

MINUTES of the meeting of Overview and Scrutiny Committee held at The Council Chamber, Brockington, 35 Hafod Road, Hereford on Monday 16 January 2012 at 10.00 am

Present: Councillor A Seldon (Chairman)
Councillor JW Millar (Deputy Chairman)

Councillors: AM Atkinson, PL Bettington, WLS Bowen, MJK Cooper, EPJ Harvey, MAF Hubbard, RC Hunt, TM James, Brig P Jones CBE, JLV Kenyon, R Preece, SJ Robertson, P Rone and PJ Watts

In attendance: Councillors JG Jarvis, MD Lloyd-Hayes and C Nicholls.

Officers: D Taylor (Deputy Chief Executive and Director of Corporate Services), R Ball (Assistant Director – Place Based Commissioning), C Hall (Head of Highways and Community Services), J Jones (Head of Governance), D Powell (Chief Officer – Finance and Commercial Services); and T Brown (Democratic Services).

46. APOLOGIES FOR ABSENCE

Apologies were received from Councillor PGH Cutter, Miss E Lowenstein and Mr P Sell.

47. NAMED SUBSTITUTES

There were none.

48. DECLARATIONS OF INTEREST

There were none.

49. MINUTES

It was agreed that the names of officers present at meetings and their titles should be recorded in the Minutes as a matter of course.

RESOLVED: That the Minutes of the meeting held on 9 December 2011 be approved as a correct record and signed by the Chairman.

50. SUGGESTIONS FROM MEMBERS OF THE PUBLIC ON ISSUES FOR FUTURE SCRUTINY

There were no suggestions from the public.

51. QUESTIONS FROM THE PUBLIC

A number of questions had been received from Mrs E Morawiecka relating to agenda item 8: Budget Update.

It was reported that it was intended to provide a written answer. Members requested and were provided with copies of the questions.

The questions and written answers are appended to the Minutes.

52. KEY MECHANISMS FOR THE MANAGEMENT OF PERFORMANCE IN THE CONTRACT WITH AMEY HEREFORDSHIRE

The Committee considered a report on the key contractual mechanisms currently in place to manage performance within the contracts with Amey Herefordshire.

The Assistant Director – Place Based Commissioning (ADPBC) reminded the Committee that negotiations on a contract extension with Amey Herefordshire were ongoing. It was intended to send supplementary information to Members on current performance. The performance of the service areas delivered through Amey were reported through the Council's Integrated Corporate Performance Report. He confirmed that the performance measures included measures from the former Best Value Performance Indicators set, where these were considered to be relevant.

The Head of Highways and Community Services (HHCS) presented the report. He commented on the current performance framework and the development of a future framework.

In discussion the following principal points were made:

- Some concern was expressed that the report did not provide the Committee with the information necessary to assess and test performance and the assurance that there was a sufficient level of independent challenge to performance.
- The HHCS gave an example of how there had been a significant improvement in performance in the management of highway defects since the introduction of the Managing Agent Contract, driven by challenge from the Council as client, through the mechanisms established in the contract. The ADPBC assured the Committee that in his opinion strong mechanisms were in place to manage performance. The HHCS commented that whilst Amey was required to manage its own performance additional checks were provided by the Client Management Team. He described the work of the team and how it audited works and sought to achieve performance improvement.
- In response to questions about the stated savings achieved under the contract it was confirmed that the Council's service budgets were reduced to account for the guaranteed annual saving delivered through the contract. Further cashable savings were driven by the client team and had resulted in managed reductions in the budgets allocated to Amey Herefordshire for the delivery of services. Directorates had been required to make significant savings over the past year. Whenever they had been generated from a service area delivered through Amey Herefordshire these savings had also been taken into account in the budgets allocated to Amey.
- In response to a question about the fact that no dividend had been paid to the Council as a shareholder in Amey Wye Valley Ltd, the Leader of the Council commented that when Amey had taken over the contract a deficit had had to be repaid. He was mindful of the need to ensure that the Council received its fair share of any future profits. In response to further questions about the transparency of arrangements and the closeness of the relationship between the contractor and the Council under the current contract the Leader commented that he was seeking assurance that the current contractual model was to the Council's benefit.
- Members expressed a number of concerns about whether the contract represented value for money. In response to a specific concern about the cost of work sub-contracted by Amey the HHCS stated that each job was costed on the basis of established rates and payment mechanisms. The price the Council paid was the

same whether Amey undertook the work itself or not. The proportion of any management fee to Amey that was then paid to sub-contractors for individual works was a matter between Amey and its sub-contractors.

- The ADPBC commented that value for money was a key aspect of the current negotiations. It was emphasised that the Committee would wish to consider the content of new contractual proposals prior to the decision on whether or not to offer Amey a contract extension.
- It was noted that the Managing Agent Contract, negotiated in 2009, governed highway services whilst property services continued to be delivered under the former contractual arrangements which were viewed as less effective.
- It was suggested that a Task and Finish Group should be established to look into the issues and that questionnaires should be sent to all Members to seek evidence.
- It was confirmed that some authorities did retain their own Direct Labour force to carry out the sorts of works provided under the Amey contract. The ADPBC added that authorities generally were considering service delivery options and the Council continued to receive a number of enquiries about its approach.

RESOLVED:

That (a) the report be noted.

(b) a supplementary report be circulated to Members of the Committee providing the historical background to the Amey contract and the financial and performance management provisions within it; and

(c) consideration be given to when the Committee could most effectively consider the content of new contractual proposals prior to the decision on whether or not to offer Amey a contract extension.

53. BUDGET UPDATE 2012/13 (Pages 1 - 2)

The Committee was asked for its views on the budget for 2012/13 and the principles underlying the Medium Term Financial Strategy.

The report to Cabinet on 19 January had been circulated separately to the Committee.

The Leader of the Council introduced the report highlighting the following issues:

- That the provisional Local Government Settlement for 2012/13 meant a £5.7m reduction in formula grant for the Council.
- The Government's payment of a grant to authorities who agreed to freeze their Council tax for 2012/13 equated to a 2.5% increase in Council Tax but was for one year only.
- The budget proposals involved savings of £9.3m in 2012/13. This followed on from savings of £10.3m in 2011/12.
- A reduction in some services was inevitable but the Council had sought to maintain frontline services.
- The Council was increasingly a commissioning organisation transferring service delivery to other organisations.

- The funding picture after 2012/13 was unclear. There were a number of significant changes ahead.

The Chief Officer – Finance and Commercial Services (CFO) highlighted the following additional points:

- He emphasised that for 2011/12 the Government had offered a grant to those who froze Council tax for four years up to and including 2014/15. A further council tax freeze grant was now being offered for 2012/13 only. It was proposed to use this one-off sum for transformation (£1.2m) and budget contingency (£1m).
- Additional funding for social care within the formula grant was proposed to be passported to that service area. A sum of £2.3m was also to be transferred from the NHS to support social care.
- He also noted provision for a 1% increase in pay from 2013/14; income proposals; the provision of £1m for a change management reserve; savings proposals for directorates as set out in the appendix to the report; the capital programme; and the implications of the transfer of public health responsibilities to local authorities.

In the course of discussion the following principal points were made:

- Paragraph 5.2.3 of Section 5 of the Medium Term Financial Strategy on the Council's financial context noted the extent to which the Council's funding settlement from the Government was below average. The CFO commented that the national funding formula was complex and not transparent so the reasons why the authority fared so poorly were difficult to establish. Members considered that Cabinet should be encouraged, with the Committee's support to make representations to the Government to seek to address the apparent unfairness of the Council's settlement.
- The CFO informed the Committee of the Council's investment policy and provided assurance on the arrangements in place to manage risk to the Council's resources.
- The relationship between NHS and Council funding for social care was discussed. The CFO commented that joint arrangements were in place and national incentives encouraged an appropriate use of funds.
- A Member sought clarification on the proposed use of the council tax freeze grant of £2.2m for 2012/13. It was noted that the Cabinet decision in December had been that the sum would be used for transformation measures. The report before the Committee suggested it was proposed to use £1.2m of this sum for transformation with the remaining £1m being set aside as a budget contingency. The Leader accepted that this point required clarification and that he would request that this be provided.
- In response to questions, the CFO agreed to provide a briefing note showing movements on the Council's general and specific reserves, a breakdown of management fees paid by the Council and a breakdown of PFI funded schemes.
- A Member questioned the inclusion of provision of funding in the capital programme for Hereford Futures. It was asked whether this was in effect subsidising the development of the retail quarter when initially it had been stated that all infrastructure would be provided by the developer.

- It was requested that the wording of paragraph 3.6.2 of the Medium Term Financial Strategy relating to developer contributions should be checked to ensure that it accurately reflected the position.
- The proposed provision of an archives facility was noted. Attention was drawn to West Mercia Police Service's recent construction of such a building. It was suggested this might be a useful model to draw on and might be able to provide the Council with some cost-efficient interim storage.
- The significant pressures on the budget for adult social care services was discussed. It was noted, in addition, that care packages for some individuals with special and/or serious needs could be extremely expensive. The Leader indicated that he would welcome the Committee's assistance as proposals to transform provision were developed. A Member questioned the delay over a number of years in tackling this issue. It was suggested, however, that the graph in the MTFS at page 37 of the agenda papers extrapolating costs up to 2026 at some £160m per annum was unrealistic and therefore unhelpful.
- The Committee was invited to comment on the underlying assumptions underpinning the budget, and whether it reflected the Council's priorities and risk management. Members did not propose any different approaches. Some Members did, however, express dissatisfaction with the Government's decision that the council tax freeze grant was only for 2012/13, mindful of the consequences for council tax and budgets in future years, considering local authorities generally were being manoeuvred into taking a course that would not be in their financial interests in the longer term.

RESOLVED:

- That (a) Cabinet be encouraged, with the Committee's support, to make representations to the Government to seek to address the apparent unfairness of the Council's settlement;**
- (b) it was important that the financial reporting was transparent and clear and gave the historical context;**
- (c) a briefing note be produced showing movements on the Council's general and specific reserves, a breakdown of management fees paid by the Council and a breakdown of PFI funded schemes; and**
- (d) the Committee's considerations as recorded in the Minutes be made available to Cabinet.**

54. WORK PROGRAMME

The Committee considered its work programme.

A range of concerns were expressed about the work programme, including the balance of items within it; whether all relevant aspects of the Council's work were being scrutinised; the extent to which all eligible Councillors were engaged within scrutiny since the implementation of the new scrutiny model; the scale of the current programme and the need to focus effort and set priorities within it; and the format in which the programme was presented. The Chairman invited Members to write to him with any observations they had on the operation of the current scrutiny model.

The following proposed additions to the programme were discussed in detail:

- Provision of ICT Services – It was noted that a review of ICT Strategy was to be undertaken and suggested that the most effective work the Committee could undertake would be to contribute to work on the development of that Strategy.
- Legal Services – It was noted that an Improvement Plan for the Service was being prepared and suggested that the Committee might usefully consider progress with implementation within 6-9 months.
- Performance Monitoring of Amey, Hoople and Waste contracts – It was suggested that as there were contract monitoring arrangements in place the Committee might add more value by testing the effectiveness of the arrangements rather than seeking to undertake detailed monitoring itself.

It was noted that the Chairman and Vice-Chairman would give informal consideration to prioritising

RESOLVED:

That (a) the following additions to the Work Programme be added to the Work Programme, details and timing to be confirmed:

- **ICT Strategy**
- **Performance Reports on Amey, Hoople and Waste Management.**
- **Legal Services Improvement Plan Monitoring**
- **Operation of Hereford Futures**

(b) the Local Development Framework and Local Transport Plan should be the subject of separate scrutiny exercises.

The meeting ended at 12.45 pm

CHAIRMAN

Questions to Overview and Scrutiny Committee
Meeting Monday 16th Jan 2012

Question 1.

The last report to Herefordshire Council on the private company Hereford Futures Ltd was made as a verbal report in March 2011 to the Community Services Scrutiny Committee whose role has now been subsumed by the Overview and scrutiny Committee. When will a proper written report, including financial figures and delivery performance arising from the use of public funds, be provided to Herefordshire Council and the providers of this money, namely the residents of Herefordshire?

This will be a matter for discussion covering any future work programme

Question 2.

What public assets or funds have been transferred to Hereford Futures Ltd in the last 2 financial years and how has this money been used to achieve value for money of the people of Herefordshire?

The council's accounts show that payments to Hereford Futures /ESG were £586,000 in 2010/11 and £700,000 in 2009/10.

A number of properties are ring fenced receipts under the agreement.

Question 3.

(i) With regard to the Herefordshire Council Core Principle "*Valued Services – focusing on our priorities & what matters to people, stopping things we don't need to do*" what is the benefit of the £27million link road and the expensive improvements planned for Broad Street included in the Proposed Capital Programme.

(ii) Bearing in mind the very poor state of many of our roads and the many other transport projects in the current local transport strategy that have been cancelled, are these works essential?

(iii) When the Usable Capital Receipts Reserve is estimated to stand at just £3.55m (one fifth of what it was 3 years ago) is this the best use of nearly £30 million of taxpayers money at a time of financial rationing?

The following points formed part of the Link Road business case;

1. Provides access to a development of up to 800 new homes within the Urban Village
2. Allows the creation of up to 1400 new jobs resulting from development realised through delivery of the link road.
3. Reduces peak traffic usage on the inner ring road (Blueschool Street & New Market Street) by up to 50%

4. Significantly contributes to the regeneration of Hereford, one of 10 priorities within the current Economic Development Strategy

Question 4.

Hereford Futures Ltd state on their website that they calculate the link road will cost £30 million. On page 11 para 67 Herefordshire Council state "*The estimated cost of the overall scheme will be £27million*" for which the Council are seeking to secure borrowing in 2012. From a FOI request (002456) of Herefordshire Council a response dated 6th Dec 2011 states that the only funding in place for the Hereford Link road is "*£220K approved by HF Board on 14th November 2011 for advanced works, studies, etc*".

The figure of £30m was an initial estimate and the latest estimate for the construction of the road including land purchases is £27m

- (i) If the link road project was not to go ahead would this deliver a saving in 2012/13 of £220,000 in costs "approved by HF board"?

The £220k is coming from capital receipts reserve funding, if this was not spent the reserve would not be reduced and the funding resource would be carried forward to fund capital costs only.

- (ii) Would there be any additional payroll costs in HF that could be saved as a result of cancelling this project?

The Hereford Futures project team has been significantly reduced as part of the places and communities budget saving plan. These savings have occurred over the last two years.

- (iii) What is the risk of the project costing more than the £27m estimated by Herefordshire Council and probably coming in more than 10% higher as predicted by Hereford Futures Ltd?

The figure of £27m is an estimate but represents a figure within which the project will be delivered. It should be noted that if phase 2 of the development proceeds there is likely to be a developers contribution which will reduce the overall borrowing.