

**Commissioners present:**

Michael O'Higgins (Chairman)  
Steve Bundred (Chief Executive)  
Bharat Shah (Deputy Chairman)  
Lord Adebawale  
Jim Coulter  
Dr Jennifer Dixon  
Sheila Drew Smith  
Cllr Steve Houghton  
Cllr. Peter Jones  
Sir Thomas Legg  
Dame Denise Platt  
Brian Pomeroy  
Dr Raj Rajagopal  
Professor Peter Smith  
Dr Jenny Watson

**Staff in attendance:**

Paul Coombs (for part)  
Jennifer Bruce  
Gareth Davies  
Tracey Dennison  
Martin Evans  
Mark Fletcher  
Jenny Grey  
Julie Hope  
John Kirkpatrick (for part)  
Andy McKeon  
Siobhan O'Donoghue (minutes)  
Pauline Painter (for part)  
Roger Sykes (for part)  
Jo Whitehead  
Peter Wilkinson

**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 Commissioner Cllr. Chris White. The Commission Solicitor, Roger Hamilton had sent his apologies and Jennifer Bruce, the Commission's Legal Advisor would attend in his place.
  - b. Jodi Berg, Independent Complaints Reviewer to the Audit Commission was welcomed to the meeting. Ms Berg would present her draft Annual Report to the Board.
  - c. Jo Whitehead was welcomed the meeting in her capacity as interim MD, Corporate Services. Interviews for the vacant MD post would take place on Monday 12 May 2008. The Deputy Chairman, Bharat Shah, and Commissioner Brian Pomeroy would join the Chairman and the Chief Executive on the interview panel.
  - d. Mark Fletcher, RD, Northern Region was also welcomed to his first Board meeting.
  - e. As discussed at the previous evening's Board dinner, **the MD, Policy, Research and Studies, and the MD, Local Government would explore further some of the issues that were raised around good practice in local accountability.**
  - f. The Board congratulated Dame Denise Platt on her appointment to the Committee for Standards in Public Life from 1 July 2008. Dame Denise had also been awarded Public Servant of the Year in the 2008 Dods and Scottish Widows Women in Public Life Awards.
  - g. Michael Scott, MD Central Region and Head of the Commission's Trust Practice had been appointed Chief Executive of Westminster PCT and would take up his post on 12 May 2008. His new post also included being the lead Commissioner for the country's first Academic Health Sciences Centre.

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- h. The Chairman reminded Commissioners that for security purposes, they would need to take their invitation and a piece of photo-ID to the Commission's 25<sup>th</sup> Anniversary and *Follow the Money* book launch event at BT Tower on 2 April 2008.
- i. Due to their common subject, CP 12-08: Annual Report of the Independent Complaints Reviewer; and CP 20-08: Update on Complaints, would be discussed simultaneously.

## **Draft Annual Report of the Independent Complaints Reviewer and Update on Complaints**

**CP 12-08  
CP 20-08**

2. Jodi Berg, the Independent Complaints Reviewer (ICR) to the Audit Commission was welcomed to the meeting to give a summary presentation of the key points of her draft annual report on the operation of the Commission's internal and external complaints procedures. Following a review in 2006 of the complaints procedure, the Commission now operated an internal two-stage complaints process, with a wholly independent final stage provided by the Independent Complaints Reviewer's Office.
3. As part of her work for the Commission, the ICR had met with senior members of staff and had been heartened by their clear commitment to supporting the complaints review process. These meetings had informed much of what was presented in the annual report.
4. The Commission received and recorded very few complaints given the extensive contact it had with stakeholders, other regulators and bodies and members of the public: the Commission recorded only 61 new complaints in the reporting period January 2007 to March 2008. This suggested that a number of issues were dealt with before any intervention of the complaints process was deemed necessary. It was noted that in previous years, 80 per cent of complaints received went on to the second stage of review, but now this trend had completely reversed with the majority being settled at stage one. This demonstrated that staff were now more comfortable with, and empowered by, the new complaints process. However, there was still room for improvement, including establishing a mechanism to record compliments, so that good work would not go unnoticed.
5. Complaints against the Commission often reflected a misunderstanding of the Commission's role and authority. Nor was it surprising that a lot of the complaints related to communication, for example people's view of the answers that they have been given by Commission staff when raising concerns. The ICR reported that, where she had made recommendations relating to the way complaints were dealt with, they had been accepted by the Commission.
6. The Head of the Chief Executive's Office was invited to comment on the ICR's draft annual report and the update report on the wider complaints process. It was her opinion that it was the decision to change the approach to handling complaints, and the hard work of the Complaints Unit Manager that were responsible for the significant improvement in complaints handling, including the large proportion of complaints that were now resolved at stage one. The challenge now was a culture shift to reduce the incidence of complaints in the first place, and to encourage staff to record complaints and compliments. There also needed to be better expectation management, setting out more clearly, and at an

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early stage, what we would be able to do for complainants. Finally, it was imperative to learn from the complaints process. **The Board requested an update on actions that would be taken in light of the ICR's report.**

7. The Board welcomed the ICR's draft annual report and complaints update report, and endorsed the Commission's complaints process and particularly the role of the ICR. Commissioners also encouraged actively seeking feedback from complainants, and our customers more widely. We needed a better idea of who our complainants were, and any patterns in the complaints we received, although this was difficult to do with such small numbers.
8. On behalf of the Board, the Chairman thanked Jodi Berg and the Head of the Chief Executive's Office for presenting their reports to the Board.

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| <ol style="list-style-type: none"><li>9. <b>The Board:</b><ol style="list-style-type: none"><li>a. <b>noted the draft report of the Independent Complaints Reviewer;</b></li><li>b. <b>noted the progress of the complaints process; and</b></li><li>c. <b>noted the current complaints figures.</b></li></ol></li></ol> |
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## **Minutes of the last Board Meeting – 24 January 2008**

10. The minutes of the 256<sup>th</sup> Board Meeting were approved as a correct record, subject to the removal of the word 'independent' in paragraph 28.

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| <ol style="list-style-type: none"><li>11. <b>The Board approved the minutes of the last Meeting as a correct record.</b></li></ol> |
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## **Report of the Chief Executive**

**CP 13-08**

12. National Fraud Initiative: While the Commission would continue to seek to persuade certain local authorities of the legality of using the electoral register to identify fraudulently and inappropriately claimed single-person council tax discount, the Chief Executive reported that the matter may culminate in legal action. The sensitivities about using the electoral register were understood, but as the aim and outcome was identifying criminal offences, the work might actually encourage voters to have greater confidence in their authorities.
13. The Tiner Review: The Tiner Review of the NAO's Corporate Governance and the Public Accounts Commission's subsequent response to its recommendations had been shared with Board members. The Public Accounts Commission had accepted some of the Tiner recommendations, with some amendments. One such amendment was that the Audit Commission Chairman should attend NAO Board meetings as an observer, rather than, as Tiner had recommended, as a full member; and, that the Comptroller and Auditor General should do to the same at the Commission Board. The Board had little enthusiasm for observer status and the reasoning behind it, and agreed that this opinion should be reflected in any correspondence on the matter.
14. The Statistics Board: The Chairman had now received a response from the Cabinet Secretary about the inclusion of the Commission in an order under the Statistics and Registration Service Act, but the letter had added little by way of

## **FINAL with FOI exemptions**

information as to what 'official statistics' were, or provided reassurance about the implications for the Commission. Discussions with CLG were ongoing.

### **15. [Section 36(2)(b)(ii)]**

16. Advice and Assistance: There had been some concerns about the sensitivity of the work that the Home Office had asked the Commission to do with Her Majesty's Inspectorate of Constabulary, in that it might be perceived by local government as a new assessment framework. However, the LGA had been positive about it in recent discussions. Although the Home Office's strategy to tackle extremism was sensitive, the Board felt that this was actually a sound basis for undertaking the work in itself, as it would enable the spread of best practice amongst local authorities on a sensitive subject.

<b>17. The Board noted the report of the Chief Executive.</b>
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## **Initial Analysis of the Comprehensive Area Assessment and Use of Resources Consultation Responses CP 14-08**

18. The MD, Local Government presented the summary of early analysis from responses to the joint inspectorate Comprehensive Area Assessment (CAA) consultation, and the Commission's consultation on the Use of Resources assessment (UoR), which had both closed on 15 February 2008. A full analysis of the consultation responses would be available for the Board at its April 2008 meeting. This paper was linked to CP 15-08: Scales of Fees; and CP 16-08: Medium Term Financial Plan and 2008/9 Budget, both elsewhere on the agenda.
19. In terms of the overall CAA framework, there was generally strong support. The areas of concern were around the detail of the transition from CPA, and that there was not sufficient streamlining, and therefore not the anticipated reduction in the burden of assessment. The responses to the consultation had included some constructive ideas, which the Commission would be looking to discuss further.
20. The general feedback from the consultation on UoR was that it was too wide in scope. However, there was support for the individual KLOEs, with stronger support for the existing areas than the new ones. Specifically there was criticism that the expanded UoR was disproportionate, and that as it would include elements of the current corporate assessment, it continued, rather than reduced, the perceived burden. Consultees also wanted more information about the how, as well as what, in terms of the UoR approach. Having given careful consideration to the consultation responses and in light of findings from the action learning sites, the UoR framework would be rationalised further with reduced KLOEs and a phased, cyclical approach. Paper CP 15-08 gave more detail of the UoR streamlining.
21. The Board noted the consultation responses and the Commission's initial analysis, and discussed the following points: **[Section 36(2)(b)(ii)]**
22. The Board requested that it receive more detail specifically on: the breakdown of consultation responses, including the public consultation; a clearer communication of what the approach will look like; any issues around skills and recruitment; direction of travel assessment; and the CAA approach at PCTs. As well as the

## **FINAL with FOI exemptions**

more comprehensive analysis and next steps paper for the April Board, there would be another paper in July 2008 that would set out a more clear and detailed approach to CAA. Communication with AIBs would, of course, be ongoing.

<b>23. The Board noted the emerging messages form the consultations on Comprehensive Area Assessment and Use of Resources.</b>
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### **Scales of Fees**

**CP 15-08**

24. The Board received a report that set out the revised scales of audit and inspection fees for 2008/09, and indicative fee proposals for 2009/10 and 2010/11. The report also included proposals for the approach to setting fee scales in the future.
25. The report summarised the responses that had been received following the consultation on proposed fee scales, as discussed and agreed by the Board at its November 2007 meeting. There had been a considerable response to the consultation, with criticism from local government bodies about the proposed increases which were felt to be unacceptable in light of other financial pressures. Furthermore, some responses expressed the view that the Commission itself should be an exemplar organisation of internal efficiencies and value for money. The consultation had failed to convey effectively that the overall regulation costs would reduce with the transition from CPA to CAA.
26. In light of the responses, the Commission was now proposing to reduce the increase in fees for 2008/09 and beyond, by amending the approach to Use of Resources and absorbing cost increases through increased in-house efficiencies and cost reductions. In addition, auditors would be required through a more efficient audit approach to absorb any additional costs as a result of changes to auditing standards.
27. However, the Board was asked to confirm the proposed increases relating to the introduction of IFRS, and the separate audit of local government pension funds. The Board also had a choice in its preferred approach to mandating audits of data quality at fire and rescue authorities.
28. The Board also received proposals to bring forward the consultation process for future years' scales of audit and inspection fees to the summer, which would allow the final scales of fees to be published by the end of each year. This would be beneficial in terms of setting the medium term financial plan. If this approach was agreed, the draft proposals for 2009/10 fees would be considered by the Board at its July 2008 meeting; with 2010/11 and future years' proposals being brought to the Board at its June meetings. The new proposals would also allow the Board a longer lead-in time to consider the strategic issues relating to setting fees.

## **FINAL with FOI exemptions**

29. The Board welcomed the revised proposals for fee scales, but felt that there was scope for a lessons-learned exercise. The criticism that we had received had been foreseen in November, and yet at the time there was felt to be compelling justification for the proposed increases. It would be vital to spell out the rationale behind our decision, and make clear that real sacrifices would be incurred – it was not the case that we had simply got our calculations wrong. The matter of a separate scale of fees for the audit of pension fund would still be subject to criticism and we would have to remind authorities of the principle which informed the original proposal, which was made public and reported to the Secretary of State in 2006.
30. The totality of the package that the Commission had to achieve could not be underestimated. Reduced fee scales; a balanced budget; the staff pay settlement; and cost reductions, would all be a massive challenge with real consequences.

### **31. The Board:**

- a. **noted the issues raised during the consultation and our proposed response;**
- b. **confirmed the reduced increase in fees for use of resources work at single tier and county councils, and the elimination of the proposed fee increase for this work at district councils, police and fire and rescue authorities;**
- c. **confirmed the proposed increase in audit fees to cover the additional work in relation to the implementation of IFRS;**
- d. **confirmed the proposal to mandate work on data quality at fire and finance it from a 50:50 combination of fees and reserves;**
- e. **confirmed the proposal to require a separate audit of local government pension funds\*;**
- f. **confirmed a reduced inflation increase to audit and inspection fees of 1.25 per cent for the next three years;**
- g. **approved the audit and inspection fee scales for local government and the NHS for 2008/09 as set out at Appendix 3A; and**
- h. **approved the process for agreeing fee scales for 2009/10 and future years.**

*\* Cllr. Peter Jones dissented on this matter, and did not approve the proposal to require a separate audit of local government pension funds.*

## **Medium Term Financial Plan and 2008/09 Budget**

**CP 16-08**

32. The interim MD, Corporate Services presented the Medium Term Financial Plan (MTFP) and 2008/09 Budget for approval. Before presentation at the Board, the MTFP and its implications had been discussed in significant detail by the Management Team at its recent Away day, and in light of that discussion, the interim MD was able to assure the Board that the Senior Management Team would take responsibility for ownership and delivery of the plan, with support from the Finance and Planning team. The MTFP would enable the organisation to deliver its strategic objectives, including implementing Comprehensive Area Assessment, whilst achieving the cost reductions and efficiencies, as discussed in the report, and elsewhere on the agenda in papers CP 14-08 and CP 15-08. A Corporate Savings Plan Board had been established to oversee the delivery of the savings, and **it would provide quarterly updates to the Board from July 2008.**

## **FINAL with FOI exemptions**

33. The Board noted the figures and commentary in the report and welcomed the approach. It was a challenging plan and there would need to be an aggressive approach to cost reductions at a strategic level. The process as set out seemed to be sensible, and the associated sense of urgency, commitment and focus was appreciated. The Deputy Chairman would continue to be involved closely with overseeing delivery of the MTFP.
34. The interim MD, Corporate Services also confirmed that **the Board would now receive a regular summary of performance information**, which would help give an overview of performance across regions and across business streams. A mock-up of this performance report had been shared with, and approved by, the Chairman. The Board also requested that, in line with the longer lead-in time and advance discussion of strategic fee issues, as agreed in CP 15-08, **the Board would also receive an earlier view of the MTFP and Budget papers in future.**

35. **The Board approved:**
- a. **The Medium Term Financial Plan, as set out in Section 4 of the report; and**
  - b. **The 2008/09 Budget, as set out in Section 6 of the report.**

## **Review of Pension Scheme Design**

**CP 17-08**

36. The MD, Human Resources presented the report that set out proposed changes to the design of the Audit Commission Pension Scheme (ACPS). These changes followed a review of the scheme design by the Founders Pension Group, and the changes would help to ensure that the ACPS remained both comparable and affordable, in line with other public sector schemes.
37. The three areas for action were: increasing the retirement age to 65 for new entrants to the ACPS; introducing a salary sacrifice arrangement as a means of reducing the national insurance contributions; and, **the development of a flexible retirement policy, which would be reported in more detail at a future Board meeting.** Further options had also been considered as part of the review, and these could be revisited and implemented at a future date, if necessary.
38. The Board welcomed the proposals as set out in the report and the anticipated paper on flexible working. However, some unease was expressed at the presentational aspect of the introduction of the salary sacrifice arrangement.

39. **The Board:**
- a. **agreed that the pensionable retirement age for new entrants to the Audit Commission Pension Scheme is changed to 65;**
  - b. **agreed that the Commission implement a salary sacrifice arrangement as a mechanism for collecting member contributions; and**
  - c. **noted that these changes would be implemented as soon as is reasonably practicable, following consultation with the Pension Trustees and employees as appropriate.**

## **Creation of a Remuneration Committee**

**CP 18-08**

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40. The Board received a paper proposing the establishment of a Remuneration Committee to consider various issues, including the remuneration of the Chief Executive and Management Team. The proposed membership was Commissioner Raj Rajagopal as Chairman; and Commissioners Cllr. Steve Houghton and Jenny Watson.

### 41. The Board:

- a. **agreed that a Remuneration Committee should be set up;**
- b. **approve the proposed membership;**
- c. **agreed the Terms of Reference; and**
- d. **agreed that the Corporate Governance Framework should be amended accordingly.**

## Chief Executive's Appraisal

## Confidential Discussion

42. Following the coffee break, the Chairman and Commissioners held a private discussion on the Chief Executive's appraisal. At the conclusion of that discussion, staff returned to the Boardroom and the Board meeting recommenced.

## 23 and 24 April Board Awayday and Meeting

CP 19-08

43. The Chairman presented the draft agenda for the April Board Away day and Meeting for the Board's consideration. As previously directed by the Board, issues to be discussed included the knowledge challenge; studies; and diversity and the culture of the Commission. CAA and the impact on communities would be discussed as part of the regular business meeting on Day 2.

44. **The Board noted and agreed the proposed Away day agenda.**

## Audit Issues

CP 20-08

45. The MD, Audit presented the report that sought the Board's agreement on various operational issues and reported on a number of professional practice matters and sensitive issues. The Board approved the audit appointments as set out in the recommendations, before considering the individual regulatory and professional matters, as follows:

- a. **[Section 33]**
- b. **Final Accounts Workshops:** The Commission was currently running a number of workshops for key finance professionals at local government and NHS bodies. This was an annual exercise but the workshops were also useful in promoting the Commission and its work. As the workshops were so highly valued by those attending, the Commission would investigate the charging structure for future workshops.
- c. **[Section 33]**
- d. **Long standing audit appointments:** Following a re-evaluation of the data relating to performance at bodies with long standing audit appointments, the Board urged an action plan to follow-up the investigation. **The Board requested a summary of the bodies with long-standing audit appointments, with an explanation of where and how rotation might be possible, to be presented at a future meeting.** It was clarified that it

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was the audit supplier that was long standing, but that the partner was regularly rotated.

46. **The Board:**
- a. **approved the appointment of PricewaterhouseCoopers LLP as the auditor of Dartford and Gravesham NHS Trust and Norfolk and Norwich University Hospital NHS Trust for 2008/09;**
  - b. **approved the appointment of PricewaterhouseCoopers LLP as the auditor of Stratford on Avon District Council for 2007/08;**
  - c. **approved the appointment of Grant Thornton (UK) LLP as the appointed auditor to West Hertfordshire Crematorium Joint Committee with effect from 2007/08;**
  - d. **approved the appointment of Grant Thornton (UK) LLP as the appointed auditor to Chilterns Crematorium Joint Committee for 2007/08, and the subsequent rotation of the appointment to Mick West with effect from 2008/09;**
  - e. **approved the other changes in appointed auditors from 2007/08, as set out in Appendix 1;**
  - f. **approved the recommendation not to appoint an auditor for a seven day period at Good Hope Hospitals NHST; and**
  - g. **noted the other issues set out in the report.**

## **Format of 2007/08 Annual Report**

**CP 19-08**

47. The MD, Communications presented proposals for the 2007/08 Annual Review. The option of producing a single document incorporating an annual review and the annual report and accounts had been investigated, but after careful consideration, the Board was asked to approve the proposal to produce two separate documents. In order to streamline to process, the text of the review would be used within the management commentary of the annual report.
48. The Board felt that it was important that we understood who our audience was to inform the format of future publications, and suggested that feedback questions should be included in all formats. Alternative and additional formats, including email and summary publications, should also be considered.

49. **The Board:**
- a. **approved the proposal to continue producing the Annual Report and Annual Review as separate documents; and**
  - b. **approved the proposal that as far as possible, text produced for the Annual Review should be used within the management commentary of the Annual Report.**

## **Minutes of Previous Meetings**

**CP 08-08**

50. The Board noted the minutes of the 5 December 2007 meeting of the NHS Financial Management Advisory Group, without comment.

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

52. The Director of Studies presented to the Board the emerging findings of the study assessing the local impact of the government's implementation of the EU Landfill Directive, through the Landfill Allowance Trading Scheme in England. The forecasts within the presentation were fairly sensitive, although work was underway to strengthen the evidence base. However, the sums involved were potentially massive, with the risk of penalties and some £2 billion-worth of financial incentives available to local authorities to invest in waste disposal systems. Issues around predicting waste, long-term contracts, and managing partnership added to the risks. The situation was complex and there were many industry experts, but part of this study's aim would be to translate some of these issues into straightforward information for councils and central government.
53. The Board noted the emerging key messages, and made the following comments and suggestions: **[Section 36(2)(b)(ii)]**

54. **The Board:**
- a. **commented on the draft key messages and findings in the slide pack; and**
  - b. **delegated authority to the Chief Executive to approve the study report for publication.**

**National Study: Children's Trusts**

55. The MD, Policy Research and Studies and the Head of Studies presented to the Board the emerging findings of the study on the governance and accountability arrangements for Children's Trusts. The study identified how local partners were building stronger networks and using the *Every Child Matters* framework to improve the organisation and management of trusts, but also raised issues around the quality and consistency of guidance that was received from central government.
56. Most areas would have achieved the establishment of some sort of Trust arrangement by April 2008, but this was driven more by *Every Child Matters*, rather than the Trust agenda. Most key partners were represented although the voluntary sector felt under-represented. Overall, practice was varied and even where sound arrangements were in place, financial constraints were the main barriers to effective working. Joint commissioning and aligned budgets would help, but needed to be more ambitious.
57. The Board was asked to consider how the study and report might best position itself to be effective. The Board noted the emerging key messages, and made the following comments and suggestions: **[Section 36(2)(b)(ii)]**

58. **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.**

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

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

**Any Other Business**

**Verbal**

61. There were no further items of business.

*Date of next meeting*

62. The next Board meeting and Away day would take place on Wednesday 23 and Thursday 24 April 2008, at the Haycock Hotel, Wansford, near Peterborough.