carry into effect the approved schemes, within the budget and timescale agreed in the capital programme. Any material variation in cost or timescale shall be reported to the Cabinet.
- 4.7.16.4 If a project has not started within a specified timeframe it may need to be confirmed for it to go ahead.
- 4.7.16.5 Any report for a project or policy of a capital nature shall include details of:
- a The estimated cost of the proposal.
  - b Any phasing of the capital expenditure.
  - c The proposed method of financing, whether by loan, revenue or otherwise.
  - d The effect on the revenue estimates in the first and subsequent years.
  - e The additional staff and grades required both initially and ultimately.
  - f An assessment and measurement of the need for the scheme and the benefits it will produce.
  - g A technical and financial appraisal of the alternative approaches to meeting the need.
- 4.7.16.6 In the first instance, in-year capital requirements will be presented to the CSWG via a business case for ranking and scoring.

#### **4.7.17 Budgetary Control**

- 4.7.17.1 Each Director shall be responsible for monitoring the revenue and any capital budget relevant to his/her Directorate to ensure that such budgets are properly spent and not exceeded.
- 4.7.17.2 Any new proposal or variation which would materially affect the finances of the council shall require approval by the Cabinet. Any budget virements must comply with the council's scheme of budget virement (section 4.7.18)

- 4.7.17.3 The council operates within an overall annual cash limit. As a result all individual budgets are cash limited. Each budget holder is required to operate within the cash limit.
- 4.7.17.4 Directors shall monitor spend and income against budgets monthly and ensure, so far as practicable, that expenditure in excess of their net approved budgets is not incurred without prior approval. If actual income is expected to be below budget, this must also be actively managed.
- 4.7.17.5 If it appears to a Director that his/her overall cash limited budget may be exceeded, he/she shall report the details as soon as practicable to the Chief Executive, the CFO and to the Cabinet Member. The relevant Cabinet Member shall then report on the matter to the Cabinet.
- 4.7.17.6 Action plans must be put in place by each Directorate at an early stage in the financial year in order to manage potential overspendings (e.g. due to additional spending or below target income). Directors must submit their recovery plans to the Chief Executive and the CFO. Where appropriate the additional spending or below target income should be met by virements from other elements of the Directorate budgets. All Directors are required to manage expenditure within the agreed budget for their areas of responsibility. Compliance with this requirement will be dependent upon the earliest possible implementation of such action plans and rigorous supervision to achieve the required outcome.
- 4.7.17.7 It is the duty of Directors to ensure that responsibility for budgetary control is allocated to appropriate officers in their Directorates. Directors shall nominate a budget manager for each cost centre. As a general principle budget responsibility should be aligned as closely as possible to the decision-making processes that commits expenditure.
- 4.7.17.8 Budget Managers are accountable for their budgets and the level of service to be delivered and must understand their financial responsibilities. Budget Managers should be responsible only for income and expenditure that they can influence.
- 4.7.17.9 Budget managers are required to;
- a Follow an approved certification process for all expenditure.
  - b Ensure that income and expenditure are properly recorded and accounted for.
  - c Ensure that expenditure is committed only against an approved budget head.
  - d Monitor performance levels/levels of service in conjunction with the budget and necessary action is taken to align service outputs and budget.
  - e Monitor and control the gross expenditure budget position.
  - f Investigate and report significant variances from approved budgets.
- 4.7.17.10 The CFO shall establish an appropriate framework of budgetary control.

- 4.7.17.11 The CFO shall provide Directors, budget holders and Cabinet Members with monthly financial management information reports.
- 4.7.17.12 The CFO shall ensure that each Director has available timely information on receipts and payments on each budget which is sufficiently detailed to enable managers to fulfil their budgetary responsibilities.
- 4.7.17.13 The Head of Corporate Finance shall provide financial management training courses that all budget managers must attend.

#### **4.7.18 Virement**

- 4.7.18.1 The Council operates a scheme of budget virement. This enables budget holders to manage budgets with a degree of flexibility within the overall policy framework determined by the Council.
- 4.7.18.2 Directors have authority to vire expenditure between individual budget heads in accordance with the virement policy.
- 4.7.18.3 Key controls for the scheme of virement are:
  - a That it is administered by the CFO within guidelines set by Council. Any variation from this scheme requires the approval of Council.
  - b That the overall budget is agreed by Cabinet and approved by Council. Directors and budget holders are therefore authorised to incur expenditure in accordance with those estimates. The rules below cover virement, that is switching resources between budget heads. For the purposes of these Rules a budget head is considered to be the standard service sub-division as defined by CIPFA. The scheme applies equally to a reduction in income as to an increase in expenditure.
- 4.7.18.4 All virements below £150,000 must be approved by the Head of Corporate Finance in consultation with the relevant Head of Service or Director. All virements above £150,000 must be approved by the CFO in consultation with the relevant Director. All virements above £150,000 must also be approved by the portfolio Cabinet Member. All virements of above £150,000 shall be reported in the budget monitoring report provided to Cabinet.
- 4.7.18.5 The prior approval of the Cabinet is required to any virement of £25,000 or more where it is proposed to:
  - a Vire between budgets of different portfolio Cabinet Members.
  - b Vire between budgets managed by different Corporate Directors.
- 4.7.18.6 Virement which is likely to impact on the level of service activity of another Director should be implemented only after consultation with the relevant Director.

#### **4.7.19 Spend to Save**



- 4.7.19.1 The Capital and Asset Management Strategy aims to encourage innovation and allows officers to draw down funding to pump prime creative projects that demonstrate 'spend to save/mitigate' and funding is available throughout the year.
- 4.7.19.2 The council operates a Spend to Save scheme for budget holders, who want to either pump prime a service initiative, purchase equipment or service and/or realign their current service model, all of which must generate a revenue saving year on year.
- 4.7.19.3 Applications for funding accompanied by a Business Case shall be submitted to the Head of Corporate Finance.

#### **4.7.20 Insurance and Risk Management**

- 4.7.20.1 Further advice on this section of the Council's Financial Procedure Rules can be obtained from the Head of Corporate Finance or the Senior Finance Manager-Schools (Hoople Ltd).
- 4.7.20.2 All organisations, whether they are in the private or public sector, face risks to people, property and continued operations. Risk is defined as the chance or possibility of loss, damage or injury caused by an unwanted or uncertain action or event. Risk management is the planned and systematic approach to the identification, evaluation and control of risk.
- 4.7.20.3 Insurance has been the traditional means of protecting against loss, but this cannot be seen as the complete answer. By reducing or even preventing the incidence of losses (whether they result from crime or accident), the Council shall benefit from reduced costs of providing insurance cover and shall also avoid the disruption and wasted time caused by losses and insurance claims.
- 4.7.20.4 It is the overall responsibility of the Cabinet to approve the authority's Risk Management Strategy and to promote a culture of risk management awareness through the Council. Monitoring of and reporting on the effectiveness of the Strategy is an essential part of the process.
- 4.7.20.5 The key controls for risk management and insurance are:
- a Robust systems are in place to identify, assess, prevent or contain significant operational risks on an integrated basis and these systems are promoted throughout the organisation.
  - b Acceptable levels of retained risk are identified and evaluated and arrangements are in place for their funding, either by internal provision or external insurance as appropriate.
  - c Managers know that they are responsible for managing relevant risks and are provided with appropriate and timely information on claims experience and risk management initiatives relating to their areas of responsibility.
  - d Procedures are in place to investigate and process claims within required timescales.

- e A monitoring process is in place to review regularly the effectiveness of risk reduction strategies and the operation of these controls. The risk management process should be conducted on a continuing basis.

4.7.20.6 The CFO shall effect all insurance cover and negotiate all claims in consultation with the relevant Monitoring Officer where appropriate.

4.7.20.7 Directors shall give prompt notification to the CFO of all new risks, properties, vehicles and other assets that are required to be insured or any alterations affecting existing insurances.

4.7.20.8 Directors shall promptly notify the CFO in writing of any actual or potential loss, liability or damage or any event likely to lead to an insurance claim by or against the Council.

#### **4.7.21 Loans, Leasing and Investments**

4.7.21.1 The CFO shall report to Cabinet, on an annual basis, with recommendations to Council to determine the limits for the borrowing of monies.

4.7.21.2 The CFO shall borrow as necessary to finance the approved capital programme and deal with all matters in connection with the raising or repayment of loans and is authorised to borrow for meeting expenses pending the receipt of revenues.

4.7.21.3 All investments and all borrowing shall be made in the name of the Council

4.7.21.4 Directors shall not enter into financial leasing arrangements except with the consent of the CFO. Before entering into any lease agreement Directors shall submit details to the Corporate Finance Team to enable a financial appraisal to be undertaken, including alternative financing options and implications for accounting treatment.

4.7.21.5 Loans to third parties will only be made in exceptional circumstances.

4.7.21.6 The CFO shall arrange the borrowing and investment activities of the Council in such a manner as to comply with the CIPFA Code of Practice on Treasury Management and the Authority's Treasury Management Policy Statement.

4.7.21.7 The CFO shall prepare an annual strategy with regard to investments, borrowing and the repayment of external debt. These are set out in the Treasury Management Strategy approved by full council before the start of the new financial year.

4.7.21.8 The Treasury Management Strategy will include the following:

- Prospects for the economy and for interest rates;
- Borrowing requirement and strategy;
- Investment policy and strategy;

- MRP Statement;
- Prudential Indicators for the next three years providing assurance that the council's capital plans are affordable, prudent and sustainable; and
- The Treasury Management Policy Statement.

4.7.21.9 In addition, Cabinet will receive an annual report after the end of the financial year and will recommend to Full Council for approval.

4.7.21.10 Cabinet will also receive quarterly treasury management reports.

#### **4.7.22 Trust Funds**

4.7.22.1 The CFO shall:

- a Arrange for all trust funds to be held wherever possible in the name of the Authority. All officers acting as trustees by virtue of their official position shall deposit securities, etc relating to the trust with the CFO unless the deed otherwise provides.
- b Arrange where funds are held on behalf of third parties for their secure administration approved by the CFO and to maintain written records of all transactions.
- c Ensure that trust funds are operated within any relevant legislation and the specific requirement for each trust.

#### **4.7.23 Inventories and Stocks And Stores**

4.7.23.1 Further advice can be found in the council's 'Guideline for Inventories Stocks and Stores'.

4.7.23.2 The CFO shall:

- a Advise on the form, layout and content of inventory records to be maintained by the Council.
- b Advise on the arrangements for the care and custody of stocks and stores in Directorates.

4.7.23.3 Directors shall:

- a Maintain inventories in a form approved by the CFO to adequately record and describe all furniture, fittings and equipment, plant and machinery under their control.
- b Carry out an annual check of all items on the inventory in order to verify location, review condition and to take action in relation to surpluses or deficiencies, annotating the inventory accordingly.
- c Ensure attractive and portable items, such as computers, cameras and video recorders are identified with security

- markings as belonging to the Council and appropriately controlled and secured.
- d Make sure that property is only used in the course of the Council's business unless the Director concerned has given permission otherwise.
  - e Directors have discretion to write off redundant equipment up to the value of £5,000, but must seek Cabinet Member approval for write-offs in excess of £5,000. Directors shall seek independent quotations where it is not immediately obvious what the market value of the redundant item is.
  - f Make arrangements for the care, custody and recording of stocks and stores in Directorates.
  - g Ensure that assets are identified, their location recorded and that they are appropriately marked and insured.
  - h Ensure stocks are maintained at reasonable levels and subject to a regular independent physical check. All discrepancies should be investigated and pursued to a satisfactory conclusion.
  - i Write-off discrepancies of up to £5,000 and seek advice from Audit on discrepancies above this limit.
  - j Authorise write-off and disposal of redundant stocks and equipment by competitive quotations or auction unless, following consultation with the CFO, it is decided otherwise in a particular case.
  - k Seek approval from the CFO and Cabinet Member to the write-off of redundant stocks and stores valued in excess of £5,000.
  - l Record the reasons for the chosen method of disposing of redundant stocks and equipment if not by competitive quotation or auction.

#### **4.7.24 Working for Third Parties and Shared Services**

- 4.7.24.1 Current legislation enables the Council to provide a range of services to certain other bodies. Such work may enable the unit to maintain economies of scale and existing expertise. Arrangements must be in place to ensure that any risk associated with this work is minimised.
- 4.7.24.2 All proposals to work for a third party shall be properly costed in accordance with guidance provided by the CFO. Financial advice should be obtained from the Head of Corporate Finance on the cost of providing the service.
- 4.7.24.3 All decisions to work for a third party shall be made in accordance with the Council's formal decision making processes as set out in the Scheme of Delegation. Formal approval in line with the Council's Functions Scheme must be obtained before any negotiations to work for third parties are concluded.

4.7.24.4 Officers must obtain legal advice on the implications of providing the proposed service to the third party. All contracts for providing work for a third party shall be drawn up using guidance provided by the Assistant Director Governance.

4.7.24.5 Officers shall ensure that:

- a All contracts are properly documented and a register of all contracts to supply goods and services to third parties is maintained by each Directorate.
- b Appropriate identity checks on the third party are carried out in accordance with the Council's anti money laundering policy and guidance.
- c Appropriate insurance arrangements are in place for the third party work.
- d The Council is not put at any risk of bad debts as a result of any third party work
- e Wherever possible, payment is received in advance of the delivery of the service under a third party contract.

## Appendix A

### Responsibilities under the Financial Procedure Rules

This appendix provides details of responsibilities under the Financial Procedure Rules. It lists in a single place responsibilities that would otherwise be repeated in various sections of the Financial Procedure Rules. It confirms the overall responsibilities of the Council's CFO, the Cabinet and members of the Management Board within the Financial Procedure Rules.

#### A1 Cabinet Responsibilities

- A1.1 Cabinet is responsible for overseeing all aspects of the Council's finances. Day to day responsibility for the Council's finances rests with Directors and their managers as set out in these Financial Procedure Rules.
- A1.2 Each Cabinet Member shall oversee compliance with the Council's Financial Procedure Rules for those functions within their terms of reference. Each Director is responsible for ensuring those functions within their terms of reference operate within the Council's Financial Procedure Rules.

#### A2 Chief Financial Officer (CFO) Responsibilities

- A2.1 The CFO has been appointed under Section 151 of the Local Government Act 1972 as the officer with responsibility for the proper administration of the Council's financial affairs.
- A2.2 Reference in these Financial Procedure Rules to the CFO shall be taken to include any officer nominated by the CFO to act on his/her behalf.
- A2.3 The CFO shall be entitled to attend a meeting of any body on which Members are represented where matters affecting the financial affairs of the Council are being discussed.
- A2.4 The CFO, under the general direction of Cabinet, is responsible for determining the basis for all accounting procedures and financial records for the Council and for exercising a check over all financial matters.
- A2.5 The CFO is responsible for maintaining a continuous review of the Financial Procedure Rules and advising the Council of any additions or changes necessary.
- A2.6 The CFO is responsible for reporting, where appropriate, breaches of the Financial Procedure Rules or any other element of the Constitution that relates to the proper administration of the Council's financial affairs to the Council and/or Cabinet.
- A2.7 The CFO is responsible for issuing advice and guidance to underpin the Financial Procedure Rules.
- A2.8 The CFO is responsible for maintaining adequate and effective audit arrangements for the Council and for ensuring that Audit Services complies with the Public Sector Internal Audit Standards.
- A2.9 The CFO is responsible for ensuring, in conjunction with the relevant member of the Management Board, that the Council's disciplinary procedures are followed where the outcome of an audit or other investigation indicates fraud or irregularity.

- A2.10 The CFO is responsible for ensuring that any case of fraud or loss or financial irregularity or bribery or corruption discovered or suspected to exist which involves the Council's interest shall be dealt with in accordance with the Council's Anti-Fraud and Anti-Corruption policy.
- A2.11 The CFO is responsible for appointing senior officers to be the Council's Money Laundering Reporting Officer and deputy to the Council's Money Laundering Reporting Officer.
- A2.12 The CFO has overall responsibility for making payments on behalf of the Council, although this will be carried out by Hoople Ltd.
- A2.13 The CFO has overall responsibility for the Council's income and collection functions although this will be carried out by Hoople Ltd who will ensure the effective collection and recording of all monies due to the Council.
- A2.14 The CFO is responsible for making payments to employees, former employees and Members on behalf of the Council although this will be carried out by Hoople Ltd.

### **A3 Management Board Responsibilities**

- A3.1 Members of the Management Board are responsible for ensuring that all employees are aware of the content of the Financial Procedure Rules and other internal regulatory documents and that they are complied with.
- A3.2 Members of the Management Board are responsible for consulting with the CFO on any matter within their area of responsibility that is liable to materially affect the finances of the Council before any provisional or other commitment is incurred or before reporting the matter to a Cabinet Member.
- A3.3 Members of the Management Board are responsible for supplying the CFO with all information necessary for the proper administration of the Council's affairs.
- A3.4 Members of the Management Board shall allow the CFO and his/her authorised representatives access to all documents and records on demand.
- A3.5 Members of the Management Board shall maintain a sound system of internal control.
- A3.6 Members of the Management Board are responsible for ensuring those functions within their terms of reference operate within the Council's Financial Procedure Rules.
- A3.7 Members of the Management Board are responsible for informing Cabinet Members promptly if the Council's Financial Procedure Rules are not being complied with.

**Appendix B****Glossary of terms**

In the Financial Procedure Rules the words and phrases in the left hand column have the meaning given in the right hand column;

Asset	Something the council owns that has value, such as premises, vehicles, equipment or cash.
Audit	A specialist team that examines, evaluates and reports on the adequacy of internal control systems.
Budget	A statement of the Authority's plans for revenue and capital expenditure and income over a specified period of time.
Capital	Spending, usually on major assets like a building, where the benefit of the asset lasts for more than one year.
Capital Programme	A budget generally covering a 3-5 year period relating to items of capital expenditure.
Capital receipts	Proceeds from the sale of fixed assets, such as land or buildings.
Cash Limit	The most that can be spent in an area in one year.
CIPFA	The Chartered Institute of Public Finance and Accountancy is the leading professional accountancy body for public services in the UK. CIPFA has responsibility for setting good practice accounting standards for local government.
Gross Expenditure	The total cost of providing the Council's services before taking into account income from Government grants and Fees and Charges for services.
Imprests	Bank and Petty cash floats.
Internal Control	The systems of control that help ensure the Council's objectives are achieved in an economical, efficient and effective way and consistent with safeguarding the Council's assets.
Inventory	A list of equipment and furniture.
Money Laundering	The practice of engaging in financial transactions in order to conceal the identity, source, and/or destination of money.
Officer	A person employed or appointed as a member of staff.
Revenue budget	Budget relating to the day-to-day expenses associated with the provision of services.
Treasury Management	Management of the Council's Cash Balances on a daily basis, to obtain the best return while maintaining an acceptable level of risk.
Treasury Management Strategy	A document stating how the Council plans to borrow and optimise its return on its cash and investments in the coming financial year whilst ensuring the over-riding criterion of security



	of public money.
Virement	Transfers of budgets between one area and another. Virements are subject to strict controls.

#### Clarification of Post titles

Chief Executive	The Council's Head of Paid Service
Director of Resources	The Council's Chief Financial Officer (CFO) or Section 151 officer
Assistant Director Governance	The Council's Monitoring officer
Head of Corporate Finance	The Council's Deputy Section 151 officer

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## Section 6 - Contracts Procedure Rules

### 4.6.1 Introduction

- 4.6.1.1 The primary objective of the Council's Contract Procedure Rules is to ensure that all contracts for works, goods and services are entered into in a manner that secures value for money and is demonstrably free from impropriety.
- 4.6.1.2 The Council's Contract Procedure Rules also ensure that:
- a contract selection and award procedures are conducted fairly, in a properly regularised manner and in accordance with relevant legal requirements
  - b strategic service delivery and supply partners are used wherever possible to ensure value for money is obtained and the cost to procure is minimised
  - c local firms are employed whenever they offer as good value for money as other firms and their selection is in accordance with the Council's legal obligations, for example in relation to European procurement rules
  - d the Council's strategic policies are taken into account, for example in promoting the economic development of Herefordshire and in relation to protecting the environment
  - e alternative methods of procurement compatible with the objectives of the Contract Procedure Rules have been considered
  - f procurement procedures are kept under review in order to ensure continuous improvements to services and provide best value to the community of Herefordshire
- 4.6.1.3 The Director for Economy Communities and Corporate has overall responsibility for the preparation of the Council's Contract Procedure Rules. The Head of Commercial Services appointed by the Director for Economy, Communities and Corporate has delegated responsibility for implementing the Council's Contract Procedure Rules.
- 4.6.1.4 The Head of Commercial Services works very closely with the Solicitor to the Council due to the significant legal issues involved in contracting and procurement activity.
- 4.6.1.5 It should be noted that the Council's Contract Procedure Rules form part of the Council's Constitution and are to be read in conjunction with other sections of the Constitution in particular:
- Part 3 – The Functions Scheme
  - Part 4 – Section 3 - The Budget and Policy Framework Rules
  - Part 4 – Section 7- Financial Procedure Rules.
- 4.6.1.6 Wherever it is mutually advantageous to do so, the Council should seek to conduct procurements in collaboration with partner organisations. It must be noted that each partner will need to comply with their own Contract Rules, which may have key differences to the Council Rules – for example, the European Procurement Directive features different financial thresholds in respect to Health Authorities and Local Authorities. In the event that contracts are to be established which are applicable to two or more partners the Contract Rules of each partner must be adhered to, and it is

possible that separate contractual documents will have to be established for each partner as they are separate legal entities. Officers must ensure the Rules and Governance procedures of each partner are followed throughout the procurement process. Where costs are to be shared between collaborating authorities it is advised that a formal agreement detailing such arrangements is drawn up between the partners. The Legal Services Team can provide assistance.

- 4.6.1.7 It should also be noted that failure to observe the Council's Contract Procedure Rules could lead to disciplinary action.
- 4.6.1.8 All council contracts shall contain provisions to this effect. All financial limits outlined in this document exclude Value Added Tax (VAT).

## **STANDARDS OF CONDUCT**

### **4.6.2 Declarations of Interest**

- 4.6.2.1 Members and Officers must ensure that they comply with the provisions of the relevant Code of Conduct including on the Declaration and Registration of Interests and the Disclosure of Financial Interest requirements in Part 5 (sections 1 and 13) of the Constitution.

### **4.6.3 Gifts and Hospitality**

- 4.6.3.1 Any offer of gift, favour or hospitality made by any person or firm doing or seeking to do business with the Council must be treated with extreme caution.
- 4.6.3.2 Any such offers must be noted on the appropriate form and reported to the Solicitor to the Council who shall maintain and make available to the Council's internal and external auditors a register of such matters.
- 4.6.3.3 Acceptance of gifts and hospitality must be in accordance with the Council's Code on such matters (Part 5 section 9).

### **4.6.4 Honesty**

- 4.6.4.1 All Members must follow the Councillor Code of Conduct (Part 5 section 1).
- 4.6.4.2 All employees must follow the Employee Code of Conduct (Part 5 section 13).
- 4.6.4.3 All officers must make sure that employees involved in an in-house tender for a contract submission do not take part in the preparation of tender documentation or the decision on the award of such a contract.

## **OFFICER RESPONSIBILITIES**

### **4.6.5 Chief Executive's Responsibilities**

- 4.6.5.1 The Chief Executive is responsible for resolving issues concerning the operation of the Council's Contract Procedure Rules, seeking advice as necessary from the Director for Economy Communities and Corporate and the Solicitor to the Council.

### **4.6.6 Directors' Responsibilities**

- 4.6.6.1 All Directors are responsible for:

- a. monitoring compliance with the Council's Contract Procedure Rules in relation to contracts funded by their Directorate budget
- b. appointing Contract Management Representatives (paragraph 4.6.8) and ensuring they support them in their role and obtain regular briefings from them
- c. appointing a senior member of staff to the Commercial Services Team (paragraph 4.6.9)
- d. bringing the provisions of the Council's Contract Procedure Rules to the attention of their staff
- e. ensuring that the contracts within their Directorate are legal, comply with Contract Procedure Rules and Financial Procedure Rules (Part 4 section 7) and protect the Council's interests fully
- f. ensuring that the Council's Disclosure and Barring Service policies and procedures are followed.

4.6.6.2 The Director for Economy Communities and Corporate has overall responsibility for the preparation and review of the Council's Contract Procedure Rules but must do so in agreement with the Solicitor to the Council.

#### **4.6.7 Solicitor to the Council's Responsibilities**

4.6.7.1 The Solicitor to the Council is responsible for:

- a providing legal advice and guidance to Members and officers on the operation of the Council's Contract Procedure Rules and all contracting and procurement activity
- b working with the Director for Economy Communities and Corporate on the preparation and review of the Contract Procedure Rules
- c assisting the Chief Executive with the resolution of questions regarding the interpretation of the Council's Contract Procedure Rules
- d advising on the preparation of contract documentation
- e maintaining a Contract Procedures Exemption Register
- f informing relevant officers of any information received that calls into question the suitability of a contractor, consultant, agency or any other person carrying out work for the Council.

#### **4.6.8 Contract Management Representatives' Responsibilities**

- 4.6.8.1 Directors shall appoint one or more Contract Management Representative(s) to take responsibility for contracts with an estimated total value (excluding VAT) in excess of £10,001. The Contract Management Representative will be responsible for maintaining and providing timely information regarding the contracts register to the Commercial Services Team.
- 4.6.8.2 Contract Management Representatives are responsible for liaising fully with the Commercial Services Team and Legal Services on all matters relating to contracting and procurement.
- 4.6.8.3 Contract Management Representatives are responsible for agreeing exemptions from the formal tendering procedures with the Head of Commercial Services **and** the

Solicitor to the Council. All exemptions are to be approved in writing and reported in line with the requirements of 4.6.18 of the Council's Contract Procedure Rules.

4.6.8.4 Contract Management Representatives are responsible for liaising with officers administering contracts regarding any reports concerning failures by contractors to comply with contractual obligations or otherwise satisfactorily complete work.

4.6.8.5 Contract Management Representatives are responsible for advising the Head of Commercial Services and the Solicitor to the Council of any concerns they receive regarding the suitability of a supplier to carry out work for the Council.

4.6.8.6 Contract Management Representatives are responsible for maintaining records of the:

- a contracts awarded including the nature and value of contracts and the names of successful tenderers
- b total value of contracts awarded to each successful tenderer during each financial year
- c names of unsuccessful tenderers and reasons why their tenders were not accepted if the reason is other than price
- d details of any failure by a tenderer to comply with instructions to tenderers
- e details of the reasons for any tenders being withdrawn
- f details of failures by contractors to submit tenders after having requested and been invited to do so
- g contractors' performance
- h reasons for opening late tenders (paragraph 4.6.13.45)
- i reasons for exceptions to tendering procedures (paragraph 4.6.18).

4.6.8.7 Contract Management Representatives are responsible for making arrangements for the retention of tender and contract documentation in accordance with the Council's Record Retention Schedule

#### **4.6.9 Head of Commercial Services' Responsibilities**

4.6.9.1 Working to the Director of Economy Communities and Corporate, the Head of Commercial Services is responsible for providing advice on all aspects of the Council's Contract Procedure Rules save for the legal issues. The responsibility for the legal aspects of the Council's Contract Procedure Rules rests with the Solicitor to the Council.

4.6.9.2 The Head of Commercial Services is responsible for chairing the Council's Commercial Services Group. Each Director shall appoint a senior officer to be a member of the Commercial Services Group and the membership shall include the Solicitor to the Council or their nominated representative.

4.6.9.3 The Council's Commercial Services Group will meet at least annually in order to fulfil the following responsibilities:

- a continually reviewing the Council's Procurement Strategy and making recommendations on appropriate enhancements to the Deputy Chief Executive to take forward in consultation with the Solicitor to the Council for approval in line with the Council's arrangements for decision making as set out in the Constitution

- b maintaining a register of current contracts above £10,000
- c monitoring compliance with the Council's Contract Procedure Rules and reporting non-compliance to the Director for Economy Communities and Corporate Director for Economy Communities and Corporate and the Solicitor to the Council for appropriate action
- d preparing an annual report on the operation of and compliance with the Council's Contract Procedure Rules as a basis for the Director of Economy, Communities and Corporate, in consultation with the Solicitor to the Council and the Audit and Governance Committee
- e continually reviewing the Council's Contract Procedure Rules to ensure they keep pace with developing best practice and advising amendments as necessary
- f prescribing the information needed from each directorate's Contract Management Representatives and maintaining a central contracts register of the information provided by the Contract Management Representatives
- g reviewing the Contract Procedure Rules Exemption Register and preparing an annual report on the exemptions recorded for the Solicitor to the Council
- h providing training and support for employees involved in procurement activities.

#### 4.6.10 Responsibilities of all Officers

##### 4.6.10.1 All officers are responsible for:

- a following the Council's Contract Procedure Rules and any codes of practice, guidance or instructions provided by Commercial Services Team and the Solicitor to the Council
  - b following all relevant English and European procurement laws
  - c following the Council's policy requirements and legislation on Equalities and Environmental concerns including the Equalities Act 2010 and the Public Sector Duty Policy.
  - d seeking advice from the Commercial Services Team and the Solicitor to the Council in the case of any uncertainty
  - e ensuring that any departure from these Contract Procedure Rules is agreed with the Head of Commercial Services **and** the Solicitor to the Council
  - f following the Council's Employee Code of Conduct (Part 5 section 13)
  - g following the Council's Financial Procedure Rules and the systems and procedures that are in place to control budgets properly
  - h declaring any interest that could influence their judgement in contracting matters to their Director and the Solicitor to the Council
  - i not taking part in **any** decisions relating to the procurement of work, goods or services if they are part of a formal in-house bid for that work
  - j reporting any suspected fraudulent, corrupt or other irregularity to the Chief Internal Auditor
  - k ensuring that value for money is evidenced through the procurement process.
- l applying appropriate monitoring arrangements to all contracts to ensure the management of risk and the projected delivery of services and benefits.

## FORMAL QUOTATION AND TENDERING PROCEDURES

### 4.6.13 Introduction

4.6.13.1 The Council, will engage with external suppliers to create large-scale strategic service delivery partnerships. This form of commissioning will become more common as the Council seeks to secure longer term efficiency gains and it is likely that it will involve larger amounts of more complex services within each contract's scope. Officers must use Council approved strategic service delivery partners if the work required is within the scope of the Council's service delivery contracts. Should officers be unclear of the scope of such contracts, they should seek advice from the Commercial Services Team prior to proceeding with any procurement exercise.

4.6.13.2 The following procedures must be followed for all other types of procurement:

- a **Purchases in total valued up to £1,000** – no requirement for formal quotations or tenders but officers must be able to demonstrate value for money has been obtained and that all other relevant aspects of the Council's Contract Procedure Rules have been followed.
- b **Purchases in total valued between £1,001 and £10,000 (inclusive)** – at least two formal quotations must be obtained (see 4.6.13.7 to 4.6.13.11)
- c **Purchases in total valued between £10,001 and £50,000 (inclusive)** – at least three formal quotations must be obtained (see 4.6.13.7 to 4.6.13.11)
- d **Purchases in total valued between £50,001 and up to relevant EU limit (£172,514)** – formal tendering arrangements must be followed (see 4.6.13.12 to 4.6.13.71)
- e **Purchases in total valued in excess of relevant EU limit (currently circa £172,514 for goods and services)** – The Public Contracts Regulations must be followed (see 4.6.14).

4.6.13.3 As the value, size and complexity of the contract increases, the degree of risk to the Council will also increase. Where the value of a contract exceeds £50,000, a formal risk assessment must be undertaken and a managed risk register maintained throughout the procurement process. Advice may be sought from the Council's risk and insurance officers.

4.6.13.4 Official orders should be raised for works, goods and services in line with the Council's Financial Procedure Rules.

#### Formal Quotation Procedure

4.6.13.5 The requisite number of formal quotations must be obtained for all purchases (other than those within the scope of a strategic service delivery contract or where a legally compliant Framework Agreement is utilised – see 4.6.15) where between £1,001 and £50,000 in total (see 4.6.13.3).

4.6.13.6 A quotation is a written estimate of the cost to execute works or supply goods, materials or services.

4.6.13.7 Officers must produce a description of the goods or specification of the services required before seeking quotations. This will enable a fair comparison of prices. The level of detail in the description or specification will depend on the value and type of goods or services being purchased. Advice can be obtained from the Commercial Services Team.

4.6.13.8 Formal quotations should contain as a minimum the following information:



- a date and reference number
- b supplier company details
- c council officer/department name
- d item/part number
- e description specification
- f quantity required
- g unit/service cost
- h total cost
- i delivery information
- j payment details
- k any special requirements
- l Details of any discounts or rebates

- 4.6.13.9 Every person or firm who makes a quotation must be treated fairly and equally.
- 4.6.13.10 Any departures from the formal quotation procedures must be discussed with the Commercial Services Team who will agree or otherwise any exception in consultation with the Head of Commercial Services. A record must be kept of the reasons for, and approval given for, departing from the formal quotation procedure.
- 4.6.13.11 When Council Officers are engaging in procurement activity on behalf of schools, or other third parties who will be the actual contracting entity, and the Council is therefore acting as the agent of the school or other party, they must adhere to the Council Contracts Procedure Rules, recognising that the Council may be held liable for any complaints or challenges relating to the process. The documents sent to bidders in such cases must contain a disclaimer saying that the Council will not be held liable should the contracting entity not follow the Council's recommendation in making an award. The Council must provide a written recommendation to the school or third party regarding making the award, pointing out that if they make a different choice to that recommended it will be at their own risk. Advice on wording can be obtained from the Commercial Services Team.

#### **Formal Tendering Procedure**

- 4.6.13.12 Formal tendering procedures apply to all contracts with a total value between £50,001 and the prevailing European procurement limits for goods, services and works except for those with a Council approved strategic service delivery contract. To ensure that European procurement rules are properly applied, including aggregation rules, Officers should liaise with the Commercial Services Team before commencing any procurement with an estimated value in excess of £50,000. Aggregation rules also apply to Council formal tenders, and requirements must not be artificially split to fall below the £50,000 threshold to avoid the following the correct process. Advice should be sought from the Commercial Services Team if uncertain.
- 4.6.13.13 It is important to respect confidentiality during all stages of the formal tendering process. Officers must not disclose any information they have about potential suppliers to others persons/suppliers potentially competing for the same contract.
- 4.6.13.14 Advice and guidance on how to describe the works, goods or services required for formal tendering purposes can be obtained from the Commercial Services Team.
- 4.6.13.15 In accordance with regulation 111 of the Public Contract Regulations 2015, officers should note that they should not issue a PQQ for any tender below the central

government threshold which currently stands at £111,676 (as of 1<sup>st</sup> January 2014 to 31<sup>st</sup> December 2016). For the latest information regarding the EU thresholds for procurement, please visit the EU Procurement website via the following link:

[http://ec.europa.eu/internal\\_market/publicprocurement/rules/current/index\\_en.htm](http://ec.europa.eu/internal_market/publicprocurement/rules/current/index_en.htm)

### Selecting Potential Tenderers

- 4.6.13.16 Potential suppliers must be sought by placing advertisements in the most appropriate media, in addition to the Council's e-tendering portal, in accordance with 4.6.13.17.
- 4.6.13.17 Advertisements for potential suppliers may be placed at the officer's discretion in relevant trade or professional journals, local and national newspapers or national websites administered by responsible bodies, and **must** be placed in the EU Journal (OJEU) if the contract is likely to exceed the relevant EU threshold. All contracts with a potential value exceeding £5,000 must be advertised on the Council's e-tendering portal ("the Portal"), in addition to any discretionary advertising by other means. Furthermore details of all contracts with a potential value exceeding £50,000 must be published on the UK Cabinet Office's Contracts Finder portal and the information provided shall include at least the following:
- obtained.
- (a) the internet address at which the procurement documents may be obtained.
  - (b) the time by which a prospective tenderer must respond if it wishes to be considered;
  - (c) how and to whom a prospective tenderer is to respond; and
  - (d) any other requirements for participating in the procurement

Where advertisements are published in OJEU such publication must **precede** their appearance on the Portal, or any other supplementary means of advertising, to comply with EU regulations. Note, for clarity, publication is still required on the Portal if OJEU is used, and must quote the specific OJEU Reference for the contract, which suppliers should be asked to quote in their application. As a general rule officers should leave 48 hours between the time of OJEU publication and any subsequent publication in other media.

- 4.6.13.18 The only occasions when procurements do not need to be advertised on the Portal is when the contract value will be less than £5,000, or if an existing strategic service delivery contract or Framework Agreement is to be used to source suppliers and advertising is therefore not required.
- 4.6.13.19 For formal tenders (values in excess of £50,000), the minimum number of tenderers required is three. In the event that officers find that they have less than the minimum number of applications they must consult with the Commercial Services Team before they proceed further.
- 4.6.13.20 The procurement strategy, specification and evaluation strategy must be agreed before the commencement of the procurement.
- 4.6.13.21 The entire process of advertising, selecting suppliers to tender, through to final award, is highly prescribed under European law for all procurements over the

relevant threshold. Advice needs to be sought from the Commercial Services Team before commencing a procurement in excess of EU thresholds (including ensuring sufficient time is allowed to carry out a compliant process, which can take several months). For procurements below the European thresholds, the advice in clauses 4.6.13.26 to 4.6.13.71 applies.

4.6.13.22 A standard business questionnaire may be used to collect information from the potential suppliers. However, all potential suppliers must receive the same questionnaire. Alternatively, information may be gathered by inviting potential suppliers to express an interest in writing covering the specifics identified by the officer in the advertisement or letter of invitation. Pre-procurement market testing can be carried out to gauge market interest (and is positively encouraged when purchasing new services), including approaching suppliers directly, but pre-selection of suppliers for potential contract award must not commence until the market testing process has been completed and the actual formal procurement process begun. In the case of procurements above the EU thresholds, highly– prescribed processes apply. In any event, information gathering and market testing exercises should not have the effect of distorting competition or violating EU mandated principles of non-discrimination and transparency. In particular, such exercises should not provide any potential supplier(s) participating in them with an advantage over those who do not. Further advice can be obtained from the Commercial Services Team.

4.6.13.23 The method for selecting tenderers must:

- a treat all tenderers in the same way
- b keep the process clear and simple
- c record all the selection decisions.

4.6.13.24 Officers must consider the following when selecting suppliers to be invited to tender for a particular contract:

- a past performance on similar contracts (quality and costs)
- b technical capacity
- c specialist experience in the type of products and services being procured
- d financial situation
- e public and employer's liability insurance arrangements
- f health and safety arrangements
- g equalities policy
- h written references on the contractor's reputation
- i environmental policies.

4.6.13.25 Officers may also use information from referees and from company searches to assess which persons or firms to invite to submit a tender.

### **Inviting tenders**

4.6.13.26 In accordance with regulation 53 of the Public Contract Regulations 2015, the Council's e-tendering system is the default option for the publication of procurement documents. In order to access these documents, prospective tenderers must have registered on the e-tendering portal prior to the publication of said documents.

For each tender, the following procurement documents will be published:

- A letter of invitation
- Instructions to tenderers
- Form of Tender
- Specification
- Schedule of Rates/pricing documentation
- Terms and Conditions of the Contract (see 4.6.13.27)
- Quality requirements/method statement questions
- Tender Evaluation Criteria
- Any relevant supporting information

4.6.13.27 A copy of the Council's standard contract terms shall be included so that the tenderer is aware of the terms and conditions that will form part of the final contract. When an industry standard contract is used advice should be sought from the Head of Commercial Services on which of the standard clauses to incorporate.

4.6.13.28 Tenderers must be instructed to return their tendering documentation via the e-tendering portal, rather than by any other method. In addition, tenderers must be told that tenders which are received by other means, or received after the deadline, will not be accepted.

4.6.13.29 Tenderers should be advised that tenders will be opened at the same time and no advantage is secured by seeking to delay submission until the last moment.

4.6.13.30 The invitation to tender **must** state that the Council does not bind itself to accepting the lowest or any tender.

4.6.13.31 The invitation to tender needs to explain how the Council will deal with any mistakes it identifies in the tender documentation submitted (see Assessing Tenders below).

4.6.13.32 The invitation to tender **must** set out the criteria that will be used to select the preferred supplier. The assessment criteria must not prevent fair competition or discriminate between tenderers in any way. They must also comply with relevant legislation.

4.6.13.33 The tender should be assessed according to the Most Economically Advantageous Tender (MEAT) criteria which can be the lowest price, but typically will be a price-quality assessment reflecting the qualitative, technical, sustainable and social aspects of the tender submission as well as price and such assessment criteria may include the following factors:

- a) experience and skills of staff performing the contract where staff quality can have a significant impact on contract performance.
- b) financial proposals
- c) contract management arrangements
- d) quality including technical merit and functional characteristics
- e) delivery proposals
- f) social value
- g) environmental factors
- h) innovation

- 4.6.13.34 During the live tender period (i.e. the period between first advertisement and the deadline for tender submission), all communications with tenderers must be recorded in the clarification log on the e-tendering Portal. The clarification log will record all enquiries which are raised during the respective period and the relevant responses. The identity of the tenderer who has raised the query **must not** be disclosed.

### **Receiving Tenders**

- 4.6.13.35 The original tender return date should be fixed and unchanged except in appropriate and necessary circumstances. Any extension should not provide either advantage or disadvantage to any of the tenderers.
- 4.6.13.36 Should it be necessary to extend the time limit for the submission of tenders all potential tenderers should be informed of the new date in good time before the original submission date.
- 4.6.13.37 The Council's e-tendering Portal will automatically record the time, date and name of the tenders as they are received.
- 4.6.13.38 Tenders cannot be opened until the final deadline for receiving them. All tenders will be stored in the secure e-tendering portal until the requisite deadline for opening them.
- 4.6.13.39 If fewer tenders are received than expected, officers should not contact tenderers to ask whether they have sent one in.
- 4.6.13.40 In exceptional circumstances, officers, in consultation with and the approval of the Solicitor to the Council, can accept a late tender (see the section "Late Tenders" below). The core principle is that tenders should not be rejected if the delay is due to the actions of the Council, a third party, or force majeure,

### **Opening and Recording Tenders**

- 4.6.13.41 All tenders relating to a contract will be opened at the same time automatically using the Council's preferred electronic procurement system. This system will formally record the date and time for audit purposes.
- 4.6.13.42 Once the tenders have been opened, they will be stored securely in the electronic portal.

### **Late Tenders**

- 4.6.13.43 Any tenders received after the deadline must be rejected unless there are exceptional circumstances in accordance with 4.6.13.40
- 4.6.13.44 If it is decided to accept a late tender, it must be treated in the same way as all other tenders. The full details of the decision to accept the late tender must be recorded.
- 4.6.13.45 If the late tender is rejected, a record should kept on file for two years with the other documents from the tender opening. The tender should be opened, under the same

conditions as the other tenders, merely to ascertain the return name and address. The tenderer should be informed in writing of the reasons for rejecting the tender, i.e. that it was received late and is therefore deemed to be non-compliant under the Council's Contract Procedure Rules.

### **Assessing Tenders**

- 4.6.13.46 Before assessing the tenders, the Responsible Officer needs to check that each part of them meets the requirements of the specification. The Responsible Officer also needs to make sure that there are no mistakes and that nothing is missing
- 4.6.13.47 If there are substantial omissions of data or documentation that make it impossible to assess the tender, this should be fully recorded and the tender rejected.
- 4.6.13.48 If the tenderer has omitted ancillary documents, made an obvious error in calculating figures, or has otherwise made an error in their tender they may be allowed to correct any minor non-compliance or mistakes or to provide any necessary clarification. However, where a tenderer fails to allow sufficient time for the punctual submission of his tender, then the tender submission will be rejected in accordance with 4.6.13.43 to 4.6.13.45.
- 4.6.13.49 A record of all mistakes must be kept and attached to the tender documents together with any corrections agreed with the tenderer.
- 4.6.13.50 The correct tenders can then be assessed in accordance with the assessment criteria that have previously been agreed in accordance with these formal tendering procedures.
- 4.6.13.51 The assessment criteria used for the tender evaluation must be the same in all respects as the criteria advised to prospective suppliers at the beginning of the process.
- 4.6.13.52 Assessment details are strictly confidential and must not be passed on to anyone else. During the course of the assessment, tender documentation must be kept secure and confidentiality preserved. If, in a major tendering exercise, the documentation is going to be copied or divided to aid the assessment process, a record should be maintained to identify those to whom such documents have been issued and the date returned.
- 4.6.13.53 The Responsible Officer shall retain a complete set of documents in a secure place in case any parts of the documentation go missing.
- 4.6.13.54 Once the assessment has been completed the Responsible Officer should produce a report showing:
- a the result of the assessment of each tender
  - b a comparison of assessment results
  - c the recommendation on which tenderer should be offered the contract.

In addition, for procurements in excess of the OJEU threshold, a report should be produced in accordance with regulation 84 of the Public Contract Regulations 2015. The Responsible Officer should seek further advice from the Commercial Services Team with regard to preparing such reports.

## Accepting and Rejecting Tenders

4.6.13.55 The Procurement Officer should accept the tender that the most economically advantageous tender in accordance with 4.6.13.33. i.e.:

- a it is the lowest priced tender ; or
- b it is the most cost effective tender

Where this is not the lowest tender, the Responsible Officer should explain in writing, giving objective reasons why that tender is preferred, and seek approval from the Head of Commercial Services to proceed to appoint. A note should be placed on file to show that the Head of Commercial Services has reviewed the evaluation process and agreed with the outcome.

4.6.13.56 The Responsible Officer should always consider whether their recommendation for awarding the contract should be put before a Cabinet Member, the Cabinet or Council for formal approval **before** contacting the successful tenderer. The Functions Scheme (Part 3) sets out the Council's procedures for making decisions. If in doubt, seek advice and approval from the Commercial Services Team and the Head of Commercial Services. Tenderers should be told at the outset if Cabinet or Council approval will be needed.

4.6.13.57 The officer should write to inform the successful tenderers of the decision as soon as possible **after all necessary approvals have been received**.

4.6.13.58 Care should be taken when issuing letters informing the tenderer that they have been successful as an unqualified acceptance of the tender may create a binding contract before the formal documentation has been completed and signed by the appropriate authorised signatories. In the case of an EU-compliant process the contract cannot be formally awarded until the losing bidders have been informed and the mandatory standstill period has elapsed without any challenges arising from the bidders.

4.6.13.59 Unsuccessful tenderers should be informed of the outcome of the tendering process at the same time that the successful tenderer is notified. All bidders should be provided with a comprehensive briefing on the results of the tender. With the increasing tendency for losing bidders or third parties to ask for such information under the Freedom of Information Act, it is essential that full details are recorded and can be supplied easily for all tender exercises, both above and below the EU thresholds.

### Negotiating

4.6.13.60 The Responsible Officer must comply with the following conditions when negotiating on price with tenderers:

- a guidance must be sought from the Commercial Services Team who will consult with the Head of Commercial Services as necessary before advising on the appropriate course of action
- b the Responsible Officer must be accompanied by another officer during negotiations with tenderers and a full written record of all discussions should be made and signed by both officers. The results of the negotiation process must be shared with the Commercial Services Team
- c all negotiations must be carried out at the Council's offices
- d officers must not discuss one tenderer's detailed prices, conditions or terms with

another tenderer

- e officers must respect the confidentiality of information provided by tenderers
- f if negotiations lead to a material change in the description of the work, goods or services or other terms, the officer must invite everyone who has provided a tender to re-tender on the basis of the revised contract. If this is the case, the whole process should start again.

4.6.13.61 If there is an in-house tender for a contract, negotiations must not take place without permission from the Commercial Services Team as outlined in 4.6.13.60 a above.

#### **Awarding a Contract**

4.6.13.62 Before awarding any contract, the officer responsible shall produce a written report evaluating each tender received against the evaluation criteria. The report shall identify the tenderer who has submitted the highest score in the evaluation, and recommend the award of the contract to that tenderer. This report shall be submitted to the relevant director authorised to award the contract under paragraph 8 and the Specific Delegations listed in the Appendix 1 to Part 3 of the Council's Constitution (Chief Executive's Scheme of Delegation to Officers).

4.6.13.63 The Commercial Services Team will ensure that each contract is signed by an Authorised Signatory in accordance with the following thresholds:

- a officers as authorised by the Director up to £5,000
- b Managers who report to Heads of Service may authorise payments up to £100,000.
- c Heads of Service (as defined by Head of Service pay grades) may authorise payments up to £250,000.
- d Directors must authorise all payments in excess of £250,000 (excluding VAT).
- e All amounts exclude VAT.

If the value of the contract exceeds £250,000 then approval needs to be sought from the Chief Finance Officer.

Works contracts in excess of the European procurement limit for supplies and services (currently £173,000) must be executed under seal in accordance with 4.6.17.1.

4.6.13.64 Officers are responsible for seeking advice from Legal Services if they are not clear about the form of contract to be used or changes are needed to the standard form of contract used by the Council.

4.6.13.65 The Commercial Services Team is responsible for recording the details of all contracts over £10,000 in the Contracts Register.

4.6.13.66 Officers must keep a record of each contract, including all the quotes and letters they have received and notes of telephone calls and meetings about selecting suppliers. These records must be made available to internal or external audit as required by them.

4.6.13.67 In accordance with the Public Contract Regulations 2015 and the Late Payment of Commercial Debts Regulations 2013 and to maximise performance under the contract; the council will process all undisputed invoices within 30 days of receipt.



The same shall apply to contractors in respect of any subcontractor arrangements applied under the applicable council contract(s). All council contracts shall contain provisions to this effect.

#### **Publication of Contract Details**

- 4.6.13.68 Contract Management Representatives must ensure that all contracts comply with Herefordshire Council's Information Governance Policy.
- 4.6.13.69 Officers must not give tenderers or suppliers any information about the bids or affairs of any other tenderer or contractor unless the law requires it. All information relating to tendering and contracting procedures is confidential.
- 4.6.13.70 The only information officers should make public is the name of the successful tenderer. However, this information must not be released until the contract has been awarded and signed.
- 4.6.13.71 If information is published on the amounts of the other bids received, the names of the unsuccessful tenderers must not be disclosed. Officers should ensure that all tenderers are aware that this information will or may be published when they are invited to tender and that the Council will need to meet its obligations under the Freedom of Information Act.

#### **4.6.14 EUROPEAN PROCUREMENT RULES**

- 4.6.14.1 Whilst the European Procurement Rules prevail, officers are expected to follow the principles set out in the Council's Contract Procedure Rules.
- 4.6.14.2 The European Procurement Rules are complex with significant penalties if the legislative requirements are not strictly adhered to. All officers are therefore responsible for seeking advice and guidance at all stages of the process for the Commercial Services Team and the Head of Commercial Services.

#### **European Limits**

- 4.6.14.3 The following table sets out the public sector thresholds for 1<sup>st</sup> January 2014 to 31<sup>st</sup> December 2016:

	Supplies	Services	Works
Public Sector Contracting Authorities	£172,514	£172,514	£4,322,012
Indicative Notices	£625,050	£625,050	£4,322,012

For the latest information regarding the EU thresholds for procurement, please visit the EU Procurement website via the following link:

[http://ec.europa.eu/internal\\_market/publicprocurement/rules/current/index\\_en.htm](http://ec.europa.eu/internal_market/publicprocurement/rules/current/index_en.htm)

- 4.6.14.4 The figures are revised every two years on 1<sup>st</sup> January and officers should check with the Head of Commercial Services for the latest values.
- 4.6.14.5 If a contract for supplying goods or services will be worth more than the limits set out in the table above, the contract is likely to be governed by both EU Directives and English

Law. Note that the calculation of the value of the contract is to be as detailed in 4.6.14.7

4.6.14.6 The value limits apply to individual contracts and groups of contracts with similar characteristics. Contracts with similar characteristics have to be added together to see whether they have reached the value limits. This is to prevent organisations packaging contracts into small units to avoid the rules.

4.6.14.7 There are specific provisions relating to the calculation of contract values, based on the contract's duration:

If the contract is part of a series or is renewable, its value will be:

- (a) The total actual value of the successive contracts of the same type awarded during the preceding 12 months or financial year adjusted where possible to take into account changes in quantity or value which would occur in the course of the 12 months following the initial contract; or

The total estimated value over the next 12 months (or financial year where that is longer than) 12 months) from the date the goods, work or service is first provided.

In the case of contracts for services:

- (b) If the contract is for a fixed term of less than four years, the value will be the total value of the contract.
- (c) If the contract has no end date or is for a fixed term of more than four years, the value will be the monthly value of the contract multiplied by 48.
- (d) Special provisions apply in the case of contracts involving leasing, hire, rental, hire purchase, insurance services, banking and financial services and design contests. When procuring such services advice should be sought from the Commercial Services Team with regard to calculating value.

4.6.14.8 If more than one of the above applies, the method that gives the highest value must be used. Again this is to prevent organisations by-passing the rules by choosing a calculation that puts a group of contracts below the value limit.

4.6.14.9 Once the value of each contract has been calculated, it must be added to the value of other contracts with similar characteristics. If the value of a contract or a group of contracts with similar characteristics is greater than the value limit, European procurement rules must be followed. To ensure that the aggregation rules are properly applied Contract managing representatives should liaise with the Commercial Services Team for all contracts in excess of £50,000.

4.6.14.10 Before commencing a European procurement process, officers must discuss the next steps with the Commercial Services Team and the Solicitor to the Council.

#### **Awarding Contracts Subject to the European Procurement Rules**

4.6.14.11 Contact the Commercial Services Team or your external procurement consultants for advice before issuing an award notification, or if an unsuccessful tenderer challenges the award of the contract at any time during the standstill period or at any time during the process.

4.6.14.12 To ensure compliance with European procurement rules there must be a minimum standstill period of 10 calendar days between advising all tenderers of the award decision and the actual award of the contract (to end on midnight of the 10<sup>th</sup> after the date the notification was sent).

4.6.14.13 The purpose of the standstill period is to allow any unsuccessful tenderers the opportunity to challenge any award decision. Where a legal challenge is made within the 10 day standstill period, the contract cannot be awarded until the outcome of the application to the court is known. It is imperative that no correspondence amounting to an acceptance letter is issued during this period.

4.6.14.14 The written notification to the unsuccessful tenderers which triggers the standstill period must contain:

- The award criteria
- The tenderer's score (where appropriate)
- The winning tenderer's score (where appropriate)
- The reasons for the decision, including a comparative summary of the characteristics and relative advantages of their bid and the winning bid.

4.6.14.15 The European procurement rules require tender results to be published in the Official Journal within 30 days of the date a contract is awarded. This must be done in consultation with the Head of Commercial Services.

4.6.14.16 The Commercial Services Team and the Solicitor to the Council must be consulted on all EU procurements to ensure that the correct procedure is followed.

#### **4.6.15 FRAMEWORK CONTRACTING**

4.6.15.1 Framework contracting involves selecting a contractor from a list of contractors on an approved "Framework" for given works, goods or services. The contractors are included on the Framework following a tendering exercise to establish capability, quality and value. The tendering procedures will have had to comply with any relevant English or European law.

4.6.15.2 Purchasers can enter into subsequent 'call-off' contracts from a Framework. Framework contracting is becoming increasingly prevalent in an attempt to avoid bureaucracy and achieve best values via economies of scale.

4.6.15.3 Frameworks can be externally formed (for example, by Government) or internally formed (for example, by the Council). The number of approved contractors on a Framework can vary but the minimum number should be three

4.6.15.4 When an external Framework is formed general terms and conditions are agreed between the Framework contractors and the Framework organiser. These pre-agreed terms and conditions will form a major part of any purchaser's 'call-off' contract and contractors are not obliged to agree to any amendments to them.

4.6.15.5 From 26<sup>th</sup> February 2014, **EU Procurement Directive 2014/24/EC** has determined that Framework Agreements can be established for a maximum of 4 years (unless special justification can be made for a longer period), and this is reiterated in the present UK enactment of the European procurement rules. Any subsequent call-offs

under the framework may be for a duration longer than four years provided this is justified by the nature of the call off contract e.g. such factors as the time needed for contract performance, where maintenance of equipment with an expected useful life of more than four years is necessary or where extensive training of staff to perform the contract is needed.

4.6.15.6 Officers must take the following steps to ensure compliance with the EU procurement rules when using a Framework contract;

- a) all the contractors on a Framework that are capable of meeting the purchaser's specification must be allowed to submit a bid against that specification.
- b) the reasons for selecting a smaller number of contractors on a Framework must be clearly evidenced and should indicate why the excluded contractors were not capable of meeting the Council's requirements.
- c) award of contract must be on the basis of the criteria for the Framework as set out in the Framework agreement itself, that is, within the original tender documentation setting up the Framework.

4.6.15.7 The Commercial Services Team and the Solicitor to the Council must be consulted on all Framework contract procurements.

#### **4.6.16 OTHER PROCUREMENT PROCEDURES**

4.6.16.1 There are a number of other procurement procedures that may be available in particular circumstances:

- a) design contests, particularly in the fields of planning, architecture, civil engineering and information technology.
- b) public housing schemes where the size and complexity of schemes necessitate the close collaboration between the Council and contractors.
- c) concession contracts where contractors derive income from the completed work, for example a toll bridge.

4.6.16.2 The Commercial Services Team and the Solicitor to the Council must be consulted regarding any proposals to follow any such procedures.

#### **4.6.17 CONTRACTS UNDER SEAL**

4.6.17.1 All contracts for building, engineering, property repairs and property maintenance works excluded from the Council contract with Integral, with an estimated value in excess of the European procurement limit for supplies and services (currently £173,000), shall be sent to Legal Services for execution under the Council's seal.

#### **4.6.18 EXEMPTIONS FROM THE COUNCIL'S CONTRACT PROCEDURE RULES**

4.6.18.1 Exemptions from the Council's Contract Procedure Rules are only allowed in exceptional circumstances such as there being insufficient suppliers for the goods, works or services being procured. Permission must be obtained for any exemption from the Head of Commercial Services **and** the Solicitor to the Council. Major contracts may be subject to the European Procurement Rules and the Solicitor to the Council cannot provide an exemption from those requirements.

- 4.6.18.2 A written application for an exemption from the Council's Contract Procedure Rules must be made to the Solicitor to the Council setting out the reasons for the application. The Solicitor to the Council must respond within 21 days. If agreed by the Solicitor to the Council, the exemption must be approved in accordance with the Council's Constitution.
- 4.6.18.3 The normal procedure for the completion of Exemption Forms is for the Responsible Officer to obtain the signature of their Director on the form to demonstrate their approval of the request, and then forward the form to the senior Procurement Manager for their approval. If the Head of Commercial Services is satisfied they will forward to the Solicitor to the Council or their deputy for final approval and signature. Legal Services will retain a register of all approved extensions.
- 4.6.18.4 Tenders need not be invited in accordance with the provisions of the Council's Contract Procedure Rules if an urgent decision is required, for example for the protection of life or property or to maintain the functioning of a public service. Wherever possible though, at least two quotations must be obtained and any decision made or contract awarded shall be reported to the relevant Director, Cabinet Members and Local Members. Such emergency contracts should be let for as short a period as possible to allow their replacement with a contract that is fully compliant with the Contract Procedure Rules at the earliest practical opportunity.

DRAFT

**Glossary of Terms**

Authorised Signatory	This would usually be the budget holder in any given department.
Commercial Services Team	The Council's team which specialises in dealing with the tendering process.
Solicitor to the Council	The head of the Legal Services Team.
Head of Commercial Services	The head of the Commercial Services Team.
Contract Management Representative	The person who is responsible for looking after contracts in a given department.
MEAT Criteria	The principles by which tenders are judged by; namely, the Most Economically Advantageous Tender.
Responsible Officer	The person who is responsible for a particular procurement.



<b>Meeting:</b>	<b>Audit &amp; Governance Committee</b>
<b>Meeting date:</b>	<b>19 March 2015</b>
<b>Title of report:</b>	<b>Budget monitoring report – December 2014</b>
<b>Report by:</b>	<b>Chief financial officer</b>

## Classification

Open

## Key Decision

This is not a key decision.

## Wards Affected

County-wide

## Purpose

To provide Audit & Governance with an updated position on the projected outturn for 2014/15.

## Recommendation(s)

THAT:

- (a) Audit & Governance notes the council is projected to spend within its budget for this financial year;
- (b) Audit & Governance notes the capital and treasury projected outturns; and
- (c) Audit & Governance notes the performance to achieve 2014-15 savings plans;

## Alternative options

- 1 There are no alternative options.

## Reasons for recommendations

- 2 The forecast outturn for the year, based on spend to the end of December 2014, is break-even position.

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Further information on the subject of this report is available from  
Peter Robinson, chief financial officer on Tel (01432) 383519

## Key considerations

### Revenue outturn

- 3 This report sets out the forecast outturn position based on information as at the end of December 2014. Monitoring indicates a marginal improvement to the October position reported to Cabinet 18 December 2014, £658k under-spend. Directorate pressures in Adults have improved by £361k since October, the ECC underspend has reduced by £163k.

Directorate	Budget Exp.	Budget (income)	Net budget	December Forecast Outturn	Projected Over/ (under) Spend
	£000	£000	£000	£000	£000
Adults and Wellbeing	78,828	(23,422)	55,406	56,019	613
Children's Wellbeing	43,529	(21,678)	21,864	22,362	498
Economy, Communities & Corporate	125,009	(71,498)	53,511	53,432	(79)
<b>Directorate total</b>	<b>247,366</b>	<b>(116,598)</b>	<b>130,781</b>	<b>131,813</b>	<b>1,032</b>
Treasury management	16,060	(180)	15,880	15,190	(690)
Other budgets and reserves	6,514	(7,027)	(513)	(1,513)	(1,000)
<b>Total</b>	<b>269,940</b>	<b>(123,805)</b>	<b>146,148</b>	<b>145,490</b>	<b>(658)</b>

### Adults and wellbeing

- 4 The latest forecast predicts an overspend of £613k at the year-end. This compares to a forecast overspend of £974k that was previously reported to Cabinet.
- 5 The forecast overspend within adult social care client groups has stabilised despite a significant increase in demand, particularly for nursing care, due to pressures in the hospital system. This has been achieved by proactive management of placements and financial challenge of all new placements as well as high cost existing packages.
- 6 The client forecast assumes that any further demand pressures will be managed and that new services such as re-ablement and tele-care, fully operational from November, are beginning to have an impact on growth in demand. This continues to be monitored within the operational teams, by AWB panel and by senior management.

### Children's wellbeing

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Further information on the subject of this report is available from Peter Robinson, chief financial officer on Tel (01432) 383519



- 7 The current projected overspend is £498k, a marginal increase from October.
- 8 The cost of agency staff continues to put pressure on the safeguarding budget. The new regional rates are now in place for new agency recruitment, monitoring has started to demonstrate the outcomes of this initiative. Savings arising from the successful recruitment of three permanent social workers and the next cohort of newly qualified social workers will begin to be seen in the last month of the year and in 2015-16. Work is on-going to recruit experienced social workers both from the UK and the EU.
- 9 The number of agency staff increased in month for children with disabilities, this reflects an accelerated programme to deal with a back log and address the service design, which was planned for 2015-16. This has been mitigated by bringing forward funds from reserves. There has been an increase in the numbers of claims for the 16 plus care leavers grant, due to the rise in the number of young people presenting as homeless. The impact of this on future financial years is being modelled and there is a project within the transformation programme to redesign our model of care.

### **Economy, communities and corporate**

- 10 The projected underspend for December has reduced to £79k, a change since the October position of £163k.
- 11 Planning income of £347k from two major developments expected in 2014/15 will now be received in 2015/16. This has been partly mitigated by reductions in staff and other commitments of circa £184k.
- 12 There are risks on property maintenance budgets which will be managed within the overall directorate budget.

### **Treasury management**

- 13 The treasury management budget is forecast to underspend by £690k this year as a result of deferring the take up of longer term prudential borrowing and obtaining short term loans at a lower interest rate. The budget includes provision for taking £10m in longer term loans, £5m has been taken at an interest rate of 2.7% during this period, further detail is provided in appendix C.

### **Other budgets and reserves**

- 14 Earmarked reserves and contingency budgets were set aside for in year pressures. The £2m change management budget is forecast to underspend by £1m due to less than forecast redundancy costs falling due in year. The revenue contingency budget of £700k was allocated for additional grass cutting, Colwall school temporary accommodation and Adults transitions in the October Cabinet report.
- 15 General reserves are estimated to increase to £8.6m at year end, £4.2m above the minimum balance equivalent to 3% of the net budget requirement (£4.4m). This gives more resilience going into the new financial year where significant budget reductions are planned. A summary of estimated year-end reserves is set out below:

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Further information on the subject of this report is available from  
Peter Robinson, chief financial officer on Tel (01432) 383519

	31 Mar 2014	Transfer in(out) 2014/15	Estimate 31 Mar 2015
	£000	£000	£000
General reserve	5,053	3,580	8,633
<b>Earmarked</b>			
School balances	6,345	(845)	5,500
Waste Disposal	2,407	(550)	1,857
Risk Mitigation	3,500	(800)	2,700
Business Rate Smoothing	1,000	-	1,000
Other smaller reserves < £1m	4,909	(2,139)	2,770
Severe weather grant	2,120	(2,120)	0
Other unused Grants cfwd	3,662	(1,703)	1,959
<b>Total Reserves</b>	<b>28,996</b>	<b>(4,151)</b>	<b>24,419</b>

### Capital

- 16 It is forecast that capital spending will be £6m higher than originally budgeted, £91m for 2014/15, due to additional grant funding post budget setting.
- 17 The slippage since the last report is in relation to the re-profiling of budgeted spend into 2015/16, further detail is provided in appendix B.

### Community impact

- 18 None

### Equality duty

- 19 The recommendations do not have any equality implications.

### Financial implications

- 20 These are contained within the report.

### Legal implications

- 21 The chief financial officer has statutory duty (Local Government Finance Act 1988) to report if the expenditure and/or proposed expenditure of the council in a financial year

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Further information on the subject of this report is available from  
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is likely to exceed resources (including borrowing) available to meet that expenditure. When preparing the report the chief financial officer is under a duty to consult with the monitoring officer (LGHA 1989). After circulation of the report full council must decide if agrees or disagrees with the views contained in the report and decide if any actions are to be taken based on it.

## **Risk management**

- 22 Monthly reporting gives the Chief Finance Officer assurance on the robustness of budget control and monitoring, highlighting key risks and identifying any mitigation to reduce the impact of pressures on the council's overall position.

## **Consultees**

None

## **Appendices**

Appendix A - Revenue forecast

Appendix B - Capital Forecast

Appendix C - Treasury Forecast

Appendix D - Performance of Savings Plans 2014/15

## **Background papers**

- None identified.



## Appendix A

Directorate Net Budget	Net Budget December £000	December Variance £000 Over / (Under)/spend	October Variance £000 Over / (Under)/spend	Change to forecast £000 Adv / (Fav)	Explanation
Adults and Wellbeing	55,406	613	974	(361)	Proactive management of placements and financial challenge of all new placements
Children's Wellbeing	21,864	498	472	26	
Economy, Communities & Corporate	53,511	(79)	(242)	163	Planning income of £347k from two major developments will now be received in 2015/16. Reductions in staff and other commitments £184k.
<b>DIRECTORATES TOTAL</b>	<b>130,781</b>	<b>1,032</b>	<b>1,204</b>	<b>(172)</b>	
Treasury Management	15,880	(690)	(630)	(60)	
Other budgets and reserves	(513)	(1,000)	(1,000)	0	
<b>TOTAL</b>	<b>146,148</b>	<b>(658)</b>	<b>(426)</b>	<b>(232)</b>	

	£000
<b>Movement in respect of budget changes is comprise as follows:</b>	
<b>ADULTS &amp; WELLBEING</b>	
No budget amendments for Adults.	
<b>CHILDRENS WELLBEING</b>	
Movement from reserves for Colwall	200
<b>ECONOMY, COMMUNITIES &amp; CORPORATE</b>	
No budget amendments for ECC.	
<b><u>Allocation form Revenue Contingency budget</u></b>	<b><u>200</u></b>
<b><u>TOTAL</u></b>	<b><u>0</u></b>

## Adults & Wellbeing

Service	Annual Budget			December Forecast Outturn £000's	December Projected Over/ (Under) spend £000's	October Projected Over/ (Under) spend £000's	Change to forecast Adv/ (Fav) £000's	Main reasons for change since October
	Budget Expenditure £000's	Budget (Income) £000's	Net Budget £000's					
Learning Disabilities	16,977	(1,692)	15,285	16,161	876	819	57	Net increase in the number of packages.
Memory and Cognition	6,332	(1,272)	5,060	5,101	41	126	(85)	Reduction in the number of packages and increase in income from joint funding.
Mental Health	3,152	(741)	2,411	3,063	653	675	(22)	
Physical Support	25,456	(4,953)	20,503	20,960	458	466	(8)	
Sensory Support	578	(107)	471	715	245	266	(21)	
<b>Client Sub-Total</b>	<b>52,494</b>	<b>(8,766)</b>	<b>43,729</b>	<b>46,001</b>	<b>2,273</b>	<b>2,352</b>	<b>(79)</b>	
Operations	8,122	(1,424)	6,697	5,890	(808)	(826)	18	
Commissioning	8,093	(1,171)	6,922	6,544	(379)	(303)	(76)	Additional health outcomes contribution from PH partially offset by shortfall in expected Day Opps income
Directorate Management	285	(4,036)	(3,751)	(3,354)	397	529	(132)	Reduction in forecast spend on winter pressures.
Public Health	8,109	(7,989)	120	120	(0)	0	(0)	
Transformation and Safeguarding	1,688	0	1,688	1,400	(288)	(200)	(88)	Reduction in forecast committed spend.
Use of one off reserves/grants	0	0	0	(581)	(581)	(581)	0	
<b>Non Client Sub-Total</b>	<b>26,297</b>	<b>(14,620)</b>	<b>11,677</b>	<b>10,018</b>	<b>(1,659)</b>	<b>(1,378)</b>	<b>(281)</b>	
<b>Adult's Wellbeing</b>	<b>78,791</b>	<b>(23,386)</b>	<b>55,406</b>	<b>56,019</b>	<b>613</b>	<b>974</b>	<b>(361)</b>	

## Children's Wellbeing

Service	Annual Budget			December Forecast Outturn £000's	December Projected Over/ (Under) spend £000's	October Projected Over/ (Under) spend £000's	Change to Forecast (Favourable)/ Adverse £000's	Main reasons for change since October
	Budget Expenditure £000's	Budget (Income) £000's	Net Budget £000's					
Directorate Costs	7,408	8,266	(858)	(1,433)	(576)	(695)	119	Savings plans have been re-aligned to the correct service areas
<b>Directorate Costs</b>	<b>7,408</b>	<b>8,266</b>	<b>(858)</b>	<b>(1,433)</b>	<b>(576)</b>	<b>(695)</b>	<b>119</b>	
Additional Needs - less DSG	6,704	4,350	2,353	2,241	(112)	(112)	0	
Children's Commissioning	1,251	36	1,215	1,180	(35)	(4)	(31)	Provision for Children centre review now not required
Commissioning Management	591	83	508	508	(0)	(0)	0	
Development and Sufficiency-less DSG	9,134	7,661	1,473	1,508	34	35	(1)	
Education Improvement - less DSG	608	451	156	167	11	11	0	
<b>Education &amp; Commissioning</b>	<b>18,288</b>	<b>12,581</b>	<b>5,706</b>	<b>5,605</b>	<b>(102)</b>	<b>(70)</b>	<b>(31)</b>	
Safeguarding & Review	696	81	615	659	44	47	(3)	Appointment of perm staff has meant a reduction in agency costs
Early Help & Family Support	2,384	477	1,906	1,752	(154)	(164)	10	The Hope Centre contract has not been reduced as planned however additional savings have been identified that mitigated 80% of the pressure
Fieldwork	3,092	5	3,087	3,688	601	560	41	Additional agency costs within the review of backlog to the need to bring forward the review of backlog of cases
Looked After Children	7,182	237	6,945	7,359	414	345	69	Increase in the costs of 16+ due to forecast being understated
LAC External placements	2,816	30	2,786	3,129	342	248	94	7 new placements which have been built in until the end of the financial year
Safeguarding Development	797	0	797	641	(156)	7	(163)	Decision to introduce optional retention payments for 2015/16 and not 2014/15
Management	879	0	879	962	84	194	(110)	The cost of the medicare contract to review the backlog of cases was not as expected.
<b>Safeguarding &amp; Family Support</b>	<b>17,846</b>	<b>831</b>	<b>17,015</b>	<b>18,190</b>	<b>1,175</b>	<b>1,237</b>	<b>(62)</b>	
<b>Children's Wellbeing</b>	<b>43,542</b>	<b>21,678</b>	<b>21,864</b>	<b>22,362</b>	<b>498</b>	<b>472</b>	<b>26</b>	



## Economy, Communities and Corporate

Service	Annual Budget			December Forecast Outturn £000's	December Projected Over/ (Under) spend £000's	October Projected Over/ (Under) spend £000's	Change to forecast Adv/(Fav) £000's	Main reasons for change since November
	Budget Expenditure £000's	Budget (Income) £000's	Net Budget £000's					
Economic, Environment and Culture	9,835	(8,896)	939	336	(603)	(955)	352	Planning income of £347k from two major developments will now be received in 15/16
Placed Based Commissioning	41,988	(4,024)	37,964	38,208	244	314	(70)	Use of redundancy provision of £50k within Public Realm contract.
Finance & ICT	56,702	(52,708)	3,994	3,896	(98)	74	(172)	Reduction in commitments of staff now transferred to DWP £116k, corporate management £30k and on-going Agresso costs £15k
Community and Customer Services	3,678	(659)	3,019	3,221	202	221	(19)	One-off grant funding used to support pay costs.
Governance	4,487	(826)	3,661	3,577	(84)	(101)	17	Reduction in land charges income due to fall in house moves.
Directorate Support	457	(36)	421	385	(36)	(45)	9	
Property Services	6,816	(4,267)	2,549	2,845	296	250	46	Planned maintenance for Halo Leisure centres to support new investment programme of £85k offset by reductions in business rates due to empty property exemption.
<b>Economic, Communities and Corporate</b>	<b>123,963</b>	<b>(71,416)</b>	<b>52,547</b>	<b>52,468</b>	<b>(79)</b>	<b>(242)</b>	<b>163</b>	
Public Relations Office	624	(80)	544	544	0	0	0	
Chief Executive	420	0	420	420	0	0	0	
<b>Chief Executive</b>	<b>1,044</b>	<b>(80)</b>	<b>964</b>	<b>964</b>	<b>0</b>	<b>0</b>	<b>0</b>	
<b>Total ECC and Chief Executive</b>	<b>125,007</b>	<b>(71,496)</b>	<b>53,511</b>	<b>53,432</b>	<b>(79)</b>	<b>(242)</b>	<b>163</b>	



## 2014/15 Capital Forecast Outturn

The revised capital outturn forecast for 2014/15 totals £91.05 million, as summarised below.

**Table A –Summary forecast and sources of funding 2014/15**

	Budget £'000	May Forecast £'000	August Forecast £'000	October Forecast £'000	December Forecast £'000
<b>Directorate Forecast</b>					
Adults Wellbeing	483	3,291	3,291	3,291	1,798
Children's Wellbeing	9,048	8,184	9,319	9,163	8,777
Economy, Communities & Corporate	75,501	72,239	81,469	82,465	80,379
Contingency	319	695	95	95	95
<b>Total</b>	<b>85,351</b>	<b>84,409</b>	<b>94,174</b>	<b>95,014</b>	<b>91,049</b>
<b>Funding</b>					
Capital Grants	24,905	30,049	34,848	34,954	34,221
Prudential Borrowing	57,237	49,457	53,123	53,662	47,499
Capital Receipts	3,209	4,903	4,903	5,098	8,029
Revenue (from Waste Reserve)	-	-	1,300	1,300	1,300
<b>Total</b>	<b>85,351</b>	<b>84,409</b>	<b>94,174</b>	<b>95,014</b>	<b>91,049</b>

Significant changes since the October report:

- Reduction in the forecast total for housing grants being made by Adults Wellbeing with unspent grant funding being carried forward to 2015/16.
- Forecast spend on LED street lighting and solar panels has fallen from £4.5m to £1.9m with a corresponding increase in projected spending for 2015/16.

**Table B - Schemes with a forecast exceeding £500k in 2014/15**

<b>Scheme</b>	<b>Total Scheme Budget £'000</b>	<b>Budget for 2014/15 £'000</b>	<b>December Forecast £'000</b>	<b>Comments</b>
<b>Children's Wellbeing</b>				
Leominster Primary School	10,617	5,729	5,300	New school has opened
Condition property works	-	-	1,462	Annual programme of works at various school sites committed on a highest need first basis, grant funding confirmed post MTFMS
Westfield's SEN school	184	184	675	Grant funded extension work
Disabled Facilities Grants	-	462	930	Individual grants awarded through an application process, enabling independent living. Grant funding confirmed post MTFMS
Colwall School	-	-	900	Budget vired from Condition Property Works (£300k) and Contingency (£600k)
Corporate accommodation	19,530	6,911	7,994	Works nearing completion at Plough Lane and continuing on the new heritage, archive and record centre and Civic hub.
Leisure Centre Improvements	8,670	2,000	5,300	Works at Leominster, Ross and Hereford leisure sites. Work progressing more rapidly and budget re-profiled.
Local Transport Plan	10,645	10,645	10,645	Annual programme of capital works to highways, footways and bridges. Additional grant funding received since initial budget was set.
Fastershire Broadband	20,200	7,600	10,093	Investment in broadband infrastructure includes re-profiled budget (grant funded)
Yazor Flood Alleviation	4,876	450	960	Continued improvement works.
Hereford Enterprise Zone	3,434	1,967	2,203	Utilities, access and Skylon Court works underway to enable plot sales and unit rentals
Link Road	27,000	10,708	6,500	Acquisition costs and start of construction works
Destination Hereford	3,261	1,054	1,044	Grant funded cycle improvement schemes
LED Street Lighting	5,655	5,655	1,501	Phased installation of LED street lighting
Solar Panel Installations	2,134	1,841	400	Photovoltaic instalment at various locations
Masters House, Ledbury	4,025	606	1,145	Continuing refurbishment works (re-profiled spend - scheme remains within total budget)

Road investment	20,000	15,000	15,000	Investment into the highway infrastructure
Pothole Funding	-	-	2,572	Additional grant funding received
Weather Repair Fund	-	-	1,299	Additional road grant funding received
EnviRecover	40,000	11,000	10,700	Energy from Waste plant construction
Wheeled Bins	-	-	1,300	Purchase of Wheeled Bins funded by transfer from Waste Reserve to be repaid by contract cost savings
<b>Sub Total</b>	<b>180,231</b>	<b>81,812</b>	<b>87,923</b>	
<b>Schemes with a forecast &lt;£500k in 2014/15</b>	<b>6,002</b>	<b>3,539</b>	<b>3,126</b>	
<b>Total</b>	<b>186,233</b>	<b>85,351</b>	<b>91,049</b>	



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

**1. The UK Economy**

- 1.1. Little change in the UK economic climate and statistics since previously reported:
- The third estimate of GDP for the third quarter showed GDP growing by an unrevised 0.7%. The economy has now been growing by 0.7% to 0.9% for each of the last six quarters.
  - The year-on-year Consumer Price Index (CPI) was 0.5% in December 2014 (the lowest rate since May 2000), down from 1.0% in November.
  - The latest statistics released for the quarter to October 2014 show the UK labour continuing with employment gains, although the headline unemployment rate remains unchanged at 6.0% (the lowest since late 2008). Earnings growth accelerated again.
  - There has been no change in the Bank Base Rate.

**2. Outlook for Interest Rates**

2.1 The council's treasury advisers, Arlingclose, have issued the following forecast of the Bank Base Rate (forecast issued 10/12/14):

Bank Rate	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Upside risk				+0.25	+0.25	+0.50	+0.50	+0.50	+0.50	+0.50
Central case	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50
Downside risk			-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-1.00	-1.00

Their central forecast is the same as in the previous report except that Arlingclose have now removed any upside risk until December 2015.

**3. The Council's Investments**

3.1 At 31<sup>st</sup> December 2014 the council held the following investments:

Investment	Term	Maturity Date	Interest Rate	Amount invested	
				£m	£m
<u>Instant Access Money Market Funds:</u>					
Ignis	N/A	N/A	0.47%	4.93	
Federated	N/A	N/A	0.45%	5.00	
Insight	N/A	N/A	0.36%	4.79	
Deutsche	N/A	N/A	0.37%	0.45	15.17
<u>1 Month Notice Account</u>					
Close Bros	N/A	N/A	1.00%	5.00	5.00
<u>Fixed Term Deposits:</u>					
Nationwide	298 days	23/01/15	0.72%	2.00	
Barclays	365 days	19/02/15	0.85%	1.00	
Nationwide	279 days	25/03/15	0.79%	2.00	
Barclays	279 days	25/03/15	0.79%	1.00	
Lloyds	364 days	27/03/15	0.95%	1.00	
Barclays	364 days	27/03/15	0.86%	1.00	
Bank of Scotland	364 days	30/03/15	0.95%	2.00	
Barclays	364 days	30/03/15	0.86%	1.00	11.00

<b>Total</b>			<b>0.66%</b>		<b>31.17</b>
No new term deposits made in the last two months.					

- 3.2 The council's current eligible UK counterparties and their associated maximum maturity periods (as recommended by the council's treasury advisers, Arlingclose) are as follows:

Counterparty	Maximum maturity period from:		
	01/04/14	01/07/14	16/10/14
Close Brothers Ltd, Goldman Sachs International Bank, 15 of the stronger building societies	100 days	100 days	100 days
Santander UK	6 months	13 months	6 months
Bank of Scotland and Lloyds TSB	12 months	13 months	6 months
Nationwide	12 months	13 months	6 months
Barclays	12 months	13 months	100 days
HSBC and Standard Chartered Bank	12 months	13 months	6 months
Nat West and RBS	Overnight	Overnight	Overnight
No change in counterparties or maturity limits since 16/10/14.			

- 3.3 The only non-UK counterparty that the council is using is Handelsbanken which had a recommended maximum maturity limit of 13 months but this was revised down to 6 months from 16<sup>th</sup> October when Arlingclose recommended a general tightening of limits following new banking regulations and deteriorating global growth prospects, particularly in the Eurozone.

- 3.4 The council has earned interest on its investments as follows:

Month	Average amount invested		Average rate of interest earned		Amount of interest earned / Forecast £	Budget £	Actual Surplus / Forecast £
	Actual / Forecast £m	Budget £m	Actual / Forecast %	Budget %			
Apr-14	35.09	20	0.68	0.60%	19,442	10,000	9,442
May-14	40.21	40	0.63	0.60%	21,584	20,000	1,584
Jun-14	33.96	40	0.68	0.60%	19,151	20,000	-849
Jul-14	37.30	40	0.66	0.60%	20,896	20,000	896
Aug-14	38.29	40	0.63	0.60%	20,652	20,000	652
Sep-14	32.90	40	0.66	0.60%	17,970	20,000	-2,030
Oct-14	29.72	30	0.70	0.60%	17,726	15,000	2,726
Nov-14	30.00	30	0.67	0.60%	17,148	15,000	2,148
Dec-14	30.00	30	0.63	0.60%	16,796	15,000	1,796
					171,365	155,000	16,365
Jan-15	20.00	20	0.60	0.60%	10,000	10,000	-
Feb-15	20.00	20	0.60	0.60%	10,000	10,000	-
Mar-15	10.00	10	0.60	0.60%	5,070	5,070	-
<b>Budget and projected outturn</b>					<b>196,435</b>	<b>180,070</b>	<b>16,365</b>

- 3.5 Interest earned in the last two months has been around levels forecast in the previous report



and therefore there is no change in the projected outturn for the year which is expected to be a surplus of approximately £16,000.

- 3.6 In December the council took out a £5m loan from the Public Works Loan Board which resulted in investment balances being higher than anticipated. As a result the council cancelled the notice it had given to withdraw the £5m investment with Close Brothers. It is anticipated that these funds will not now be withdrawn until the end of March.

#### **4. The Council's Borrowing**

##### **Short-term borrowing**

- 4.1 The council is continuing its policy of mainly using short-term borrowing from other local authorities to fund its capital programme and for short-term liquidity needs. These short-term interest rates are significantly below levels available from other sources.
- 4.2 Historically the council has always borrowed for longer periods at fixed interest rates. Whilst achieving stability in the amount of its interest payments, the council currently has a large cost of carry when comparing its fixed interest debt to current (variable) investment rates.
- 4.3 It is considered good practice to have an element of variable rate borrowing that removes or reduces this cost of carry and, to the extent that the level of short-term debt does not exceed the level of the council's investments, when interest rates rise increased investment income provides a hedge against increased borrowing costs.
- 4.4 The council can only borrow up to its Capital Financing Requirement, which represents the need to borrow for capital spend, and cannot borrow beyond this to finance the revenue budget.
- 4.5 At the end of December 2014 short-term borrowing from other local authorities consisted of fifteen loans totalling £40 million with an average interest rate of 0.53% (including brokers commission of between 0.03% and 0.10%). Loan periods ranged from 30 days to one year and averaged 206 days.

##### **Long-term borrowing**

- 4.6 On 12<sup>th</sup> December 2014 the council borrowed £5m from the Public Works Loan Board (PWLB). The loan is repayable in equal instalments of £125,000 every six months until December 2034. The interest rate payable is 2.70%.
- 4.7 At the time the loan was taken out the rate was the lowest since May 2013.
- 4.8 The current capital financing budget position is summarised below:

<b>Summary of Borrowing Budget</b>	<b>Budget</b>	<b>Forecast</b>	<b>Savings</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Minimum Revenue Provision</b>	<b>10.19</b>	<b>9.93</b>	<b>0.26</b>
<b>Interest on existing longer-term PWLB and bank loans</b>	<b>5.52</b>	<b>5.52</b>	<b>-</b>

<b><u>Variable rate borrowing</u></b>			
<u>Budget</u> Borrowing required £68 million Rate 1.00%	<b>0.55</b>	<b>0.17</b>	<b>0.38</b>
<b><u>Fixed rate borrowing</u></b>			
<u>Budget</u> Provision for longer term-borrowing	<b>0.10</b>	<b>0.07</b>	<b>0.03</b>
<b>Less capitalised interest (see 4.11 below)</b>	<b>(0.30)</b>	<b>(0.30)</b>	<b>-</b>
<b>Forecast savings compared to budget</b>	<b>16.06</b>	<b>15.39</b>	<b>0.67</b>

4.10 The reduction in the Minimum Revenue Provision required for 2014/15 is due to slippage in the capital spending for 2013/14, as reported in June.

4.11 The council is able to capitalise interest costs relating to interest paid on borrowing used to fund large capital schemes that take substantial periods of time to get to the point at which the assets may be utilised. Such interest, incurred at the construction or installation phase, may be added to the cost of the associated asset. As can be seen from the table above, capitalised interest of £300,000 has been included in the 2014/15 budget for capital financing costs.

## **5. Summary of Outturn Position**

5.1 The current net treasury position, compared to budget, is estimated to be a surplus of £690,000.

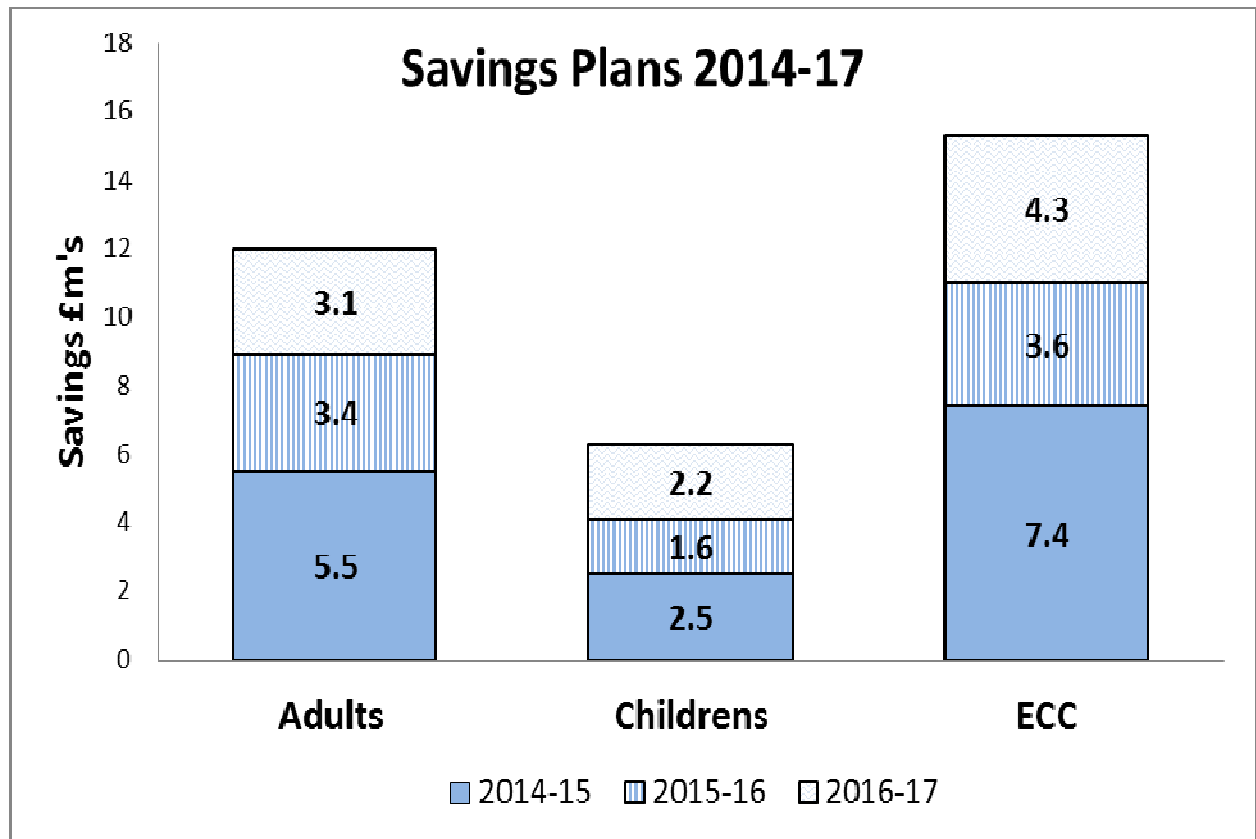
<b>Summary of Budget Over/(Under) Spend</b>	<b>£m</b>
Treasury Management investment income receivable	(0.02)
Interest payable on borrowing	(0.67)
<b>Total savings</b>	<b>(0.69)</b>

5.2 The savings will also be higher/lower if capitalised interest is more/less than £300,000.

**Savings Monitoring 2014-2017**

This report sets out performance against savings agreed by Council in February 2014. Savings plans are monitored on a monthly basis.

The savings targets for 2014-17 are £33.7m. The chart below shows the breakdown by directorate over the 3 years.



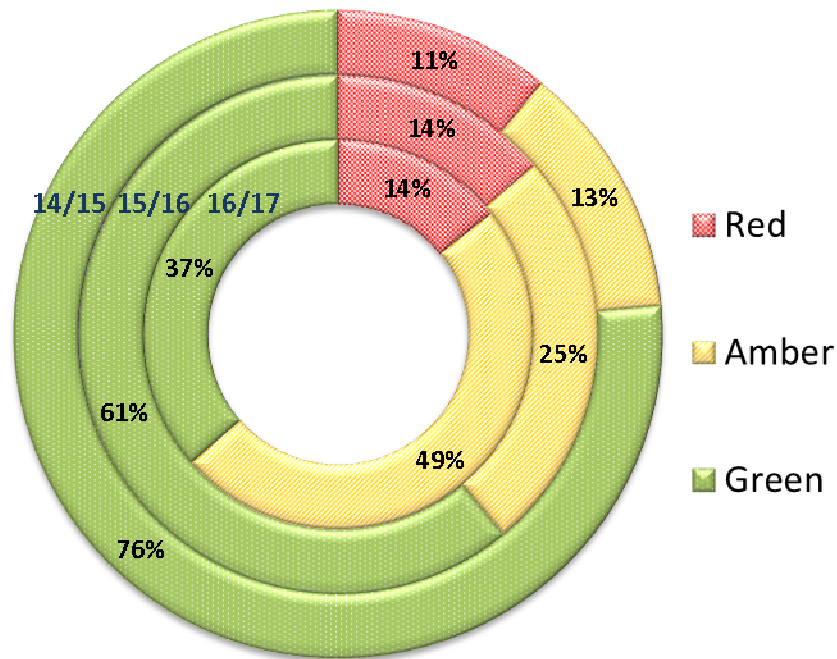
**Performance against the Savings Plans in 2014-15**

The performance against these targets has been RAG (Red, Amber, and Green). In 2014-15 76% of the £15.3m target will be achieved.

This table and diagram shows the performance for the Council in total.

	<b>Red</b>	<b>Amber</b>	<b>Green</b>	<b>Total</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
<b>2014-15</b>	1,656	1,951	11,695	15,302
<b>2015-16</b>	1,209	2,236	5,394	8,839
<b>2016-17</b>	1,382	4,754	3,515	9,651
	<b>4,247</b>	<b>8,941</b>	<b>20,604</b>	<b>33,792</b>

## Herefordshire Council Savings 2014-17



The details of the savings plans can be reviewed on the following link

[http://councillors.herefordshire.gov.uk/documents/s50016921/Appendix%205b\\_Equality%20Impact%20of%20Budget%20Proposals.pdf](http://councillors.herefordshire.gov.uk/documents/s50016921/Appendix%205b_Equality%20Impact%20of%20Budget%20Proposals.pdf)

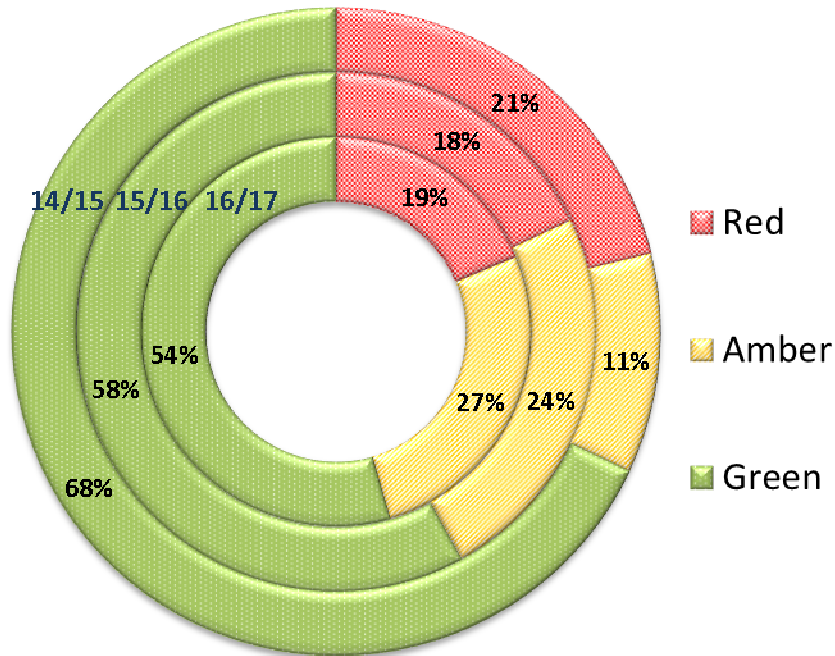
For each directorate the current savings plans have been rated, an explanation of red and amber targets.

### Adults & Wellbeing

The Savings target for 2014-15 was £5.5m. The latest forecast is that at least 68% of this will be delivered in this financial year but this is off set by savings plans for 15/16 bene brought forward. This compares with a forecast delivery of 44% reported in October.

	<b>Red</b>	<b>Amber</b>	<b>Green</b>	<b>Total</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
<b>2014-15</b>	1,160	600	3,730	5,490
<b>2015-16</b>	616	825	1,994	3,435
<b>2016-17</b>	588	845	1,713	3,146
	<b>2,364</b>	<b>2,270</b>	<b>7,437</b>	<b>12,071</b>

## Adult's Wellbeing Savings 2014-17



### 2014-15 Savings Plan

#### Red

- **Managing Demographic Pressures** – AWB has experienced a growth in demand for services during the current year at a faster rate than the overall national level. This has been particularly high in relation to nursing care due to the pressures within the hospital system. Whilst effective management of the service has kept pace with the increase in demand and has generally reduced unit costs, it has been impossible to deliver the expected saving in addition. Alternative savings plans identified for 2015/16 have been brought forward to partially offset the impact of this within the current financial year.

#### Amber

- **Resource Allocation System (FACE RAS)** – Initial testing of assessments under the new FACE RAS showed an expected reduction of approximately 10% in the value of assessed need. Due to having to focus significant social work capacity on hospital discharge, high numbers of safeguarding adults and deprivation of liberty assessments, capacity for annual reviews of existing clients has been compromised. Change of circumstance reviews have been prioritised where most cases being reviewed / reassessed have been due to a change in circumstance which has often resulted in a higher assessment of need. This has also led to only partial delivery of the expected saving. Additional resources have been sourced to expedite the reassessments

required and it is hoped that this will help to deliver the forecast savings in 2015/16

- **Removal of funding for non-eligible users** – the introduction of FACE RAS was expected to result in a number of service users no longer being eligible for services. The removal of non-eligible users is reliant upon re- assessments and there is currently a delay in delivery due to competing project priorities which have led to workforce capacity issues resulting in delays, those reassessments that have taken place indicate that a lower proportion of service users will prove to be non eligible than was originally expected.
- **Next stage integration** – these contracts have all been awarded but will require strong contract management in order to ensure that the expected level of savings are achieved. Partial savings will definitely be realised but the community equipment contract, in particular, is putting full benefits realisation at risk.

## 2015-16 & 2016-17 Savings Plans

### Red

- **Managing Demographic Pressures** – AWB has experienced a growth in demand for services during 2014/15 and demographic modelling shows that this trend is likely to continue into future years. Alternative savings plans have been proposed for 2015/16 as this saving is no longer considered to be deliverable.
- **FACE RAS** – Additional resources have been sourced to expedite the reassessments of service users whose needs have not changed significantly since the introduction of FACE RAS but who have not yet been reassessed. It is hoped that this together with a revised savings target for this project will make the savings outlined for future years achievable.
- **Removal of funding for non-eligible users** – the introduction of FACE RAS was expected to result in a number of service users no longer being eligible for services. The savings targets associated with this project have been reduced to a more realistic level as part of the 2015/16 budget setting process

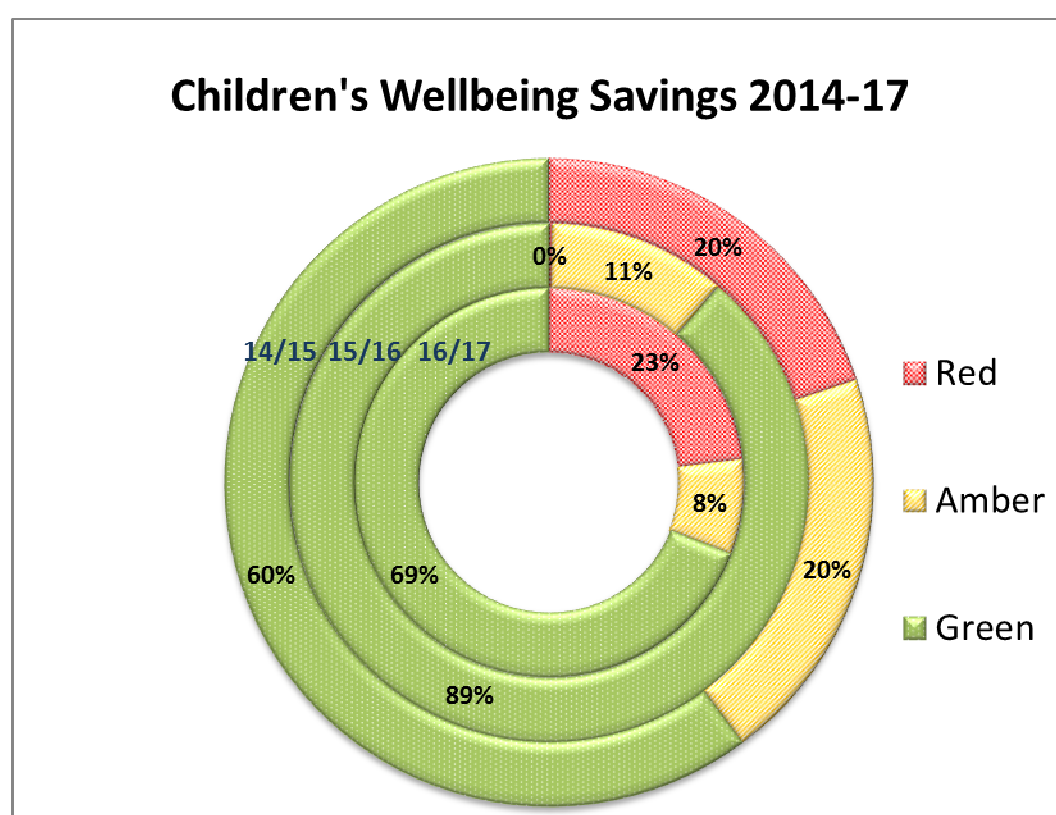
### Amber

- **Next stage integration** – strong contract management will need to continue in future years to ensure that the expected level of saving is achieved and maintained.
- **High cost care packages** – delivery of this saving target is now being managed and monitored through a regular weekly placement panel. As long as this remains in place and accepts robust challenge of all high cost / above RAS package proposals it is expected that this savings target will be deliverable.

## Children's Wellbeing

The savings target for 2014-15 is £2.5m, 60% has been delivered.

	Red £000s	Amber £000s	Green £000s	Total £000s
2014-15	496	499	1,505	2,500
2015-16	3	181	1,448	1,632
2016-17	516	176	1,544	2,236
	<b>1,015</b>	<b>856</b>	<b>4,497</b>	<b>6,368</b>



## 2014-15 Savings Plans

### Red

- Despite an increase of 12% of the number of children in care, placement costs for Looked after Children have been maintained in year. However, as a result of this increase, additional savings have not been achieved. The start of the Herefordshire Intensive Placement Support Service (HIPSS) will support delivering future savings.

- The NQSW programme has been successful, enabling the release of agency staff. There has also been successful recruitment of permanent social worker staff. The decision to reduce caseloads for social workers together with a growth in cases in the Children with Disabilities service has meant that the number of agency staff has not reduced as fast as originally planned. A five point approach is being taken to identify how to accelerate a reduction in cost whilst maintaining manageable case loads, low turnover and better quality.

#### **Amber**

- 70% of the Business Support savings have been achieved. A review of the service has identified the need for resource to deliver an efficient service.
- Management restructure savings have not been fully implemented, these will be delivered in 2015-16.

### **2015-16 & 2016-17 Savings Plans**

#### **Amber**

- The CHIPP Programme has reshaped the strategies to deliver the savings in 2015-16 and future years.
- Savings delivered through the Children in Need and Multi Agency Safeguarding Hub restructures relies on appointing permanent social workers rather than agency staff.
- The care strategy and adoption strategy both place reliance on finding carers who are able to provide places. Additionally identifying children suitable for the HIPSS approach will enable the savings to be delivered.

#### **Red**

- The savings plans for Social Impact bonds have not been scoped.

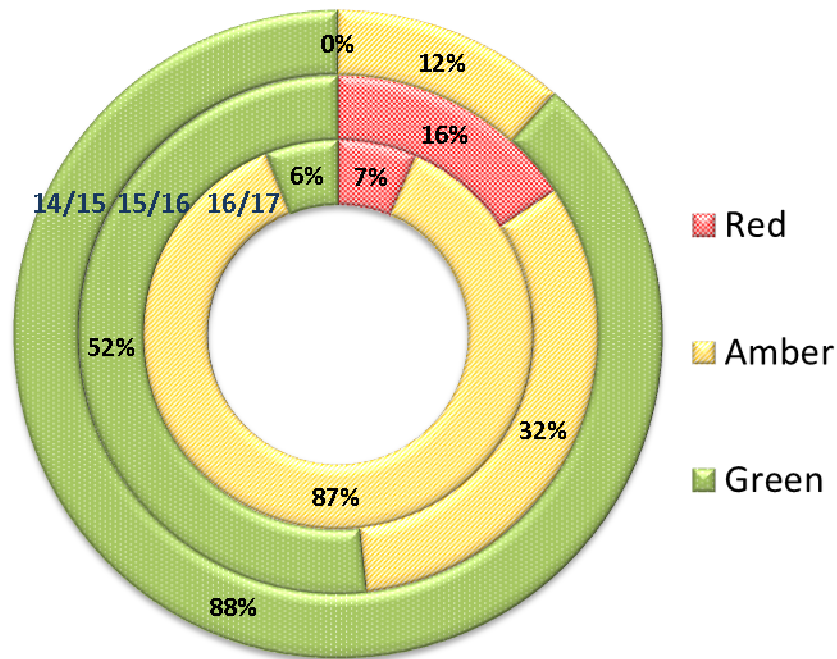
### **Economy, Communities & Corporate**

The Savings target for 2014-15 is £7.3m, 88% has been delivered.

	<b>Red</b>	<b>Amber</b>	<b>Green</b>	<b>Total</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
<b>2014-15</b>	-	852	6,460	7,312
<b>2015-16</b>	590	1,230	1,952	3,772
<b>2016-17</b>	278	3,733	258	4,269
	<b>868</b>	<b>5,815</b>	<b>8,670</b>	<b>15,353</b>



## ECC Savings 2014-17



### 2014-15 Savings Plans

There are no savings plans currently rated RED and only 12% rated AMBER

#### Amber

- There are currently pressures on the Public Realm contract budget in relation to grass cutting. Whilst this is being met from the corporate contingency budget and in year underspends, this will need to be mitigated in future years.
- There are currently pressures on maintenance budgets within Property Services which are being managed within Directorate budgets but put risk on fully delivering the savings plan.

### 2015-16 Savings Plans

#### Red

- This risk mainly relates to the saving due from the Council Tax reductions scheme and is subject to Council decision in December 2014.
- There is also risk around the achievement of Home to School transport saving based on increasing parent/carer contributions for discretionary riders. This has not yet been agreed.

#### Amber

- Whilst Car parking income levels have improved and are likely to contribute £300k towards the savings target for 15/16 of £600k, further increases to parking charges are not yet agreed. There is also risk on the on-street parking project.
- Whilst progress has been made on identifying a Community Interest Company to manage the Queenswood and Bodenham Lakes site, this has not yet been agreed.
- There is a plan to deliver £500k savings over two years within the Transportation team currently £150k is delivered against the £250k target for 2015/16. .

## **2016-17 Savings Plans**

### Red

- This risk mainly relates to the saving due from the Council Tax reductions scheme and is subject to Council decision in December 2015.

### Amber

- The risk in 2016/17 mainly relates to savings on borrowing cost as a result of achieving £60m capital receipts form sale of Council's smallholding and other surplus properties. This plan is currently being developed and is likely to lead to re-profiling of the saving over a longer period which has been included in the draft medium term budget plan.



<b>Meeting:</b>	<b>Audit and Governance Committee</b>
<b>Meeting date:</b>	<b>19 March 2015</b>
<b>Title of report:</b>	<b>Energy from Waste (EfW) loan update</b>
<b>Report by:</b>	<b>Head of corporate finance</b>

## Classification

Open

## Key Decision

This is not an executive decision.

## Wards Affected

Countywide

## Purpose

To brief the Audit and Governance Committee on the status of the Energy from Waste (EfW) loan arrangement commenced on execution of the waste PFI contract variation in May 2014, following approval to proceed with the variation by Cabinet in December 2013.

## Recommendation(s)

**THAT:**

- (a) **The Audit and Governance Committee note and monitor the current position in regards to the Energy from Waste (EfW) loan arrangement as required under the additions to the Committees terms of reference.**

## Alternative options

- 1 None, the loan arrangement was contractually agreed in May 2014, no breaches have taken place during this reporting period. This report provides an update on the arrangement to the Audit and Governance Committee in its role as the waste loan Governance Committee.

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Further information on the subject of this report is available from  
 Josie Rushgrove, Head of corporate finance on Tel (01432) 261867

## Reasons for recommendations

- 2 Following the establishment of a loan arrangement with Mercia Waste Management Limited (Mercia) regular updates will be reported to this Committee. This is the first of regular updates and will include:-
  - Progress updates from financial advisors (Deloitte) and lenders technical advisors (Fichtner Consulting Engineers).
  - The current risk register (Appendix A).

## Key considerations

### Background

- 3 Following the approval to provide financing of the construction of an Energy from Waste (EfW) plant this committee is to have oversight of the loan actions with Mercia Waste Management Ltd (Mercia). This committee is responsible for reviewing and recommending decisions that may be required in relation to the loan facility as advised by external financial and legal advisors on behalf of the council's statutory officers. Critical issues will be escalated to Council. The day to day management of the loan will be provided by agreement of the Section 151 Officers of both authorities.
- 4 Appendix B details the additions to the Committees terms of reference. No decisions or courses of action are being requested, this report is to update the Committee on the loan, the risk mitigation and granting of waivers actioned to date.

### Key Features

- 5 Both councils are funding the EfW plant through the use of Prudential Borrowing. Drawdowns of funding from Mercia will continue over a 33 month construction period, between 2014 and 2017, before loan repayments fall due. Repayments are forecast to commence when construction completes in February 2017.
- 6 The total loan facility is for £163.5m, with Hereford providing 24.2% of the loan value, £40m. The loan facility is split between two tranches being an interest only loan facility and a repayable loan value. The interest only principal loan value is equivalent to the written down value of the plant when it is returned to the councils in 2023. The plant has an economic life of 25 years, it is returned to the council after 6 years of operation therefore the written down value is equal to the remaining 19 year life of the plant. The loan tranches are as follows:-
  - £9m repayment loan and
  - £31m interest only (bullet) loan
- 7 Total loan interest and fees chargeable to Mercia are fixed and are representative of commercial bank charges. These total £69m (£17m for Herefordshire) during the loan period. These charges are repayable before the PFI contract ends in 2023 and are recharged to the councils by Mercia through the unitary charge.
- 8 Herefordshire will obtain loan finance in line with its Treasury Management Strategy.

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Further information on the subject of this report is available from  
Josie Rushgrove, Head of corporate finance on Tel (01432) 261867

This will include short term borrowings and longer term finance from the Public Works Loan Board where interest rates are aligned to long term gilt prices. Commercial banks rates are based on the London Inter Bank Offer Rate (LIBOR). The differential between the long term gilt price and LIBOR rates are typically 3% therefore the cost of debt incurred will be less than the cost charged to Mercia resulting in an estimated surplus of approximately £4.6m for Herefordshire. This surplus has been reflected in council budgets approved by Council in February.

- 9 The outstanding loan balance in 2023 reflects the expected net book value of the plant at that date. There are strict handover and regular testing arrangements in place that escalate when nearing the end of the contract protecting the return condition of the plant.
- 10 The remaining loan principal balance of £31m will be repaid after the end of the PFI contract period (2023) until the end of the plants useful life (2042).

### **Waivers and Consents**

- 11 One administrative waiver has been granted to date for an extension of time for Mercia to file the financial close financial model with the elected custodian.

### **Updates**

- 12 The latest progress update from the financial advisors show that Mercia have met all Senior Term Loan Facility Agreement (STLFA) requirements during this reporting period. Cover ratios and cash flow test requirements that ensure Mercia have equity and cash balances sufficient to cover loan repayments have been complied with.
- 13 Fitchner Consulting Engineers are the technical advisors to the lenders during the construction phase of the plant. No significant issues have arisen during the period and the construction completion date is not deemed to be at risk.
- 14 This committee is tasked with reviewing the risks as a result of the funding provided by the council to Mercia. This includes ensuring the risks are considered reasonable and appropriate. Attached, Appendix A, is a risk register detailing the unmitigated and mitigated risks arising as a result of the council being lender to Mercia. All risks are typical of a long term senior funder to waste projects and are aligned to best banking practice.

### **Community impact**

- 15 There is no additional community impact as a result of this progress update report. The loan arrangement will contribute to the following council corporate objectives:
  - Managing our finances effectively to secure value for money and deliver a balanced budget
  - Making best use of the resources available to us in order to meet the council's priorities (includes money, buildings, IT, information).

### **Equality duty**

- 16 This update and its recommendations do not have an impact on Equality or Human Rights.

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Further information on the subject of this report is available from  
Josie Rushgrove, Head of corporate finance on Tel (01432) 261867

## Financial implications

- 17 The loan arrangement is progressing to plan with the financial implications being reflected in the Medium Term Financial Strategy and Treasury Management Strategy approved by Council in February 2015.
- 18 All costs incurred by advisors are recharged to Mercia.

## Legal implications

- 19 The council received specialist legal advice from Ashursts, solicitors, before agreeing to enter the loan arrangement. No specific legal implications arise from this update report.

## Risk management

- 20 The councils have undertaken an assessment of risk in its role as lender working with legal advisors (Ashursts), finance advisors (Deloitte) and technical advisors (Fitchner) to understand the basis on which commercial banks reserve elements of their margin against risks. The review considered:
- Counterparty risk
  - Security package
  - Key income generation assumptions in the financial model
  - Specific project risks
  - Interest and foreign exchange rate risk
- 21 The councils negotiated a security package that has left minimal risk that costs would be borne by the councils should issues occur during the construction phase. The loan arrangement security package mirrors that expected in a commercial bank arrangement. Advisors completed a risk fall away analysis and in recognition of this during the construction phase Herefordshire will retain 50% of its loan surplus in its waste disposal reserve should any construction period risk materialise. This reserve balance is included in the Councils Medium Term Financial Strategy approved by Council in February.
- 22 Risks are retained where they resided in the 1998 contract and any new risks have been transferred to Mercia and its supply chain. There are actions that can be taken if a default situation were to arise, for example taking shares or assets in Mercia in lieu of loan repayment. No indications of default are currently present.
- 23 Existing compensation on termination contract clauses ensure that the lender is repaid the majority (90%) of any outstanding debt balance if any termination event should occur during the PFI contract period.
- 24 Attached at Appendix A is the risk register detailing the controls in place safeguarding the council's position in the lending arrangement.

## **Consultees**

25 Similar updates are reported to Worcester County Council's Waste Credit Governance Committee.

## **Appendices**

Appendix A Risk Register

Appendix B Additions to Audit and Governance Committee terms of reference

## **Background papers**

None identified.





Risk Reference	Description of risk	Gross Impact	Gross Probability	Gross Risk Score	Risk control approach	Mitigating Actions	Residual Impact	Residual Probability	Residual Risk Score	Assigned to (Risk Owners)
a	Default of loan repayments by borrower to lenders due to SPV (Mercia) or HZI falling into administration.	Critical	Medium	15	Risk transferred	Due to the security package negotiated by the Councils a fall away analysis indicated that Mercia, its Shareholders and HZI would need to enter administration at the same time to put repayment at risk during the construction phase. The maximum exposure to the Councils has been calculated and included within the sufficiency assessment of the Councils' reserves. All press articles are scanned regularly for indications of financial strength issues and followed up to ensure counterparty	Substantial	Very low	6	The risk owners are the Section 151 Officers of each Council supported by Ashurst as advisors in case of contract default and Deloitte to monitor Mercia's actual quarterly cash flow tests and cover ratios that have to be maintained by Mercia.
b 193	Construction completion date of EFW is delayed and delays repayment of loan to lenders.	Substantial	Medium	11	Risk transferred	Under the contract terms agreed with Mercia, Mercia take all material risk on EFW construction delay and repayment of loan will commence around February 2017, as set out in the SLFLA and agreed final financial model. Repayments are not tied to the actual construction completion date, rather the planned date. The Council as lender has the right to call the loan into default if construction is not completed by a long stop date. The lenders technical advisor has confirmed that the planned takeover	Substantial	Very low	6	The risk owners are the Section 151 Officers of each Council supported by Ashurst as advisors in case of contract default.
c	PWLB borrowing rates increase more than estimated in the Councils' prudential borrowing model. Higher rates would reduce the surplus generated on the loan arrangements with Mercia.	Substantial	Low	10	Risk treated	The cost of purchasing a financial product to remove this risk (a swaption) from an investment bank was quoted at £20m. The Councils decided to manage the risk through forecasting the forward price for its debt draw downs over the construction period and hold in reserve monies to mitigate this risk where required. Currently the rates accessible by the Councils are lower than this estimate as the continued low gilt rate	Substantial	Very low	6	The risk owners are the Section 151 Officers supported by Treasury and Financing Teams.

d	Loan drawdowns are slower than set out in the STFLA. Delayed drawdowns would result in reduced interest payments to the Councils and potentially reduced surplus if PWLB loan rates increase between the expected draw date and actual.	Negligible	Medium	4	Risk treated	The Councils plan to borrow in line with its Treasury Management Policy. Therefore the Councils would receive reduced interest receipts but less interest would also be payable. The Councils are monitoring market gilt rates actively and have the option to borrow from PWLB up to a year in advance of expected drawdown requests. Regular progress reports are being reviewed to ensure the construction programme and the loan drawdowns are requested in line with the plan.	Negligible	Very low	2	The risk owners are the Section 151 Officers supported by Treasury and Financing Teams.
e	Drawdown requests from Mercia are not actioned by the Councils or not actioned within the required contracted time period.	Substantial	Low	10	Risk treated	The Councils treasury teams have been fully briefed on the actions required to fulfil drawdown requests, checks required and the contracted timeline by the Section 151 Officer and their teams. Drawdowns to date have been actioned in line with requirements.	Substantial	Very low	6	The risk owners are the Section 151 Officers supported by Treasury and Financing Teams.
f	Mercia loan principal and / or interest repayments are below the required values as per the rates agreed in the STFLA .	Substantial	Very Low	6	Risk treated	The Councils treasury team maintain a spreadsheet detailing drawdowns to date and expected future principal and interest payments. This is reconciled to Mercia's repayment spreadsheet and will be matched to principal and interest repayments received from Mercia during the post construction period.	Substantial	Almost impossible	5	The risk owners are the Section 151 Officers supported by Treasury and Financing Teams.

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Key	Score	Risk judgement
1-7	Low	Acceptable risk: need periodic review, low cost control improvements sought if possible
8-18	Medium	Acceptable risk: close monitoring and cost effective control improvements sought
19-24	High	Unacceptable risk: immediate control / improvement required

**Scoring Matrix**

Likelihood	Very High	High	Medium	Low	Very Low	Almost impossible	Negligible	Substantial	Critical	Extreme
	9	19	21	21	21	21				
	8	12	20	20	23	23				
	4	11	15	15	24	24				
	3	10	14	14	18	18				
	2	6	13	13	17	17				
	1	5	7	7	16	16				

Negligible Substantial Critical Extreme  
Impact

**Additions to the Audit & Governance Committee Terms of Reference**

- (a) To review, in conjunction with external advisers advising the council as lender, the risks being borne as a result of the funding provided by the council to Mercia Waste Management Ltd and consider whether the risks being borne by the council, as lender, are reasonable and appropriate having regard to the risks typically assumed by long term senior funders to waste projects in the United Kingdom and best banking practice;
- (b) To monitor the administration of the loan to the waste project in line with best banking practice having regard to any such external advice, including the terms of any waivers or amendments which may be required or are desirable;
- (c) To consider what steps should be taken to protect the interests of the council as lender in the event of a default or breach of covenant by Mercia Waste Management Ltd, and make recommendations as appropriate to Full Council, the council's statutory officers or Cabinet as appropriate to ensure the appropriate enforcement of security and litigation in relation to the loan to Mercia Waste Management Ltd;
- (d) To consider and recommend appropriate courses of action to protect the position of the council as lender to the waste project;
- (e) To make recommendations as appropriate to Council with regard to its Budget and Policy Framework and the loan to the waste project;
- (f) Generally to take such other steps in relation to the loan within the scope of these terms of reference as the committee considers to be appropriate.





<b>Meeting:</b>	<b>Audit &amp; Governance Committee</b>
<b>Meeting date:</b>	<b>19 March 2015</b>
<b>Title of report:</b>	<b>Future work programme for A&amp;G Committee</b>
<b>Report by:</b>	<b>Governance Manager</b>

## Classification

Open

## Key Decision

This is not an executive decision.

## Wards Affected

Countywide

## Purpose

To agree the future work programme for the Audit and Governance Committee for 2015-16.

## Recommendation

**THAT:**

**subject to any amendments made by the committee, the work programme for 2015-16 for the Audit and Governance Committee, be agreed.**

## Alternative options

This is a draft programme to be discussed and finalised by the committee. There are no alternative options as regards whether or not to have a work programme as the committee will require such a programme in order to set out its objectives for the coming year.

However, following discussion, adjustments to timescales and content may be required.

## Reasons for recommendations

- 1 The work programme is recommended as the committee is required to define and make known its work for the coming year. This will ensure that matters pertaining to audit and governance are tracked and progressed in order to provide sound

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Further information on the subject of this report is available from  
Annie Brookes, Governance Manager on Tel (01432) 260605

governance for the council.

## **Key considerations**

- 2 A number of items considered by the committee in the current year are ongoing and updates are carried forward into the new work programme to ensure early completion. These are: transparency code; Public Interest Disclosure Act (PIDA) investigation; review of the constitution; and whistleblowing policy.
- 3 A report providing assurance as to how the council is meeting the requirements of the transparency code is currently under development and will be presented to the first meeting of the committee.
- 4 Following consideration of the PIDA report provided by Grant Thornton, and the action plan in response to the report, the committee had established an informal working group to scope and research work on governance structures, systems and procedures relating to procurement and projects, to include matters such as avoiding over reliance on any individual and incorporating 'what if' challenges. Although the working group held an initial meeting in December this work has not progressed as swiftly as would have been wished because of the need to resource recent additional overview and scrutiny committee activity and other urgent legal priorities. The information requested by the working group will be presented to the new committee to inform its future work planning.
- 5 Technical amendments to the contracts and financial procedure rules within the constitution are scheduled elsewhere on the committee agenda today. Following the motion passed by Council in December a cross party working group has met to begin the work of identifying areas for improvement. This work will inform further identification of possible improvements which will be brought to the committee for consideration in the new municipal year developing recommendations to Council as appropriate.
- 6 The council's whistleblowing policy and procedure has been under review and revised documentation is to be presented to the committee, following consultation with staff representatives, for approval in order to effect implementation. This will ensure that employees and stakeholders have a clear reporting mechanism for any concerns relating to suspected malpractice or wrongdoing and will support the recommendations arising from the PIDA investigation outlined above.
- 7 The routine business of the committee has been reflected as far as is known in the draft programme, including the regular reporting from internal and external auditors.
- 8 It was identified that the staff survey results will be reported to the Audit and Governance Committee and this has been identified within the programme.
- 9 The work programme recognises that there may need to be a response to the 2016 Tipping Point report by Grant Thornton during the year.

## **Community impact**

- 10 The work of the committee supports the council in demonstrating its values, and in particular the commitment to being open, transparent and accountable.

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Further information on the subject of this report is available from  
Annie Brookes, Governance Manager on Tel (01432) 260605

## **Equality duty**

11 This report does not impact on this area.

## **Financial implications**

12 There are no financial implications.

## **Legal implications**

13 There are no legal implications.

## **Risk management**

14 The draft programme can be adjusted in year to respond as necessary to risks as they are identified; the committee also provides assurance that risk management processes are robust and effective.

## **Consultees**

15 Internal and external auditors.

## **Appendices**

Appendix A – Draft Work Programme 2015-16

## **Background papers**

- None identified.





Audit & Governance Work Programme 2015-16		
Meeting	Items	Comment
July 2015	<ul style="list-style-type: none"> <li>• PIDA Update</li> <li>• Whistleblowing Policy</li> <li>• Transparency Code</li> <li>• Governance Improvement Working Group update</li> <li>• Draft Annual Governance Statement including update on action plan</li> <li>• Internal Audit Report on Commercial Properties</li> <li>• Fraud, Bribery and Anti-Corruption Policy</li> <li>• External Audit Annual Fees Letter 2015-16</li> </ul>	
September 2015	<ul style="list-style-type: none"> <li>• Signing of Accounts</li> <li>• Community Governance Review</li> <li>• Biannual forecast of revenue and capital outturn</li> <li>• External audit findings report 2014-15</li> </ul>	
November 2015	<ul style="list-style-type: none"> <li>• Monitoring Officer's Annual Report</li> <li>• Annual Audit letter (Grant Thornton)</li> </ul>	
January 2016	<ul style="list-style-type: none"> <li>• Staff Survey Report</li> </ul>	
March 2016	<ul style="list-style-type: none"> <li>• Internal Audit Plan update</li> <li>• External Audit update</li> <li>• Future work programme 2016-17</li> <li>• Biannual forecast of revenue and capital outturn</li> </ul>	
Unallocated	<ul style="list-style-type: none"> <li>• Implications of the Grant Thornton 2016 tipping point report ref: Min no 39 (b) if the Chief Financial Officer becomes concerned about the Council's financial resilience in the light of the findings of the "2016 tipping point report" by Grant Thornton a report will be made to the Committee.</li> </ul>	

