

**Commissioners present:**

Michael O'Higgins (Chairman)  
Steve Bundred (Chief Executive)  
Bharat Shah (Deputy Chairman)  
Lord Adebowale  
Jim Coulter  
Sheila Drew Smith  
Cllr. Peter Jones  
Sir Thomas Legg  
Dame Denise Platt  
Brian Pomeroy  
Dr Raj Rajagopal  
Professor Peter Smith  
Cllr. Chris White (for part)

**Staff in attendance:**

Paul Coombs (for part)  
Gina Cutner (for part)  
Gareth Davies  
Tracey Dennison  
Martin Evans  
Jenny Grey  
Roger Hamilton  
Julie Hope  
Michael Hughes (for part)  
Andy McKeon  
Siobhan O'Donoghue (minutes)  
Agnieszka Scott (for part)  
Dave Stewart  
Jo Whitehead  
Peter Wilkinson  
Brian Willmor

**Welcome, Apologies and Announcements**

1. The Chairman welcomed the Board to the meeting and the following announcements were made:
  - a. Apologies had been received from Commissioners Jennifer Dixon, Cllr. Steve Houghton and Jenny Watson.
  - b. Cllr. Sir Simon Milton, Chair of the Local Government Association and his colleague, Corin Thompson, were welcomed to the meeting to speak to the Board on matters of mutual interest.
  - c. Brian Willmor, RD, London Region was welcomed to the meeting.
  - d. Roy Shaw OBE, Hon Alderman of LB Camden, who had played a key role in the formation of the Audit Commission, had died. The Commission had been represented at the funeral.
  - e. The Board welcomed the news that Commissioner Jennifer Dixon had been appointed as Director of the Nuffield Trust; and that Frances Done, former MD, Local Government at the Commission had been appointed Chair of the Youth Justice Board.

**Guest Speaker: Cllr. Sir Simon Milton, Chair, Local Government Association.**

2. Sir Simon Milton, Chair of the Local Government Association (LGA) addressed the Board and spoke about matters of mutual interest. Sir Simon began by summarising the LGA's key activities and achievements over the past year; subjects of ongoing discussions with central government; and the LGA's aims and challenges for 2008: **[Section 36(2)(c)]**  
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3. Sir Simon concluded by saying that the relationship between the organisations was positive, although not without difficulties: for example, the LGA had felt that the recent *Positively Charged* report was well-balanced, but that the press

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release had been unfairly one-sided against local authorities. Although the level and honesty of the dialogue between the organisations was positive, the Commission needed to be clear that the LGA's concerns were serious and genuine, particularly around the issue of fee levels, and the LGA would welcome the opportunity to discuss, and hopefully resolve, some of the concerns with the Commission.

4. Board members went on to discuss further some of the topics that Sir Simon covered in his presentation, and asked questions on other matters of interest, as summarised below: **[Section 36(2)(c)]**  
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5. On behalf of the Board, the Chairman thanked Sir Simon and his colleague, Corin Thompson, for taking the time to speak to the Board.

## Minutes of the last Meeting – 13 December 2008

6. The minutes of the 255<sup>th</sup> Board Meeting were approved as a correct record, subject to the removal of paragraph 19a), which was potentially misleading.

7. <b>The Board approved the minutes of the last Meeting as a correct record.</b>
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## Report of the Chief Executive

CP 01-08

8. Cabinet Office Announcement on Data Security: In addition to the items in his report, the Chief Executive announced that on 22 January 2008, the Cabinet Secretary issued an instruction to all government departments and their agencies that no unencrypted laptops or drives containing personal data should be taken outside secured office premises. At this stage, it was not clear to what extent that instruction applied to the Commission as a public corporation, but the potential implications were considerable as our auditors held this type of information, albeit temporarily, as part of their duties. It was also unclear whether the restriction would apply to firms' auditors and their hardware. The Commission was in communication with the Cabinet Office about this matter and a dispensation had been requested whilst we conducted an assessment of the measures that we might need to take, and the associated cost implications. **The March Audit Committee would receive a detailed paper on this matter, and other data and network security issues at its March 2008 meeting.** Regardless of whether the instruction applied to the Commission in a legal sense, the Commission would seek to implement the spirit of the requirement, and staff would also be re-issued with Freedom of Information guidance on the deletion of personal data.
9. Local Government and Public Involvement in Health Act 2007: The Chief Executive clarified that the powers under Schedule 2A, including the Commission's power of advice and assistance, would come into force on 31 January 2008, and that the Commission's name would be changed to remove the reference to Wales.
10. Housing and Regeneration Bill: There were a number of areas of the draft Bill where tightening and tidying-up of the legislation would be beneficial to the

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Commission and others. The Commission's Chief Housing Inspector was a member of the Transition Board that had been established.

11. Meetings with Government Ministers and Others: The Chief Executive reported that, despite the Local Government Minister's initial negative reaction to the publication of the flooding report, he was now engaging constructively with the Commission about the report's findings.
12. **[Section 36(2)(b)(i)]**
13. Review of the National Audit Office: John Tiner's report on the National Audit Office's governance had been submitted to the Public Accounts Committee, for their consideration on 5 February 2008. Although the report had a narrow remit, discussions as part of the review had touched on broader issues and it was likely that there would be further consideration of these wider issues following the initial report.
14. **[Section 36(2)(b)(i)]**

15. <b>The Board noted the report of the Chief Executive.</b>
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## Pay Settlement 2008 – 2011

CP 02-08

16. The MD, Human Resources presented the report that set out the proposals for a three year pay settlement for all Commission employees on permanent or fixed-term contracts, following direction on the parameters for such a pay deal from the Board at its meeting in December 2007. The MD, Human Resources confirmed that the report contained an erroneous statement in para. 7.1, in that the two-stage year one (2008/09) settlement would have a knock-on effect of 4.5 per cent, and not 2.75 per cent as reported.
17. Commissioners felt that the three-year settlement, which amounted to a 0.5 per cent annual increase in real terms, was ultimately a neat solution to a complex and important issue that had wide ranging implications for staff morale and performance. However, there needed to be a serious budget assessment of the implications of an above 3 percent combined CPI/RPI inflation rate; particularly as an inflation rate cap had not been discussed, nor was there any legal basis under which the agreement could be revisited in light of higher than anticipated inflation rates. The Board felt that this was an important matter to address and that **a right to review the pay settlement should be built into any agreement.**
18. The Medium Term Financial Plan discussed at the last Board meeting in December 2007 had not reflected the implications of the proposed pay settlement, and a revised version would be considered by the Board at its next meeting in March 2008. The Board agreed that **should any additional resources have to be found as a result of the pay settlement, these would have to be through in-house efficiencies.**
19. Commissioner Cllr. Peter Jones did not support the proposals as set out in the report, and as such, did not approve the recommendations.

20. **The Board;**
- a. **approved a three year pay settlement to apply to basic pay and allowances for all Commission employees on permanent or fixed term contracts, comprising;**
  - b. **2008/09: a 1 per cent pay increase from 1 April 2008 and a further 3.5 per cent increase from 1 October 2008, equating to a 2.7675 per cent increase in the full year;**
  - c. **2009/10: from 1 April 2009, an increase equivalent to the average of CPI and RPI inflation rates plus 0.5 per cent, based on an average of six months' CPI/RPI figures for the period ending September 2008; and**
  - d. **2010/11: from 1 April 2010, an increase equivalent to the average of CPI and RPI inflation rates plus 0.5 per cent, based on an average of six months' CPI/RPI figures for the period ending September 2009;**
  - e. **agreed that any and additional resources required would be found through in-house efficiencies;**
  - f. **agreed that a right to review the settlement be built into any agreement; and**
  - g. **noted the intention to report to the next Board meeting the outcome of a review of benefits provided by the Audit Commission Pension Scheme.**

**Audit Commission Pension Scheme Governance**

**CP 03-08**

21. Commissioners Bharat Shah and Cllr. Peter Jones and the MD, Corporate Services declared an interest as Trustees of the Audit Commission Pension Scheme. It was not deemed necessary for the Trustees to leave the room, but the Trustees would not take part in any decision on the recommendations.
22. The Board had agreed at its December 2006 meeting to a number of measures that strengthened the governance arrangements and structure of the pension scheme, including an independent trustee who acted as Chair of the Trustee Board. Although there was no legal requirement to have an independent Pension Scheme Trustee it was considered good practice to do so, particularly for a scheme the size of the Commission's.
23. The contract with the current independent Trustee was due for renewal in March 2008, and as such, the Board agreed that this would provide an opportunity to begin a re-tendering exercise with a view to appointing a suitably qualified and experienced corporate and individually professional Trustee. The Board also agreed that the role of Trustee Chair was a suitable role for such an independent member, and that the appointment process must be focused absolutely on the requirements of that position.

24. **The Board:**
- a. **agreed to the appointment of a new independent trustee and nominated Commissioner Dame Denise Platt to serve on the appointment panel;**
  - b. **agreed to consult the Trustees of the Audit Commission Pension Scheme on:**

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- c. **any change in the status of the independent trustee, if it is proposed that the independent trustee should no longer be Chair of Trustees ;**
- d. **any proposed alternative process for the appointment of a Chair of Trustees, or the name of a nominated individual Trustee to take that role; and**
- e. **delegated final decision on these matters, following consultation with the Trustees, to the Chairman.**

### Q3 2007/08 Performance Report

CP 04-08

25. The MD, Corporate Services presented the performance report covering the period October to December 2007. The balanced scorecard reflected a cautious assessment, with eight amber and one red status issues. The red assessment reflected 'the firms' financial performance', as income from the firms was currently £1.8 million lower than the budgeted of £5.4 million. However, this was due to over-optimistic budgeting assumptions and lower than anticipated volumes of workload returns in the first half of the year, rather than actual performance.
26. Amber risks in the balanced scorecard included 'people management, culture and diversity'. As well as those areas for improvement addressed in the report, it was suggested that, in order to avoid reputational damage, progress needed to be made in the appointment of CAA Lead roles, as the predominant profile for CAA Leads so far in the regions was white and male.
27. It was suggested that some of the amber risk areas could be discussed in a less formal environment at the forthcoming Board Awayday, for example the challenges the Commission faced in terms of knowledge capture and sharing; implementing good practice; and a culture of learning within the organisation.
28. The Board also noted the pension adjustment costs and felt that the IFRS figures might need to be reconsidered. In light of the recent discussion on the pension scheme, (see CP 03-08 elsewhere) and the instability of the current market, **the Board requested that a paper on the risk profile of the pension scheme should be produced, once the new Chair of the Trustees had been appointed.** The Deputy Chair and Cllr. Peter Jones; the MD Human Resources and the Commission Solicitor would discuss this and other pension scheme matters outside the Board meeting.

29. **The Board noted:**
- a. **the overall performance summarised in the balanced scorecard;**
  - b. **the key achievements in the quarter;**
  - c. **progress against Strategic Plan activities;**
  - d. **the publications timeline; and**
  - e. **the management accounts to December.**

### Audit Issues

CP 06-08

30. The MD, Audit presented the report that sought the Board's agreement on various operational issues; and reported on a number of professional practice

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matters and sensitive issues. The Board approved the audit appointments as set out in the recommendations, before considering individual regulatory and professional matters, as follows:

- a. Long standing audit appointments: The Board welcomed the research that had been carried out on whether there was any correlation between the length of appointment and the performance of the audited body. However, Commissioners felt that, based on the information as presented in the report, **the conclusion that there was no evidence of a link was not strictly accurate, and that there should be more analysis.**
- b. Limited Assurance Audits: The procurement exercise in relation to limited assurance audits had been successfully concluded, with an overall saving of £300,000 per year.
- c. **[Section 33]**
- d. **[Section 33]**
- e. Audit Inspection Unit (AIU): The AIU inspectors would be on-site from 10 February 2008 and the five auditors for file review had now been selected.

### 31. The Board:

- a. **approved the appointment of Deloitte as the appointed auditor to Imperial College Healthcare Trust;**
- b. **approved the appointment of Paul King as the appointed auditor to Colchester and Ipswich Museum Service Joint Committee;**
- c. **approved to appointment of Alison Rigg to deal with residual matters arising from an objection raised by an elector at Corby Borough Council;**
- d. **approved the extension of Stephen Warren's appointment to deal with an objection raised by an elector at Croydon Council;**
- e. **approved other changes as set out in Appendix 1 of the report; and**
- f. **noted the other issues as set out in the report.**

## Year End Accounts Timetable

CP 06-08

32. The Board noted and approved the timetable for the production of the Commission's Annual Report and Accounts for 2007/08, and noted the proposals to align the cycles of 2009 Board meetings with the latter stages of the NAO's 2008/09 audit programme work and the Parliamentary summer recess.

33. **The Board approved the timetable and the delegations to the Audit Committee and the Accounting Officer, as set out in the report.**

## Minutes of Recent Meetings

CP 07-08 and CP 08-08

34. The Board noted the minutes of the 31 October 2007 meeting of the Housing and Regeneration Advisory Group; and the 12 December 2007 meeting of the Audit Committee, in particular the Audit Committee's approval of a new approach to internal audit by means of an internal Head of Assurance.

35. **The Board noted the minutes of the previous meetings without comment.**

**National Study: Efficiency of Back Office Functions**

**CP 09-08**

36. The MD, Policy Research and Studies and the Director of Studies presented to the Board the emerging findings of the study on how local authorities achieve efficiency gains in back office services. Work so far had found that local government had achieved considerable efficiency gains to date, particularly where a transformational approach had been adopted, but, there were still possibilities for further gains. There was no formulaic solution to achieving efficiencies, and each local authority had its own individual efficiency journey to make and had to be aware of its own starting position. Efficiencies had to be an ongoing process and would be challenging, even for the best authorities. Strategic whole service redesign required a longer-term view, risk-management and investment, but ultimately delivered significant and sustainable benefits.

37. **[Section 36(2)(b)(ii)]**

38. **The Board:**  
a. **commented on the draft key messages; and**  
b. **delegated authority to the Chief Executive to approve the full report for publication.**

**National Study: Local Government Workforce**

**CP 10-08**

39. The MD, Policy Research and Studies and the Director of Studies presented to the Board the emerging findings of the study on local government workforce and the recruitment and retention challenges faced by local authorities and their partners. The study looked at: links between authorities' approaches to developing their workforces and their ability to achieve strategic objectives; and identifying costs and benefits of particular approaches, including their impact on diversity and equality. The study followed on from the Commission's 2002 report *Recruitment and Retention: a public service workforce for the twenty first century*, although the messages and recommendations in this latest study were aimed at chief executives and lead councillors; as a coordinated, long term strategic action was required to address the recruitment and retention issues raised in the study.

40. Local government faced a number of significant recruitment and retention challenges. Employee expenditure was the single largest area of spend for local government, with the average cost of filling a vacancy being £4,333 per employee, rising to £7,750. Nearly 90 per cent of authorities reported difficulties recruiting and retaining professional staff, including planning officers, adult social carers and environmental health officers, who were the key groups addressed in the study. These recruitment difficulties were exacerbated in the context of a changing environment, for example an increasingly mixed economy of provision, and a greater emphasis on partnership working and joint delivery across sectors. Failure to act on recruitment and retention at a strategic level could have massive consequences for service delivery, for example, a predicted

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fifty per cent national shortage of qualified planners by 2012; and a predicted 15 per cent shortfall of social workers by 2020.

41. Despite progress since the 2004 National Pay and Workforce Strategy, the extent of workforce plans and strategies across local government varied widely and the quality was unknown in any great detail. However, the study had found a number of common characteristics among councils with effective approaches to recruitment and retention, and these were picked out in the case studies.
42. **[Section 36(2)(b)(ii)]:**

43. **The Board:**
- a. **commented on the draft key messages and findings;**
  - b. **commented on proposals for securing impact; and**
  - c. **delegated authority to the Chief Executive to approve the full report for publication.**

### **Information Bulletin / Speaking Engagements**

**CP 11-08 and CP 12-08**

44. The Board noted the Information Bulletin and the Chairman's recent speaking engagements.

45. **The Board noted the Information Bulletin and Chairman's speaking engagements without comment.**

### **Any Other Business**

**Verbal**

46. There were no further items of business.

### *Date of next meeting*

47. The next Board meeting would take place at 9.30am on Thursday 13 March 2008, in the Boardroom, Millbank Tower.