

Chief Executive's Office

Chief Executive: N.M. Pringle

**To: All Members of Cabinet:
Councillors:
R.J. Phillips (Leader)
Mrs. L.O. Barnett
P.J. Edwards
Mrs. J.P. French
G.V. Hyde
J.C. Mayson
D.W. Rule, MBE
R.V. Stockton
D.B. Wilcox
R.M. Wilson**

Your Ref:

Our Ref: NMP/CD

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28th August, 2003

Dear Councillor,

**MEETING OF CABINET
THURSDAY, 4TH SEPTEMBER, 2003 AT 2.00 P.M.
COUNCIL CHAMBER, BROCKINGTON, 35 HAFOD ROAD, HEREFORD**

AGENDA (03/13)

1. APOLOGIES FOR ABSENCE

To receive any apologies for absence.

2. DECLARATIONS OF INTEREST

To receive any declarations of interest by members in respect of items on this agenda.

3. NOTES OF CABINET MEETING HELD ON 21ST AUGUST, 2003 (03/12)

To receive the notes of Meeting (03/12) held on 21st August, 2003. *(Cabinet Members only and notes to be tabled at meeting)*

4. TREASURY MANAGEMENT ACTIVITIES 2002/03

To note the Council's Treasury activities for the period 1st April, 2002 to 31st March, 2003. *(Pages 1 - 16)*

5. AUDIT SERVICES ASSURANCE REPORT 2002/03

To receive a report on Audit Services activity during the year 2002/03. *(Pages 17 - 34)*

6. BUDGET MONITORING 2003/04

To note the position with regard to the revenue budget monitoring for programme areas in 2003/04. (Pages 35 - 40)

7. CAPITAL PROGRAMME MONITORING 2003/04

To note the position as at 31st July, 2003 with regard to the Capital Programme for 2003/04. (Pages 41 - 48)

Yours sincerely,

A handwritten signature in black ink, appearing to read "Neil Pringle". The signature is written in a cursive style with a large, looped initial "P".

N.M. PRINGLE
CHIEF EXECUTIVE

Copies to: Chairman of the Council
Chairman of Strategic Monitoring Committee
Vice-Chairman of Strategic Monitoring Committee
Chairmen of Scrutiny Committees
Group Leaders
Directors
Herefordshire Commercial Services Manager
County Secretary and Solicitor
County Treasurer

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COUNTY OF HEREFORDSHIRE DISTRICT COUNCIL

BROCKINGTON, 35 HAFOD ROAD, HEREFORD.

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TREASURY MANAGEMENT ACTIVITIES 2002/03

PROGRAMME AREA RESPONSIBILITY: CORPORATE STRATEGY AND FINANCE

CABINET

4TH SEPTEMBER, 2003

Wards Affected

County-wide.

Purpose

To note the Council's Treasury activities for the period 1st April 2002 to 31st March 2003.

Key Decision

This is not a key decision.

Recommendation

THAT the report detailed in Appendix 1 be noted.

Reasons

The reporting of the past financial year's performance is a requirement of the Council's Treasury Management Policy.

Considerations

1. A detailed report is attached at Appendix 1 with the following key points specifically drawn to the attention of Cabinet:
 - The maximum borrowing limits were not exceeded during the period (Section 2 of the report refers).
 - With regard to the transactions for the financial year 2002/2003, the cost of borrowing was within budget and the investment income was above the budget (Section 3 and 4 of the report refers).
 - The average rate for the debt portfolio fell during 2002/2003 by 0.2% (Section 3 of the report refers).
 - The return on investments managed by the County Treasurer's staff, marginally exceeded the index benchmark for 2002/2003 (Section 4 of the report refers).
 - The net return on externally managed funds exceeded the index benchmark for 2002/2003 (Section 4 of the report refers).

Further information on the subject of this report is available from
on Mr. I. Hyson on 01432 260235

Risk Management

Risk is managed in accordance with the Treasury Management Policy Statement approved by Cabinet in February 2002.

Consultees

None identified.

Background Papers

None identified.

TREASURY MANAGEMENT REPORT

1. PURPOSE

The purpose of this report is to advise Cabinet of the Council's Treasury Activities for 2002/2003.

2. MAXIMUM BORROWING LEVELS

- 2.1 Each year the Council makes a determination, as required by Section 45 of the Local Government and Housing Act 1989, relating to the maximum external debt that will be allowed in the following financial year. The determination also sets limits for borrowing of a short-term nature (less than 365 days) and places a maximum on debt with variable interest rates.
- 2.2 The limit for external borrowing is calculated in accordance with government regulations and gives a figure higher than the Council's actual external borrowing. This is due to the effect of using capital receipts and revenue fund balances as a substitute for external borrowing and the need to provide flexibility and headroom in managing cashflow.
- 2.3 The limits for 2002/2003 approved by the Council were as follows: -

Borrowing Limits	£
Total Debt	105,000,000
Short Term Debt	40,000,000
Proportion of Debt with Variable Interest Rates not to Exceed	25%

The Council's actual figures did not exceed these limits at any stage during the year.

3. BORROWING TRANSACTIONS 2002/2003

- 3.1 The Public Works Loan Board (PWLB) has been the sole source for long-term borrowing for the Council. Other sources include the money market and local bonds, but they have historically proved to be available on less advantageous terms. The following summary gives information relating to the Council's external borrowing transactions in 2002/2003.

External Borrowing	£
As at 1st April, 2002	39,118,503
Add: Transfer of Ex HWCC debt (see paragraph 3.2)	26,350,723
New Borrowing (see paragraph 3.4)	12,808,112
Less: Repayments	(15,736,373)
As at 31st March, 2003	<u>62,540,965</u>

- 3.2 During the year Herefordshire Council paid Worcestershire County Council £1,700,580 in respect of debt charges for 2002/2003. This related to Herefordshire's share (24.6%) of Hereford and Worcester County Council's outstanding debt at 31st March 1998 of £122,200,000. However on 30th September 2003 Herefordshire's share of this debt was transferred to Herefordshire Council. The transfer of this debt allows Herefordshire greater control and flexibility of the total debt portfolio and increases the opportunities available for rescheduling. It also saves annual debt management fees of over £12,000 that were payable to Worcestershire County Council for administering the debt portfolio.
- 3.3 Herefordshire Council transferred its housing stock to Herefordshire Housing Limited on 26th November 2002. The monies received from the transfer have been temporarily invested on the Money Market. The option for repaying debt was considered, however this was not viewed to be appropriate during the present times of low interest rates, as this would involve the Council paying costly premium charges for the early redemption of debt. Instead the Council has undertaken various rescheduling opportunities (see paragraph 3.4) that became available during the year. The Council did not take any new loans to fund the Capital Programme, but has instead run down temporary investments. This approach is likely to continue in 2003/2004 and hence the investments will fall significantly to cover borrowing approvals and maturing debt.
- 3.4 The following new loans were taken during 2002/2003 as part of rescheduling exercises. This rescheduling took place after careful consideration of interest rate forecasts, expected capital spending and repayment profile. The rescheduling resulted in the Council receiving a cash discount of £110,684, lower interest rates payable on loans and an improved debt repayment profile.

Date	Loan Type	Amount £	Period Years	Interest Rate %
11th December 2002	Variable – Maturity	7,808,112	1	3 month variable
13th February 2003	Fixed – Maturity	2,500,000	25	4 ½
13th February 2003	Fixed – Maturity	2,500,000	23	4 ½
		12,808,112		

Rates of interest available in the year for PWLB Fixed Rate - Maturity (Lower Quota 20 to 25 years) loans ranged from 4.5% to 5.375%.

- 3.5 The cost of borrowing in 2002/2003 was £299,860 less than the budget of £3,624,348. Interest payments totalled £3,324,488 a proportion of which was met from within the Housing Revenue Account. The average rate for the debt portfolio held at the year end dropped again this year from 5.8% to 5.6%, reflecting the repayment of short-dated high interest loans and new borrowing at lower interest rates as part of the rescheduling exercise (see paragraph 3.4).

3.6 The longer term debt at 31st March 2003 falls due for repayment as follows:

Long-term Debt Profile	£	% of total debt
Within		
1 year	9,440,185	15
1 – 5 years	11,685,194	18
5 – 10 years	3,567,745	6
10 – 15 years	6,064,823	10
15 years and over	31,783,018	51
	62,540,965	100

3.7 In addition to the external borrowing identified above, the Council has a bank overdraft facility with its bankers, National Westminster Bank plc, of £6,000,000, which was used on a limited basis during the year. This was used in replacement of any short-term borrowing of amounts less than £100,000 where it would not be cost effective to borrow through the money market. The overdraft facility was also used on a few occasions to cover the late receipt of Revenue Support Grant from Central Government and for the late repayment of a short-term investment, for both of which the Council was subsequently compensated.

3.8 The Council's aim is to maintain a nil cleared balance, as far as possible, in low-interest bearing bank accounts. This is hard to achieve because some payments are made directly to the bank. However, such sums are not significant in overall terms. The average daily bank balance for 2002/2003, on which debit and credit interest is calculated, was £5,898 in credit. **Annex A** illustrates the balances for 2002/2003.

3.9 During the year, short-term borrowing through the money market was taken on a limited number of occasions at the start of 2002/2003 prior to the receipt of monies from the Housing Stock Transfer with an average borrowing of £1,433,750 and an average borrowing rate of 4.06%.

4. INVESTMENTS 2002/2003

4.1 The 1990 Regulations – Local Authority (Capital Finance) Approved Investments generally preclude long term investments, i.e. for a period exceeding one year. However limited access to the gilt market (Government Bonds) is available through schemes offered by fund managers.

4.2 **Annex B** provides a short Market overview of short-term and long-term interest rates in 2002/03

4.3 In order to minimise risk when investing Council funds, the Treasury Management Policy Statement sets out certain criteria and limits for the selection and monitoring of the list of Approved Investment Counterparties. This list is reviewed and revised, as appropriate, each month to take account of changes in credit ratings of individual counterparties. During the year the limits were marginally breached on one occasion (this was approved by the County Treasurer). It was breached due to the late afternoon receipt of LSVT monies and therefore a lack of interest from potential counterparties at that time of day.

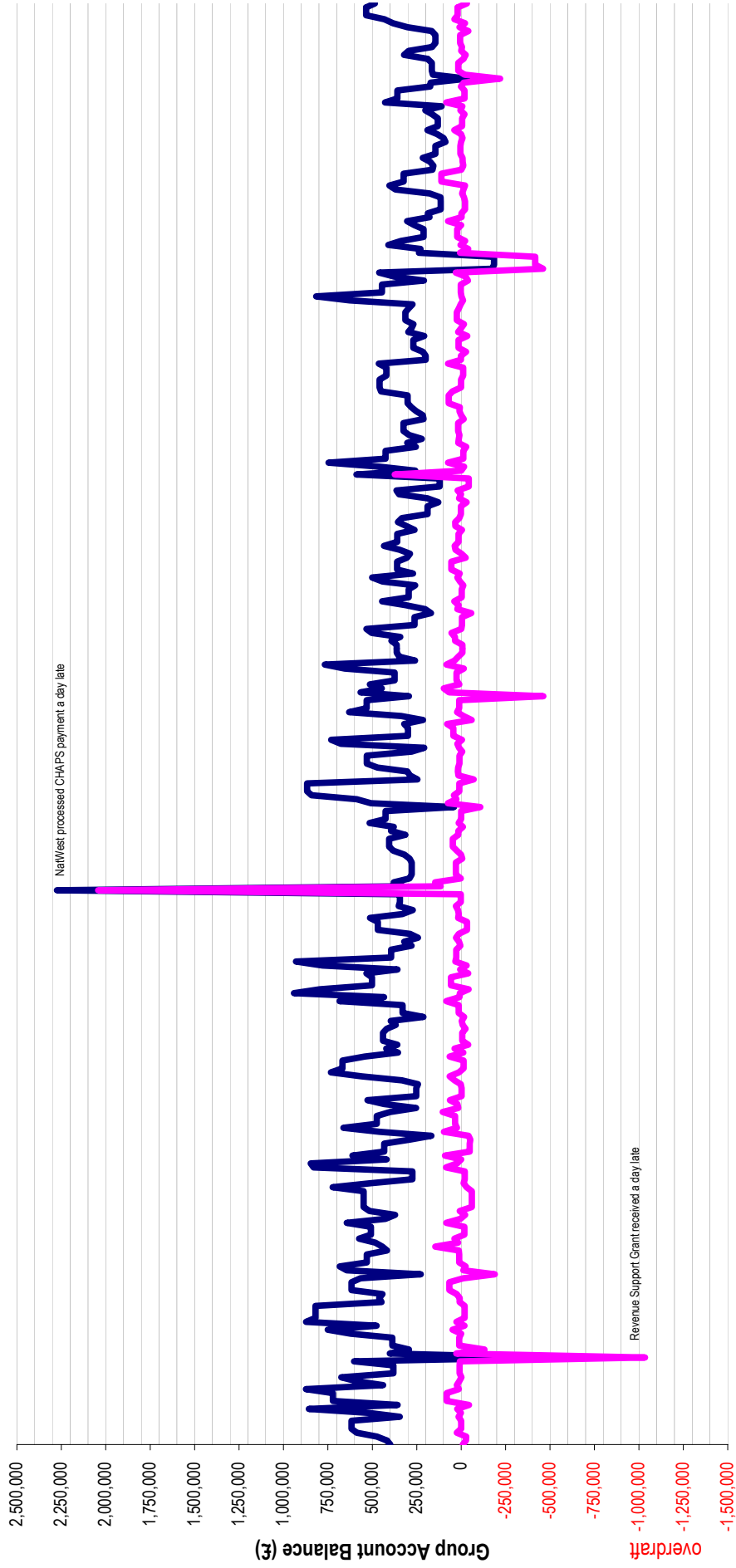
- 4.4 **Internally Managed Investments** - During the year interest rates earned on internally managed funds have varied between 4.78% and 3.00% and the average daily investment managed internally was £22,047,420. The actual daily investments ranged from £61,160,000 to Nil during the year, which illustrates how much the temporary cashflow fluctuates throughout the year. The temporary short term investment transactions for 2002/2003 are summarised as follows:

Internally Managed Funds	£	£
Balance at 1st April 2002		850,000
Investments made during year (334 transactions)	657,107,799	
Investments recalled during year	<u>(624,417,799)</u>	
		32,690,000
Balance at 31st March 2003		<u>33,540,000</u>

- 4.5 The level of funds that were available for investment increased as expected during the year, following the receipt of LSVT monies. Some of the investments were used for repaying PWLB loan repayments due and meeting expenditure as the capital programme progressed.
- 4.6 The average interest rate achieved on internally managed funds was 3.84%, which compares favourably with the generally accepted yardstick of the average 7-Day (LIBID) rate (uncompounded) of 3.65%. The Council's returns on the temporary investments largely mirrored the prevailing base rate. **Annex C** compares the average interest rate earned on internally managed funds, the 7 day (LIBID) rate, the borrowing rate offered by PWLB (for lower quota 20-25 year maturity loans) and the Bank of England Base Rate.
- 4.7 **Externally Managed Investments** - Council funds of £6,641,477 (as at 31st March 2003) continued to be managed externally by Investec Asset Management Ltd. The average net return for the year was 5.15% and the net income earned is added to the fund. This compared well to the benchmark of the average 7-Day (LIBID) rate (compounded) of 3.73%. The return for 2002/2003 must be viewed as exceptional, the average return over the last five years has been 0.66% above the benchmark.
- 4.8 Investec Asset Management Ltd performed well compared to other fund managers in 2002/2003. They believe that their return in 2003/2004 will not be so high and estimate a return of 3.50%. However they have performed well for the first quarter of 2003/2004 generating a net return of 3.94%.
- 4.9 The Council achieved well above its investment income budget of £460,000 in 2002/2003, but achieved a lower average rate of return than originally anticipated due to the market expectation of a fall in interest rates as detailed in **Annex B**.

Summary of Investment Income		2002/2003
		Actual
		£
Internally Managed Funds		871,959
Externally Managed Funds (net)		<u>335,907</u>
		1,207,866
Less: transfers to other services		
	- HRA	(64,042)
	- Schools	<u>(62,500)</u>
		(126,542)
Interest payments to trusts etc.		<u>(46,286)</u>
		(172,828)
Interest Received 2002/2003		<u>1,035,038</u>
Budget 2002/2003		460,000
	Variance	125%

Herefordshire Group Account Bank Balances for 2002/2003



1st April 2002 to 31st March 2003

- Represents the uncleared group account bank balance i.e. some transactions included in this balance are subject to clearance. (This balance agrees to the bank statements).
- Represents the cleared group account bank balance i.e. all transactions included in this balance have cleared. (This is the balance on which interest is charged or earned)

MARKET OVERVIEW

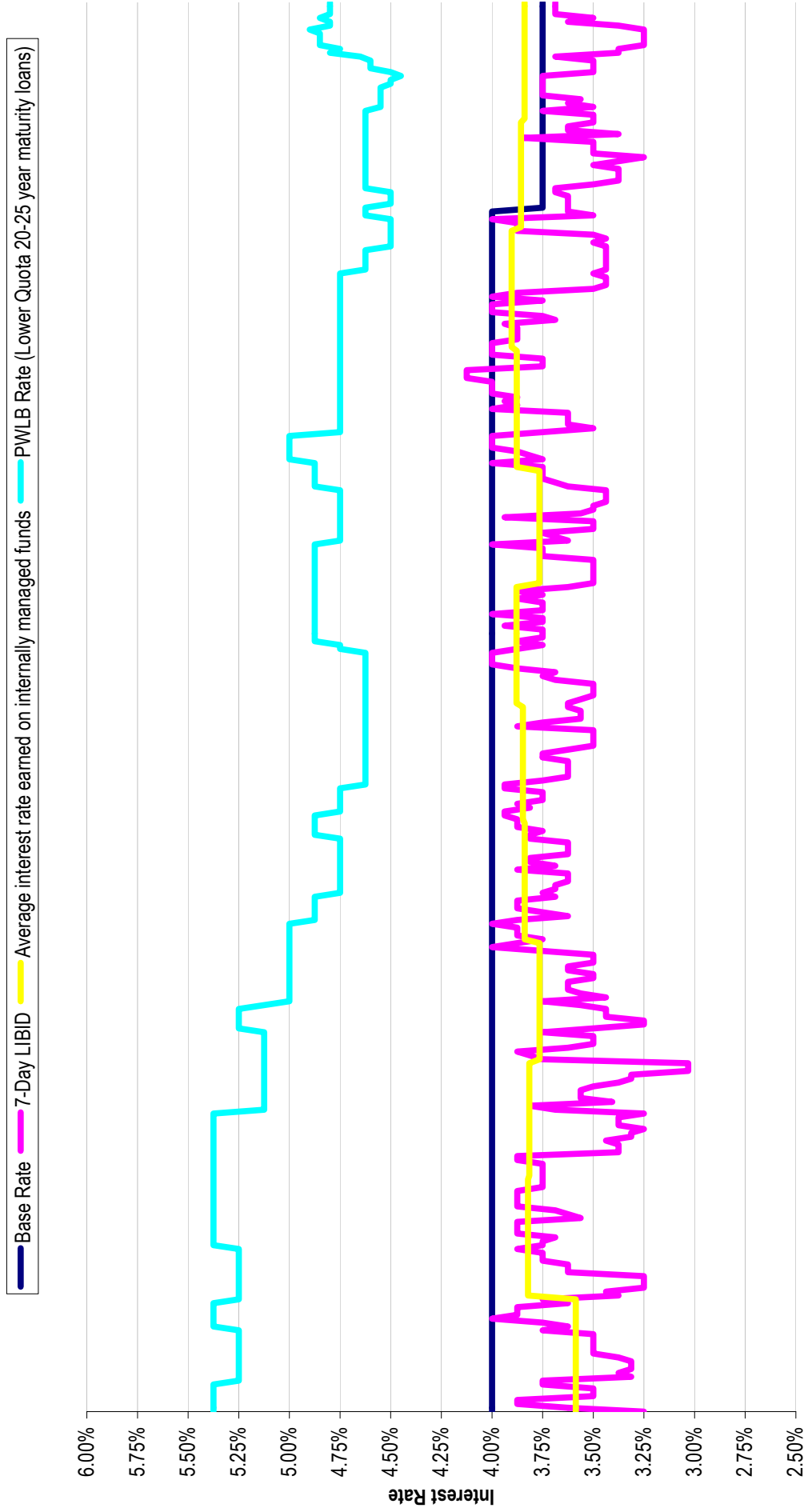
Shorter-term interest rates

The Monetary Policy Committee (MPC) did not change base rate from 4% in 2002 until it was cut to 3¾% in February 2003. Early hopes that the 2001 world downturn would be followed by the usual recovery, wilted during quarter 3 of 2002 and forecasters switched from predicting when rates would start to rise, to whether they would be cut. UK consumer confidence, expenditure, borrowing and house price inflation (reached 30% in November) all continued robustly in quarter 4. The latter militated against the MPC cutting base rate despite increasing concerns about the weakness of the international economic outlook. This weakness provoked the US Federal Reserve to cut its rate in November from 1¾% to 1¼%, a 41-year low. The European Central Bank also cut rates by ½% to 2¾% in December. Increasingly ominous anti-Saddam comments from the US weighed down business, investor and consumer confidence, and this became severe in the UK and abroad during the first quarter of 2003. In February, the MPC switched from concerns over high house price inflation and consumer borrowing, to focus on weak global economic conditions. Consequently, base rate was cut ¼% to 3¾% to keep inflation up to the target of 2½% two years ahead, and to stimulate growth in the economy.

Longer-term interest rates

Until June 2002, the 20-25 year lower quota PWLB rate was stable at normal levels between 5.25% to 5.375%. US corporate accounting woes spectacularly climaxed on 26th June 2002 when news broke of yet more irregularities, this time at WorldCom. This dealt a devastating blow to equity markets and caused a worldwide flight into the relative safety of government bonds. Prices of bonds therefore rose and their yields fell. Long-term interest rates consequently started a slide towards abnormally low levels. The US Stock Exchange Commission's deadline of August 14th for corporate managers to certify their accounts was successfully passed without major incidence and so underpinned equity values temporarily. However, in quarter 4 of 2002 worries of impending military action over Iraq started to grow and became severe in quarter 1 of 2003. UK Equity values therefore plunged in mid March to under half of their January 2000 peak of 6931. PWLB lower quota 20-25 year rate hit a floor of 4.50% at this time. By the end of March, the coalition forces had major progress in the war and investor worries had been largely dissipated. Equity values consequently staged their strongest 7-day rally since 1940 and so the 20-25 year lower quota PWLB rate ended the year back up at 4.80% after touching 4.90%.

Comparison of Interest Rate for 2002/2003



1st April 2002 to 31st March 2003

GLOSSARY OF TECHNICAL TERMS

Public Works Loan Board (PWLB) – An independent statutory body who consider loan applications from local authorities and other prescribed bodies. Loans are provided by Act of Parliament drawn from the National Loans Fund.

Rescheduling – the rescheduling of long-term loans with the following aims:

- the generation of cash savings at minimum risk;
- in order to help fulfil the borrowing strategy; and
- in order to enhance the balance of the long-term portfolio (amend the maturity profile and/or the balance of volatility).

Money Market – the majority of investment transactions are carried out on the Money Market through Brokers, although direct dealing with counterparties is also permitted. All staff involved in dealing must be aware of the principals set down in the London Code of Conduct for Principals and Broking Firms in Wholesale Markets.

Maturity Loan – A maturity loan from the PWLB consists of half-yearly payments of interest only with a single repayment of principal at the end of the term.

Gilt Market – Registered British government securities giving the investor an absolute commitment from the government to honour the debt that those securities represent.

Approved Investment Counterparties – a lending list constructed by the Chief Financial Officer comprising time, type, sector and specific counterparty limits, formulated using a suitable criteria for assessing and monitoring the credit risk of investment counterparties.

7-Day LIBID (London Inter-Bank Bid) rate – the rate generally used as the benchmark for internal and external investment performance. It is the interest rate at which banks in London are prepared to accept short-term deposits.

AUDIT SERVICES ASSURANCE REPORT 2002/03

PROGRAMME AREA RESPONSIBILITY – CORPORATE STRATEGY AND FINANCE

CABINET

4TH SEPTEMBER, 2003

Wards Affected

County-wide

Purpose

To receive a report on Audit Services activity during the year 2002/03

Key Decision

This is not a key decision.

Recommendations

THAT the Assurance Report attached at Appendix 1 be noted.

Reasons

Compliance with good practice as set out in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom.

Considerations

1. The detailed Assurance report for 2002/3 is attached at Appendix 1 with the key conclusions set out below and has been considered by the Chief Executive's Management Team.
2. Following assessment of the Council's overall level of internal control, a satisfactory level of control has been achieved.
3. The four-year Strategic Plan is based on a detailed risk assessment evaluation, which directs Internal Audit work as encompassed in the Annual Plan.
4. There are several issues, which we would like to draw to Cabinet's attention. Although Internal Audit has identified issues at service level, these are not material issues that affect the Council's overall level of internal control. Where problems have been identified, immediate management action has been undertaken to ensure that control mechanisms are in place. An example being the Bank Reconciliation Audit where the allocation of additional resources has ensured good progress in solving the problems identified. The overspend on Housing Repairs also resulted in robust management action, in addition to a separate report to the Special Accounts Committee. It is likely, however, that within the Audit Commission's annual

Further information on the subject of this report is available from Andrew Tanner, Assistant County Treasurer on 01432 260162

management letter reference will be made to fundamental systems which have a marginal or worse opinion.

5. The key issues highlighted relate to IT security and Performance Management, both of which are being addressed as matters of high priority this year.
6. It is satisfying to report that there has been a further reduction in the number of unsatisfactory (weak) Audit Opinions from 7 last year to 3 this year. The Chief Executive's Management Team has considered these individually and there were no residual issues to draw to the attention of Cabinet.
7. Management continue to respond positively to recommendations and has agreed to take action on 98% of the recommendations made, which is a similar figure to last year.
8. The Audit Commission has not completed its full review of Internal Audit's work for last year, although indications are that it continues to be satisfied with the quality and coverage.

Risk Management

The four-year strategic plan is based upon a 'Traffic Lights' Methodology, with Red being high risk, Amber being medium risk and Green being low risk. Within each risk area consideration is also given to residual risk for specific functions or establishments based upon their last Audit opinion and current knowledge.

Consultees

None.

Background Papers

None identified.

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**HEREFORDSHIRE COUNCIL
ANNUAL AUDIT ASSURANCE REPORT 2002/03**

1. INTRODUCTION

- 1.1 Under the Accounts and Audit Regulations 2003 the council has a duty to maintain an adequate and effective system of internal audit of its accounting and financial control systems. To ensure the internal audit service is adequate and effective the Council has adopted the CIPFA Code of Practice for Internal Audit in Local Government in England and Wales. In addition there are annual reviews of Audit Services work by the Audit Commission.
- 1.2 Herefordshire Council has an obligation to include in their Statement of Accounts a statement on the system of internal financial control. The statement should set out the framework within which financial control is managed and reviewed and the main components of the system, including arrangements for internal audit. This statement reports on significant identified weaknesses and the actions undertaken to rectify them.
- 1.3 The CPA results published in December 2002 identified Herefordshire Council as a 'Good' authority, which reflected the Council's achievements and its capacity for future improvements. Being a good authority allows the Council to operate with greater freedom and flexibilities.
- 1.4 The Herefordshire Council Corporate Plan sets out how the Council will direct its corporate activity to the achievement of the ambitions of the Herefordshire Plan. Audit Services ensures that Directorates and Departments achieve their objectives with in a robust internal control environment.
- 1.5 Regular updates on audit work progress are sent to both Directors and Heads of Department, which enables issues at Directorate/Department level to be dealt with as they arise.
- 1.6 The Annual Audit Assurance report summarises the more important matters arising from Audit Services work for the financial year ending 31st March 2003. Audit opinion definitions ranging from Good to Weak are contained in Appendix II.
- 1.7 The Audit Service would like to take this opportunity to thank all staff for their help and corporation during audit visits.

2 INTERNAL AUDIT

- 2.1 Internal Audit is the independent appraisal function established by Management to review the internal control system as a service to the Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.

**HEREFORDSHIRE COUNCIL
ANNUAL AUDIT ASSURANCE REPORT 2002/03**

- 2.2 The four-year strategic plan is based on a risk assessment evaluation, which utilises a 'Traffic Lights' Methodology, with Red being high risk, Amber being medium risk and Green being low risk. Within each risk area consideration is also given to residual risk for specific functions or establishments based upon their last Audit opinion and current knowledge.
- 2.3 The Annual Plan emanates from the four year Strategic Plan. To ensure that Directorate and Department priorities are considered the annual plan is developed in consultation with Directors, Heads of Departments and Heads of Service.
- 2.4 Audit Services terms of reference has been formally agreed by Cabinet in the form of an Audit Charter (Appendix I), which outlines the independence of Audit Services, and it's reporting protocols.
- 2.5 Although the Audit Commission has not completed their review of Audit work the indications are that they are satisfied with the quality of and coverage of the work done.
- 2.6 The actual cost for Internal Audit Services amounted to £384,434 compared to a budget of £382,618

3 AUDIT ACTIVITY

3.1 Financial Standing

An element of the Council's financial standing is the level of assurance given by it's fundamental systems. Fundamental systems are systems whose failure could cause major disruption or loss of financial control to the council.

Fifteen fundamental systems were assessed; the outcomes are analysed in table 1 below: -

Table 1 Analysis of Fundamental Audit Opinions					
System	Good	Satisfactory	Marginal	Un-satisfactory	Weak
Treasury Management	✓				
Salaries & Wages Edn		✓			
Salaries & Wages		✓			
Contract Tendering Procedures		✓			
Financial Management System			✓		
Creditors			✓		
Bank Reconciliation				✓	
Sundry Debtors		✓			
Antifraud & Corruption		✓			
NNDR	✓				
Council Tax		✓			
Housing Rents		✓			
Housing Benefit		✓			
Value Added Tax		✓			
Cash and Deposit			✓		
TOTAL	2	9	3	1	0

**HEREFORDSHIRE COUNCIL
ANNUAL AUDIT ASSURANCE REPORT 2002/03**

Assessment of the Council's main accounting process covered budgetary control, financial reporting, and accounting procedures. It was found that on the whole, the system was operating satisfactorily, however there was a need for improved journal documentation i.e. narrative to substantiate the journal entry. There was also a need to demonstrate regular reconciliation between feeder systems and information fed into Cedar. It should be borne in mind that the Council's financial system is very complex and the areas identified for improvement are seen as an integral part of development within the system and will be picked up as part of the implementation of e-financials.

A particular area of concern related to the Cash and Deposit Book where there continues to be a need for improved record keeping. This need has also had an adverse effect on the reconciliation of the Council's General Account, which accounted for the unsatisfactory audit opinion for the Bank Reconciliation Audit. Current staff working with additional resources have made good progress in solving the problems identified.

Where fundamental systems have a marginal or worse opinion it is likely that the Audit Commission will make reference to them in their management letter.

3.2 Systems of Internal Control

These are systems put in place by management to ensure adherence to policies, safe guard assets, ensure relevance, reliability and integrity of information and ensures compliance with statutory requirements.

In addition to the 15 fundamental systems, 22 system audits were under taken during the year; their audit opinion is summarised in table 2

Table 2 Analysis of System Audit Opinions by Directorate				
Directorate	Satisfactory	Marginal	Un Satisfactory	Weak
Social Care and Strategic Housing		2	1	
Environment	2	5	2	1
Policy and Community	5	1		
County Treasurers		1		
Corporate		1	1	
TOTAL	7	10	4	1

There were two areas where major breakdowns occurred; one related to Housing Repairs where there was a need for local systems to be kept up to date with robust reconciliation between local management systems and Cedar. The over spend was £1,011,912. The County Treasurer will be presenting a full report with recommendations to the Statutory Accounts Committee.

In the other case a potential overspend on Highways expenditure was averted by robust action by the Director of Environment, who having identified the problem, worked with Audit Services and Accountancy to put things right and at the end of the financial year expenditure was within budget.

**HEREFORDSHIRE COUNCIL
ANNUAL AUDIT ASSURANCE REPORT 2002/03**

3.3 The Prevention and Detection of Fraud and Corruption

As part of its Ethical framework the Council has established a Standards Committee, and have adopted a Code of Conduct for members incorporating the mandatory requirements of the model code. In addition, members have signed a formal declaration accepting the terms of the code.

Arrangements are in place for members to monitor and test the operation of the new framework.

Table 3 highlights the main corporate documents and their availability.

Table 3 Schedule of Corporate Governance Arrangements Documents					
Date	Policy/Document	Availability			
		Public	Partners	Staff	Members
July 02	Standing Orders	✓	x	✓	✓
July 02	Financial Standing Orders and Regulations	✓	x	✓	✓
July 02	Scheme Of Delegations	✓	x	✓	✓
July 01	Whistle-Blowing Policy	✓	x	✓	✓
October 02	Anti-fraud and Corruption Policy	July 2003	x	✓	✓
April 03	Complaints Procedure	✓	x	✓	✓
July 01	Code of Conduct for Employee	✓	x	✓	✓
July 01	Standing Orders for the Regulation of Contracts	✓	x	✓	✓

With regards availability to staff the Anti-fraud and Corruption Policy is on the Council's Intranet; the other documents have limited circulation. In addition the Anti-fraud and Corruption Policy is now available to the Public through the Council's Internet.

The remaining documents are available at Info Shops and Libraries while the complaints procedure is available at all Council receptions as well.

There is a need for the Code of Conduct for Employee, the Whistle- Blowing Policy and the Standing Orders for the Regulation of Contracts to be reviewed on a regular basis.

Although Members receive training and guidance on some of the above key documents no training is given to staff, however, induction delegates are requested to look at the Personnel Employment pack that can be found on the Council's Intranet. Procedures are being developed to ensure that staff who are not on the Intranet are able to access these key documents.

Financial Regulations will require amendment to deal with the implications of e-government.

The Council took part in the National Fraud Initiative (NFI) data matching exercise for 2002. This year there was a different format to the previous years (last NFI 2000). Better matching and filtering by the data-matching agents has led to clearer matches. More prominent this year is the Payroll and Pensions data, which is being dealt with by Audit Services.

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The large number of matches generated (1365) caused a significant peak in workload for the sections involved. The need to liaise with other authorities meant long delays in finalising investigations. The total number of matches leading to full investigations is quite small at 2.5% of matches (25 Benefits, 9 Audit). It is impossible to say how many will become actual cases of benefit fraud, however the Payroll checks do not appear to contain any matters of concern.

3.4 Best Value Performance Indicators

As part of the Council's ongoing quest to ensure that BVPI and Local PI are adequately supported and accurate, Audit Services as part of its ongoing review, has completed work on 9 Performance Indicators.

The table below shows the current position.

Table 4 Analysis of PI Audit Opinions					
	No. of Indicators	Audit Opinion			
		Satisfactory	Marginal	Unsatisfactory	Weak
Corporate Health	2		2		
Social Services	3		1	2	
Housing and Council Tax Benefit	2	2			
Environmental Services	2	1	1		
TOTAL	9	3	4	2	0

Areas for improvement centred on the need for more robust data collection procedures, clear audit trails to ensure that data can be independently verified, and a clear understanding of the definition of the performance indicator.

The two performance indicators with unsatisfactory audit opinions were qualified by the Audit Commission in 2001/2 and it is likely that this will happen again for 2002/3. However it should be noted that the Audit reviews (Internal and External) did not identify the problems until August/September 2002. Although management took immediate action to correct areas identified for improvement it would have been too late in the year 2002/3 to impact on the years performance indicators as actions could not be backdated. These related to BVPI 55 – Clients receiving a review and BVPI 56 -Percentage of items of equipment less than £1,000 delivered.

With regards to BVPI 157 –Service delivery outcomes (e-government performance indicator), an audit assessment has identified the need for clarity with regards to responsibility for collection, presentation and monitoring of statistics related to IEG targets. The Head of Service has produced an Action Plan, which has been submitted to the Director of Policy and Community and Audit Services who will monitor its implementation.

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The assessment also highlighted the need for clarity of approach regarding the challenging 15 minutes target for travelling time by Herefordshire residents to their nearest access point. There was no supporting documentation to support the calculation of the 15 minute target. The Audit Commission will require some assurance that this target will be met.

Validation of Best Value Performance Indicators is an on going feature of audit work. The Council's newly developed Performance Management Framework should help to improve data collection arrangements.

3.5 Risk Management

There are limited corporate arrangements for the identification, assessment and management for key financial and operational risks, however a Risk Register is being developed.

A report by the County Treasurer to the Chief Executive Management Team highlighted the need for Directorate/Departments to identify their strategic risks, with risks being allocated to individual managers who assess the risk's likelihood of occurring and its impact. In addition there needs to be a more formalised arrangement for the collection of risk data and the way reporting on risk is managed.

The Council is taking action to ensure that a consistent and robust approach to risk management is developed and embedded across all council services.

A risk management review will be carried out by Audit Services as part of the 2003/4 Audit Plan.

3.6 ICT

Seven Audit reviews were carried out during the year; table 5 summarises the Audit opinions.

Table 5 Analysis of ICT Audit Opinions				
System	Satisfactory	Marginal	Unsatisfactory	Weak
GAP – Analysis BS7799			✓	
E-POP Cedar E-Purchasing	✓			
Payroll System - Education		✓		
Back up and Recovery	✓			
Telephone System		✓		
Procurement IT Hardware		✓		
TOTAL	2	3	1	0

ICT plays a key part in the Council's drive for improvement in service delivery. To ensure a secure ICT environment the minimum level of security is set out in BS 7799 the Code of Practice for Information Security Management.

The standard has 127 guideline objectives, a gap analysis has shown that the Council's procedures had no controls or limited controls for 93 of these guideline objectives. However, some progress is now being made by the IT Security Officer.

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3.7 Establishment Visits

Table 6 Analysis of Establishment Audit Opinions by Directorate						
Directorate	Total	Good	Satisfactory	Marginal	Un-Satisfactory	Weak
Education	25	4	11	6	3	1
Social Care and Strategic Housing	1		1			
Policy and Community	7		1	6		
County Secretary & Solicitor	1			1		
TOTAL	34	4	13	13	3	1

Findings at establishments, in particular those visited for the first time highlighted the need for up to date Accounting Guidelines, which set out the key financial and associated procedures that are good practice for establishments to have in place.

3.8 Corporate

A review of the implementation of the Council's Staff and Review Policy identified that there was a inconsistent approach across the Council, and recommendations have been made for improvement. The Council has now developed a more streamlined version, which has been tested, and will be rolled out for the next round of staff SRD's.

3.9 Special Investigations

During the year, there were three unsuccessful cheque fraud attempts by the public who changed the detail on Council cheques. There was no evidence to suggest that Council staff were involved. Audit Services is liaising with the bank to see what cost effective improvements can be made to Council cheques.

4. RECOMMENDATIONS MADE AND ACTION TAKEN

Table 7 summarises the total number of recommendations made for each Directorate/Department.

Table 7 Summary of Recommendations 2002/3				
Directorate/Department	Level 1 Recommendations		Level 2 Recommendations	
	Made	Accepted	Made	Accepted
Education	102	99	282	277
Environment	31	30	73	71
Policy and Community	59	57	145	140
Housing & Social Care	40	40	35	35
County Secretary & Solicitor	5	5	10	10
County Treasurer	10	10	12	12
Fundamental Systems	52	52	135	135
Computer Audits	6	6	64	64
Corporate	7	7	6	6
Performance Indicators	60	60	0	0
TOTAL	373	366	767	750

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Level 1 recommendations are due to statutory obligations, legal requirements, Council Policy, or major risk.

Level 2 recommendations are in order for sound internal control and confidence in the system to exist.

The percentage of recommendations accepted by management was 98% at level 1 and 98% at level 2. This maintains the high level of accepted recommendations as recorded last year.

5. KEY ISSUES IDENTIFIED THAT REQUIRE ATTENTION

- Improvement in IT security arrangements to comply with BS 7799.
- Improved data collection procedures for performance indicators.
- The Cashiers improve documentation in relation to the Cash and Deposit Book.
- Risk Management to be developed and embedded across the council.
- The publication of up to date Accounting Guidelines.
- Regular reconciliation of local management systems to Cedar.

6. AUDIT OPINION

I am of the opinion that the Council's overall level of financial control continues to be satisfactory (Appendix II). However the Council needs to continue its on going improvements in the areas of Risk Management, IT and Performance Management.

**R. A. Ford
Principal Audit Manager
July 2003**

AUDIT SERVICES CHARTER

INTRODUCTION

The purpose of this Charter is to establish the authority and responsibility conferred by the Council on the Audit Services Team with respect to carrying out internal audit functions.

STATUTORY BACKGROUND

The need to maintain an internal audit function is implied by Section 151 of the Local Government Act 1972 under which local authorities are required to make proper arrangements for the administration of their financial affairs and to delegate responsibility for those arrangements to one of their officers. The Accounts and Audit Regulations 1996 are explicit about the requirement to maintain an internal audit function and state that local authorities shall maintain an adequate and effective system on internal audit of their accounting records and control systems.

THE NATURE OF AUDIT SERVICES

The Audit Services Team is an independent and objective assurance and consulting function established by the Council to examine and evaluate its activities as a service to senior management (officers and Members as appropriate). It functions by examining the adequacy and effectiveness of internal controls.

INTERNAL CONTROLS

This is the whole system of controls, both financial and otherwise, established by the Council in order to provide reasonable assurance that: -

- business risks are identified, assessed and managed effectively
- operations are effective and efficient
- there are sound systems of internal financial control
- there is compliance with laws and regulations
- assets are safeguarded from unauthorised use
- proper accounting records are maintained and the financial information used for business purposes or for publication is reliable.

THE ROLE OF AUDIT SERVICES

The role of the Audit Services Team is to understand the key risks to which the Council is exposed and to contribute to the improvement of the internal control environment - it is not a substitute for it. The Audit Services Team is therefore not directly responsible for the ensuring that adequate and effective internal controls are established to manage the key risks – that responsibility lies with senior management.

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VALUES OF AUDIT SERVICES

The Council expects the Audit Services Team to carry out their function in accordance with the following operational values: -

- To be client focused at all times
- To offer constructive comments and practical solutions
- To be proactive in approach
- To adopt a professional attitude to all tasks
- To be responsive to requests for advice.

AIM OF AUDIT SERVICES

The Audit Services Team aims to add value by contributing towards the improvement of the Council's activities by promoting effective control at reasonable cost in relation to the identified risks.

OBJECTIVES OF AUDIT SERVICES

The objectives of the Audit Services Team are: -

1. To assist the Council in the accomplishment of its objectives by bringing a systematic and disciplined approach to the evaluation and improvement of risk management, corporate governance and internal control processes.
2. To assist the Council in the effective discharge of its functions by providing independent analysis, appraisal, advice and recommendations on the activities subject to internal audit review.
3. To review, appraise and report on the adequacy and effectiveness of the systems of financial and internal control.
4. To review, appraise and report on the relevance, integrity and reliability of financial and other management information.
5. To review, appraise and report on the level of compliance with the policies, plans, procedures, statutory requirements and regulations that could have a significant impact on the Council's activities.
6. To review, appraise and report on the arrangements for protecting assets from loss resulting from theft, fraud, fire or misuse and, as appropriate, verifying their existence.
7. To review and appraise the economy, efficiency and effectiveness with which resources are deployed and recommend improvements in procedures and systems that will reduce wastage, extravagance and fraud.
8. To review service delivery arrangements and projects to ascertain whether the activities are being carried out as planned and the results are consistent with the Council's established policies.

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9. To maintain a programme of development, review and assessment of the Council's risk management processes in order to provide assurance on their integrity.
10. To carry out any ad hoc appraisals, inspections, investigations, examinations or reviews requested by senior management or the political executive.
11. To act as the liaison with the Council's external auditors and coordinate audit effort with the District Auditor in order to avoid duplication of effort and increase audit coverage.
12. To develop shared audit protocol with colleagues in partner organisations in order to avoid duplication of effort and maximise internal audit coverage.
13. To maintain technical competence through continuing education and active participation in professional activities.
14. To adhere to the code of ethics, standards and guidelines of the relevant professional institutes and the Auditing Practices Board.
15. To utilise the resources designated for use by the Audit Services Team to maximise the efficiency and effectiveness of the internal audit function.
16. To serve on internal working groups as appointed by senior management.

INDEPENDENCE OF AUDIT SERVICES

The Audit Services Team reports administratively to the County Treasurer through the Assistant County Treasurer responsible for Financial Policy and Audit Services. The County Treasurer is the Council's Responsible Financial Officer under the terms of Section 151 of the Local Government Act 1972.

The Principal Audit Manager is responsible for the day to day management of the Audit Services Team and reports to the Assistant County Treasurer – Financial Policy and Audit Services. The Principal Audit Manager has the freedom to report to any level of management (officers and Members as appropriate) on audit findings without censure.

The Principal Audit Manager has no executive or managerial powers, functions or duties except for those relating to the management of the Audit Services Team and is not involved in the day to day management of the Council.

AUTHORITY OF AUDIT SERVICES

This Charter and the Council's Standing Orders and Financial Regulations confirm the authority conferred on the Audit Services Team by the Council.

The Principal Audit Manager and his internal auditors have the authority to: -

- decide on the nature, scope and timing of audits

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- access the books, documents, accounts, property, vouchers, records, correspondence and other data of the Council that are necessary to the proper performance of internal audit duties
- enter any of the Council's premises
- have discussion with the Council's line managers and other employees
- request any officer to provide the information and explanations needed to be able to form an opinion on the adequacy of and compliance with the internal control system.

The Council's officers are required to assist the Audit Services Team in the performance of their audit duties and to respond promptly to any requests for information, explanation, discussion, entry to premises or access to documents.

SCOPE OF AUDIT SERVICES

The risk of financial loss is not the sole concern of the Audit Services Team. The scope of audit activity encompasses the whole range of internal controls employed by the Council – both financial and non-financial.

The scope of the audit function is therefore sufficiently comprehensive to meet the Council's needs. It extends to cover all areas of the Council and its controlled entities and may involve working with colleagues in partner organisations.

AUDIT PROTOCOL

The Audit Services Team is required to observe the following protocol in carrying out their internal function: -

- Provide advance notice to the manager of each service area to be audited. An annual audit plan will be established after securing input from the Heads of Service and approval of the plan by the Chief Executive's Management Team and the Cabinet. The annual audit plan will also be reported to the Strategic Monitoring Committee.
- Conduct a preparatory meeting with the manager of the service being audited to discuss the nature of the audit, the length of engagement and the coordination of the review around operational constraints. The detail of the audit programme will be reviewed at that meeting with the service manager in order to ensure proper and thorough audit coverage.
- Conduct interim meetings with the service manager as appropriate to discuss progress with the review and findings as they arise.
- Preparation of a written draft internal audit report following the conclusion of the audit.
- Conduct a final meeting with the service manager to discuss the draft report and confirm the accuracy of the audit findings and the appropriateness of the audit recommendations.

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- Agreed amendments to the draft report will be reflected in the final report along with the service manager's response to the recommendations. Final copies of the report will be distributed as appropriate.
- The Head of Service is responsible for making sure that the action plan included in the final report is implemented.

AUDIT REPORTING

The Audit Plan

A four-year strategic plan providing for the review of significant Council activities will be prepared for approval by the Chief Executive's Management Team and the Cabinet prior to the start of each financial year. It will also be reported to the Strategic Monitoring Committee. The strategic plan will be based on an assessment of the risk pertaining to the achievement of the Council's objectives.

Mid-Year Assurance Report

The mid-year assurance report will identify the key internal control issues the Principal Audit Manager has identified or continues to be concerned about as a result of routine audit work. The report will provide summary information on special investigations and completed audit assignments and will be presented to CXMT for their comment before it is presented to Cabinet and then SMC.

Annual Audit Report

The first year of the strategic plan forms the basis of the annual operational plan for the Audit Services Team. An annual report on progress against that plan is required for the Chief Executive's Management Team and Cabinet before the end of June following the end of the relevant financial year. The annual report will also be presented to the Strategic Monitoring Committee.

Audit Assignment Reports

The Audit Services Team are required to submit timely reports on all audit assignments in accordance with the procedures and guidelines set out in the Audit Manual.

AUDIT STANDARDS

The Council requires Audit Services Team to follow the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom (published in November 2000).

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DETECTING AND DETERRING FRAUD

Deterrence of fraud is a responsibility of management. The Audit Services Team is responsible for examining and evaluating the adequacy and effectiveness of actions taken by management to fulfill this obligation.

The Audit Services Team shall be trained to recognise the potential indicators of fraudulent activity. If sufficient control weaknesses are detected, the Audit Services Team will carry out additional tests in order to confirm or otherwise an acceptable level of propriety and probity.

The Audit Services Team will not and can not, however, be as skilled in the detection of fraud as individuals whose sole purpose is to detect and investigate fraud – the remit of the internal audit function is much wider than prevention of fraud as set out in this Charter. Service managers must also be clear that auditing procedures alone, no matter how professionally they are carried out, cannot guarantee that fraud will be detected.

The Audit Services Team will assist in the investigation of fraud in order to: -

- Determine if controls need to be implemented or strengthened
- Design audit tests to help disclose the existence of similar frauds in the future
- Meet the internal auditor's responsibility to be able to recognise fraud.

A written report will be issued at the conclusion of each investigation. It will include all findings, conclusions, recommendations and corrective action to be taken.

March 2002

AUDIT OPINION

Quantification and Classification of Internal Control Levels

Control Level	Definition
Good	A few minor recommendations (if any).
Satisfactory	Minimal Risk- a few areas identified where changes would be beneficial.
Marginal	A number of areas have been identified for improvement.
Unsatisfactory	Unacceptable risks identified, changes should be made
Weak	Major risks identified, fundamental improvements are required.

BUDGET MONITORING 2003/04

PROGRAMME AREA RESPONSIBILITY: CORPORATE STRATEGY AND FINANCE

CABINET

4TH SEPTEMBER, 2003

Wards Affected

County-wide

Purpose

To note the position with regard to revenue budget monitoring for Programme Areas in 2003/04.

Key Decision

This is not a Key Decision

Recommendation

THAT the report be noted.

Reasons

Reports are presented to Cabinet as part of the Council's Performance Management arrangements.

Considerations

1. Appendix 1 shows the details of the spending as at 31st July, 2003 for each Programme Area, together with the projected outturn for 2003/04.
2. The budgets shown for 2003/04 include the final carry forwards from 2002/03.

Education

3. A very large proportion of the Education budget is delegated to schools. Any underspendings, or indeed overspendings should they occur, in the schools budgets will automatically be carried forward into next year under the statutory arrangements for delegation to schools.
4. As far as the non-schools budgets are concerned there is a carry forward of £927,000 from 2002/03. However, the carry-forward is already committed to 2003/04 expenditure on the Whitecross PFI scheme, and the LEA contribution to those Standards Funds and elements of National Grid for Learning that were brought forward from 2002-03.

Further information on the subject of this report is available from David Keetch, Assistant County Treasurer on (01432) 260227

5. At this stage in the year it is anticipated that expenditure will be contained within the overall budget. Some transfers between schools and LEA budgets are necessary largely to reflect additional information received since the budgets were constructed and approved. The most significant transfer is in respect of the newly delegated to schools "banded" funding for pupils with SEN in primary schools which begins in September, 2003. A proportion of the provision for banded funding was included in the LEA budget as a central provision for pupils with SEN.

Policy and Finance General

6. At this early stage in the year no significant overspendings or underspendings have been identified for Policy and Finance General with the exception of Land Charges, which is mentioned below. This assumes that the budget carry forwards of £1,232,000 from 2002/03 will be spent during 2003/04. There are already significant commitments against this sum, including the Development Fund and the Treasurer's investment in new systems for payroll, cash receipting and housing benefit.
7. It is clear that there will be a very significant shortfall of income from Land Charges due to the increasing use of private firms to carry out personal searches. The shortfall of income of £95,000 in 2002/03, was met from reserves. The shortfall is estimated at £100,000 for 2003/04.
8. It has been assumed that the additional costs of job evaluation, at present £46,000, and the externalisation of Commercial Services (£78,000) will be met from reserves or in the case of the externalisation as part of the transfer arrangements
9. There are suggestions that the Combined Fire Authority might issue a supplementary levy of perhaps £60,000 on the Council in 2003/04 but no such levy has been approved to date.

Policy and Finance Property

10. The projected overspend on Property of £802,000 includes £524,000 brought forward from 2002/03. £379,000 of this overspend is the deficit on the Markets and Fairs budget. Income has now increased from the markets and the capital investments in creating new car parking provision, should increase income in total by between £80,000 and £100,000 p.a in future years
11. In addition the deficit on income from the Industrial Estate is expected to rise from £188,000 to £388,000 in 2003/04. The cause can be attributed to an increasing number of Industrial Units becoming vacant and the sale of leases resulting in lower income. The recovery plan for the Industrial Estates include a more active marketing strategy, sub-division of the larger units into smaller more lettable units and capital investment in the general refurbishment of the dilapidated units to make them more attractive for letting.

Environment General

12. The most obvious pressure identified so far is in the Travellers Services budget. An overspending during 2003/04 of perhaps £70,000 looks very likely. Cemetery income has been higher than budget during the first part of the year. The other budgets are on target.

Environment Regulatory

13. Spending on Environment Regulatory is very much in line with the budget at present. Budget pressures are increasing in respect of Landfill and Contaminated Land and Licencing but it is hoped at this stage to contain these potential overspendings within the overall budget.

Planning

14. During the first four months of the year no significant variations have been identified except for additional development fee income of around £50,000. It is too early to say if this increased income will be maintained throughout the year. The report assumes that the Planning Development Grant of £320,000 will be spent during 2003/04.

Social Care

15. The projected year end position for Social Care is an over commitment of £455,000, after incorporating the 2002/03 overspend brought forward of £582,000.
16. This shows some impact on the overall spend and the objective of balancing the budget overall.
17. The intention is to continue on this basis but there are risks in the children's services area from lack of capacity in the foster parents resource and the need to find other placements. There is also the imperative to improve the performance on delays for older people and intensive home care which will remain challenging in terms of budget management.

Strategic Housing

18. The risk area is spend on homelessness. At this stage, the projected outturn is on target for strategic housing as a whole.

Social Development

19. The main budget issue is the continuing shortfall in the budget for Parks and Countryside, which shows a projected deficit of around £200,000 in 2003/04, including £172,000 in the 2002/03 carry-forward. The remaining budgets are broadly on target.

Leisure Contracts

20. The deficit on Leisure Contracts of £138,000 brought forward from 2002/03 remains to be dealt with. Following discussions with the Leisure Trust it is expected that this deficit will be eliminated over the next few years.

Economic Development

21. Spending on Economic Development is within budget at present and no major variances are currently predicted. The carry-forward from 2002/03 of £150,000 included significant amounts for 2003/04 projects.

22. Financial Transactions

Investment interest received and debit interest paid is at present in line with the budget.

Conclusion

The projected net overspending of £1,673,000 shown is obviously just on the 1% set for total overspendings permitted by the Financial Regulations. The Regulations allow overspending of up to 2% of the Budget for individual Programme Areas subject to a 1% limit for the whole Council. Careful monitoring and appropriate action where necessary will be required to ensure the overall limit is not exceeded at the year end.

Alternative Options

There are no alternative options.

Consultees

None identified.

Background Papers

None identified.

Summary Budget Monitoring Report 2003/04 - July2003

Programme Area	Carry forwards from 2002/3 £000	Total 2003-04 Budget £000	Actuals to 31.07.03 £000	Budgets to 31.07.03 £000	Variance £000	Projected Out-turn £000	Projected Over/(Under -) Spending £000
Schools Budget	0	67,784	18,236	20,952	2,716	67,784	0
LEA Budget	(927)	10,810	3,027	3,418	391	10,810	0
Social Care	582	32,682	13,051	12,893	-158	33,137	455
Policy and Finance - General	(1,232)	20,859	14,680	15,048	368	20,859	0
Policy and Finance - Property	524	1,344	920	668	-252	2,171	802
Environment - General	(210)	16,624	2,975	3,132	157	16,624	0
Environment - Regularity	(10)	2,276	622	755	133	2,276	0
Environment - Planning		2,151	360	412	52	2,151	0
Social Development	53	7,585	2,646	2,735	89	7,785	200
Leisure	138	-138	0	0	0	-18	120
Economic Development	(150)	2,224	440	510	70	2,224	0
Housing	(191)	1,406	272	375	103	1,402	(4)
	-1,423	165,607	57,229	60,898	3,669	167,205	1,723
Financing adjustments etc	1,423	1,937	249	270	21	1,937	0
	0	167,544	57,478	61,168	3,690	169,142	1,723

Notes.

1. In both the carry forward from 2002/3 and the projected over and underspending columns , overspendings shown as positive figures. Underspendings are shown in brackets..
2. The column headed total budget 2003/4 reflects the carry forwards from 2002/3.

CAPITAL PROGRAMME MONITORING 2003/04

PROGRAMME AREA RESPONSIBILITY: CORPORATE STRATEGY AND FINANCE

CABINET

4TH SEPTEMBER, 2003

Wards Affected

County-wide

Purpose

To note position as at 31st July, 2003 with regard to the Capital Programme for 2003/04.

Key Decision

This is not a Key Decision.

Recommendation

THAT the position be noted.

Reasons

Report for information.

Considerations

1. This is the first round of the 2003/04 capital monitoring process. The purpose of this monitoring exercise is to update the original budget position as at 31st July in order to highlight and manage any slippages or overspends.

Overview

2. The revised forecast for 2003/04 as at 31st July totals £32,137,000 (excluding LSVT costs). This is an increase of £344,000 from the original budget. This programme is funded as detailed in Appendix 1.
3. Actual spend in the first four months at £4,787,000 was 15% of the revised forecast. This excludes unposted commitments of £3,489,000 which would increase committed spend to 23% of the revised forecast. A summary of the programme expenditure for each area is set out in Appendix 2. For comparison, spend to the end of July 2002 was 17% of the 2002/03 Capital Programme.

Capital Programme Areas

4. Education

Various small budget changes have been made to accommodate additional spend which are fully funded through grants or capital reserves. Other budget changes may occur during the year as and when the DfES approve capital schemes and additional grant funding is identified.

The Education Capital Programme includes a scheme funded by grant for the Early Excellence Centre. This grant is conditional upon the expenditure being incurred by 31st August 2003 or else the unspent funding, £362,198 will have to be returned. As it will not be possible to incur the expenditure by this date, a legal bond is being investigated with the DfES which will effectively commit the Council to the expenditure. The bond is arranged by the Council's legal team and is held by the contractor's bank whilst the work is carried out.

5. Social Care

The budgeted capital expenditure on Social Care has increased by £97,000, for a new scheme: 'Improving Management Information' that is grant funded.

6. Property

There have been no budget changes in this round of capital monitoring. Although actual spend appears high the main scheme, Hillside capital works, is due to be completed in November. The budget for this area is currently unfunded by £81,000, although it is anticipated that capital receipts will be received during the year. The timing and value of these various capital receipts are subject to change owing to market forces.

7. Policy and Finance

There are small decreases in the current year forecast to reflect reduced anticipated spend on the Personnel IT System and slippage on the Info in Bromyard capital scheme. The Info in Bromyard scheme was to be funded from Credit Approvals and a swapping of resources will be required to ensure no funding is lost. This programme area is currently unfunded by £15,000 relating to budgeted spend on the CCTV scheme exceeding the funding available. This will be met from corporate reserves until new sources of funding are identified.

8. eModernisation Programme

There are no forecast changes to report. However, this area is continuing to be developed and further information will be reflected in future reports.

9. Environment General

There have been no forecast changes to the original budget. Actual spend appears low. However, the capital budgets for roads and bridges are almost fully committed.

10. Social Development

There have been no forecast changes in this round of capital monitoring. Spend appears low with no spend as yet on Aylestone Hill Park and Castle Pool, which are two of the main schemes for this area. However tenders for these are currently being drawn up and the spend will be achieved this year.

This programme area remains unfunded by £60,000 owing to a brought forward overspend, which is being met from corporate reserves until new sources of funding are identified.

11. Economic Development

The forecast for this area has increased by £138,000, primarily relating to the Edgar Street Grid additional spend which is being financed from the corporate capital receipts reserve.

12. Strategic Housing

There have been no forecast changes; actual spend is usually low at the start of the year.

13. LSVT Costs

The original budget was for the levy, which has now been paid to the Government as part of the LSVT agreement.

14. Capital Receipts

Set out as Appendix 3 is a summary of anticipated capital receipts for 2003/04. The current policy is for 50% of these receipts to be utilised within the respective Directorates, however this policy will be revisited in the forthcoming Property Review.

Conclusion

The current capital monitoring forecast is that, subject to the Education bond issue, no conditional resources will be lost.

The cross-directorate Capital Programme Monitoring Working Group continues to work well to ensure the delivery of the capital programme.

Alternative Options

There are no alternative options.

Consultees

Not applicable.

Risk Management

Capital monitoring is in itself an integral part of risk management. The potential loss of conditional resources is identified and adjustments are made accordingly.

Background Papers

None identified.

APPENDIX 1

FUNDING OF REVISED 2003/04 CAPITAL PROGRAMME

Capital Programme Area	2003/04 Revised Forecast 31/07/03	Credit Approvals	Grants	Revenue Contribution	Capital Receipts Reserves	Unfunded
	£'000	£'000	£'000	£'000	£'000	£'000
Education	7,878	3,409	3,740	1,038	(309)	-
Social Care	397	216	181	-	-	-
P&F – Property	837	249	485	-	22	81
P&F – General	1,024	832	192	-	(15)	15
P&F – eModernisation	1,217	556	661	-	-	-
Environment General	10,501	9,821	576	-	104	-
Social Development	995	349	669	46	(129)	60
Economic Development	3,794	1,059	3,572	-	(837)	-
Strategic Housing	5,494	1,500	530	-	3,464	-
Revised Forecast	32,137	17,991	10,606	1,084	2,300	156
Housing Revenue Account – LSVT levy	3,379	-	-	-	3,379	-
Total Revised Forecast	35,516	17,991	10,606	1,084	5,679	156
Original budget	35,172	18,004	9,792	1,084	6,106	186
Change	344	(13)	814	-	(427)	(30)

APPENDIX 2

CAPITAL EXPENDITURE BY PROGRAMME AREA

	Outturn	Original Budget	Revised Forecast 31/07/03	Change	Actuals at 31/07/03	Actuals as a % of the revised budget
Programme area	2002/03	2003/04	2003/04	2003/04	2003/04	
	£'000	£'000	£'000	£'000	£'000	%
Education	5,761	7,747	7,878	131	1,355	17%
Social Care	618	300	397	97	24	6%
P&F – Property	865	837	837	-	652	78%
P&F – General	320	1,047	1,024	(23)	136	13%
P&F – eModernisation	968	1,216	1,217	1	132	11%
Environment Planning	4	-	-	-	-	-
Environment General	9,745	10,501	10,501	-	1,590	15%
Social Development	873	995	995	-	18	2%
Economic Development	849	3,656	3,794	138	201	5%
Housing Revenue Account	2,898	-	-	-	-	-
Strategic Housing	3,687	5,494	5,494	-	594	11%
HCS	66	-	-	-	-	-
Joint Finance	1,358	-	-	-	85	N/a
Outturn	28,012	31,793	32,137	344	4,787	15%
Housing Revenue Account – LSVT	4,132	3,379	3,379	-	3,428	101%
Total Outturn	32,144	35,172	35,516	344	8,215	23%

APPENDIX 3

ANTICIPATED CAPITAL RECEIPTS FOR 2003/04

Sale Detail	Directorate Share	Directorate Share	Corporate Share	Total receipt
		£'000	£'000	£'000
Leominster Magistrate Court	50% Property	100,000	100,000	200,000
Land at Marden	50% Property	15,000	15,000	30,000
47 Goal St	50% Property	25,000	25,000	50,000
26 High St Leominster	50% Property	25,000	25,000	50,000
Canonbridge Farm	50% Property	50,000	50,000	100,000
Norden Estate	50% Property	100,000	100,000	200,000
Westbrook Estate	50% Property	100,000	100,000	200,000
Goodrich Primary School	£20,000 Diocesan then 50% Education	50,000	50,000	100,000
Eign Road Pupil Referral Unit	50% Education	60,000	60,000	120,000
Vortex Site, Belmont	50% Social Development	40,000	40,000	80,000
Total		565,000	565,000	1,130,000

