

AUDIT COMMITTEE

Monday,
25 June 2007
6.00 p.m.

Conference Room 1,
Council Offices,
Spennymoor

AGENDA and REPORTS



This document is also available in other languages, large print and audio format upon request

العربية (Arabic)

إذا أردت المعلومات بلغة أخرى أو بطريقة أخرى، نرجو أن تطلب ذلك منا.

বাংলা (Bengali)

যদি আপনি এই ডকুমেন্ট অন্য ভাষায় বা ফরমেটে চান, তাহলে দয়া করে আমাদেরকে বলুন।

(中文 (繁體字)) (Cantonese)

如欲索取以另一語文印製或另一格式製作的資料，請與我們聯絡。

हिन्दी (Hindi)

यदि आपको सूचना किसी अन्य भाषा या अन्य रूप में चाहिये तो कृपया हमसे कहे

polski (Polish)

Jeżeli chcieliby Państwo uzyskać informacje w innym języku lub w innym formacie, prosimy dać nam znać.

ਪੰਜਾਬੀ (Punjabi)

ਜੇ ਇਹ ਜਾਣਕਾਰੀ ਤੁਹਾਨੂੰ ਕਿਸੇ ਹੋਰ ਭਾਸ਼ਾ ਵਿਚ ਜਾਂ ਕਿਸੇ ਹੋਰ ਰੂਪ ਵਿਚ ਚਾਹੀਦੀ, ਤਾਂ ਇਹ ਸਾਥੋਂ ਮੰਗ ਲਓ।

Español (Spanish)

Póngase en contacto con nosotros si desea recibir información en otro idioma o formato.

اردو (Urdu)

اگر آپ کو معلومات کسی دیگر زبان یا دیگر شکل میں درکار ہوں تو برائے مہربانی ہم سے پوچھیے۔

AGENDA

- 1. APOLOGIES**
- 2. DECLARATIONS OF INTEREST**
To notify the Chairman if you have an interest in any of the following items.
- 3. MINUTES**
To confirm as a correct record the Minutes of the meeting held on 23rd April 2007. (Pages 1 - 6)
- 4. ROLE AND FUNCTION OF THE AUDIT COMMITTEE**
Report of Director of Resources. (Pages 7 - 10)
- 5. AUDIT AND INSPECTION PLAN 2007/08**
Report of the Audit Commission. (Pages 11 - 34)
- 6. INTERNAL AUDIT SERVICE - ANNUAL REPORT 2006/07**
Report of Director of Resources. (Pages 35 - 56)
- 7. STATEMENT ON THE SYSTEM OF INTERNAL CONTROL AND CORPORATE GOVERNANCE 2006/07**
Report of Director of Resources. (Pages 57 - 66)
- 8. STATEMENT OF ACCOUNTS (FOR YEAR ENDED 31ST MARCH 2007)**
Report of Director of Resources. (Pages 67 - 98)
- 9. ANNUAL REVIEW OF TREASURY MANAGEMENT 2006/07**
Report of Director of Resources. (Pages 99 - 114)
- 10. PROPOSED TRAINING ARRANGEMENTS FOR MEMBERS OF THE COMMITTEE**
Report of Director of Resources. (Pages 115 - 118)

11. ANY OTHER ITEMS WHICH THE CHAIRMAN DECIDES ARE URGENT

Members are respectfully requested to give the Chief Executive notice of items they would wish to raise under the heading not later than 12 noon on the day preceding the meeting, in order that consultation may take place with the Chairman who will determine whether the item will be accepted.

B. Allen
Chief Executive

Council Offices
SPENNYMOOR
15TH June 2007

Councillor D. Chaytor (Chairman)
Councillor J.G. Huntington (Vice Chairman)

Councillors T. Brimm, J.G. Huntington, C. Nelson, Mrs. C. Potts and B. Stephens

B. Argyle – Co-opted Member

ACCESS TO INFORMATION

Any person wishing to exercise the right of inspection in relation to this Agenda and associated papers should contact Mrs. Gillian Garrigan Spennymoor 816166 Ext 4240 ggarrigan@sedgefield.gov.uk

Item 3

SEDGEFIELD BOROUGH COUNCIL

AUDIT COMMITTEE

Council Chamber,
Council Offices,
Spennymoor

Monday,
23 April 2007

Time: 6.00 p.m.

Present: Councillor M.A. Dalton (Chairman) and
Councillors Mrs. K. Conroy, Mrs. A.M. Fleming and B.M. Ord
B. Argyle (Independent Member)

Apologies: Councillors Mrs. C. Potts and J.M. Smith

AC.28/06 DECLARATIONS OF INTEREST
Members had no interests to declare.

AC.29/06 MINUTES
The Minutes of the meeting held on 29th January 2007 were confirmed as a correct record and signed by the Chairman.

AC.30/06 ANNUAL AUDIT AND INSPECTION LETTER 2005/06
The Committee considered the above letter, which summarised the conclusions and significant issues arising from the Audit Commission's recent audit and inspection of the Council. (For copy see file of Minutes).

Catherine Andrew of the Audit Commission presented the report.

It was explained that the letter included details of the review on how well the Council had progressed (Direction of Travel report) and the assessment of how well the Council had managed its finances (Use of Resources scores), although most of the data related to the 2005/06 year.

The main messages for the Council from the Commission's Direction of Travel report were:

- The Council was making effective use of its corporate planning arrangements, resources, partnership working and external funding to support improvements and contribute to wider community outcomes.
- The Council was improving services in its priority areas, however, there were some areas of weaker performance which needed to be addressed.
- In 2005/06 the Council had slightly more than average Best Value Performance Indicators at the top level nationally, however, its rate of improvement was below average for district councils.

The key issues arising from the audit were:

- The Council continued to perform well, with particular strengths in financial reporting and financial standing.
- Arrangements in all areas were developing and had become embedded.
- There was an overall improvement in value for money arrangements with the Council able to demonstrate that relatively high spending is related to key priorities.

Specific reference was made to the actions the Council needed to take which included:

- Embedding improvements to target setting.
- Ensuring that recent improvements in housing services were maintained;
- Taking action to tackle sickness absence if it did not decline.

RESOLVED : That the report be received.

AC.31/06 USE OF RESOURCES AUDITOR JUDGEMENTS 2006

The Committee considered a report prepared by the Audit Commission regarding the above. (For copy see file of Minutes).

Catherine Andrew of the Audit Commission was in attendance to present the report.

Members noted that the annual Use of Resources assessment evaluated how well the Council managed and used its financial resources. The assessment focused on the importance of having sound and strategic financial management to ensure that resources were available to support the Council's priorities and improve services.

The Council's scores were as follows:

Financial Reporting	-	3 out of 4
Financial Management	-	3 out of 4
Financial Standing	-	4 out of 4
Internal Control	-	3 out of 4
Value for Money	-	3 out of 4
Overall Assessment	-	3 out of 4

It was noted that the Council had continued to perform well, with particular strengths in managing spending within budgets, in promoting external accountability through the publication of financial information and ensuring that the medium term financial strategy, budgets and capital programme were soundly based.

The Audit Commission had identified the following key actions to further strengthen arrangements:

- Ensure the cash flow statement was reviewed for accuracy and supported by exemplary working papers;
- Ensure that savings and efficiency gains were separately profiled throughout the year and monitored by Members to ensure their achievement.

Members congratulated officers for achieving such an excellent score.

RESOLVED : That the report be received.

AC.32/06

INTERNAL AUDIT PLAN FOR 2007/08

Consideration was given to a report of the Director of Resources detailing the Internal Audit Plan for the period 1st April 2007 to 31st March 2008. (For copy see file of Minutes).

The production of a comprehensive Audit Plan was an essential requirement for the delivery of an effective Internal Audit service as it identified the planned areas of audit activities, and provided the structure for the essential performance management work required to ensure the practical completion of identified projects.

The Plan had been prepared following an assessment of the staffing resources expected to be available during the year. The availability of the equivalent of 5.5 persons for 2007/08 had been assumed, of which the equivalent of 4.7 persons was available to deliver the work detailed in the Audit Plan.

It was pointed out that the vacant post of Principal Auditor had recently been filled.

The proposed Plan showed a total of 911 days, compared with the approved Plan for 2006/07 of 915 days.

Members noted that a number of corporate studies included subjects such as corporate governance, performance management, risk management, procedural compliance, the Statement of internal control and energy management as essential features of the Audit Plan.

The continuing development of risk management would be a strong focus of audit activity during 2007/08, with the identification of key strategic risks being progressed. The governance of the Council's key partnerships was also likely to be a key risk and the Audit Plan included review work in that area.

- RESOLVED :*
1. *That the Internal Audit Plan for 2007/08, as detailed in Appendix 1, be approved.*
 2. *That a half yearly progress report be submitted to a future meeting of the Committee.*

3. *That significant developments associated with the Audit Plan be reported to the Committee as necessary.*

AC.33/06

COLLECTION AND RECOVERY OF COUNCIL TAX

Consideration was given to a report of the Director of Resources regarding the collection of Council Tax and the recovery procedures in place. (For copy see file of Minutes).

It was explained that since the introduction of Key BVPIs in 2002/03, the Council's performance in respect of 'BVPI 009 – Proportion of Council Tax Collected in year' had improved year on year until 2006/07 as detailed below:

Year	%
2002/03	94.6
2003/04	94.9
2004/05	95.3
2005/06	95.4
2006/07	95.0

It was pointed out that although the figures were in the bottom quartile level of performance, the Council had taken a view over the years that there was no benefit in increasing the resources within the Council Tax Service to improve the in-year collection rate, as it had been calculated that the cost of additional staff would be greater than the cost benefit of improved cash flow. The Council was, however, very effective in collecting Council Tax 'over time' as illustrated by the table in paragraph 3.4. The Council also had a very low cost of collection in comparison to other local authorities, although data was no longer collected to confirm this.

Members' attention was drawn to Section 4 of the report, which detailed the recovery procedures as set out in the Local Government Act 1992 and pursuant regulations.

It was pointed out that in view of the Government's expectation of District Councils achieving an in-year collection rate of 98.3% and the significant growth in the size of the debit, it could be timely to consider options to improve the in year collection rate and to the possible use of any additional investment income to further improve the performance of the Council Tax Service, which would underpin the Use of Resources Assessment.

Paragraphs 5.2 and 5.3 of the report detailed options, which included promoting the take-up of direct debit, requiring all taxpayers to pay from April to January and issuing of reminders earlier in the year.

RESOLVED : *That the report be received.*

AC.34/06**ANNUAL BENEFIT FRAUD REPORT - 2006/07 FINANCIAL YEAR**

The Committee considered a report of the Director of Resources reviewing the results of investigating allegations of Housing and Council Tax benefit fraud during the 2006/07 financial year. (For copy see file of Minutes).

It was noted that during the 2006/07 financial year, the Investigations Team had received 780 cases of suspected fraud following anonymous letters and telephone calls from the public, mainly using the Benefits Hotline, tip-offs from other departments and data matching information from other agencies. The Team had been able to investigate 607 cases, including 226 received from the Housing Benefit Matching Service.

In respect of 420 cases investigated, sufficient evidence had been obtained to confirm that £399,689 fraudulent overpayments had been made, of which only £34,273 (8.6%) remained to be repaid. The investigations had also resulted in the issue of 46 sanctions in accordance with the Council's Sanctions Policy, including 10 prosecutions, 21 cautions and 15 administration penalties. Details of which were outlined in paragraph 4.3 of the report.

Members noted that the amount of benefit fraud identified during the 2006/07 financial year represented less than 1.3% of the estimated total value of benefits granted during that period which amounted to £31m.

It was pointed out that local authorities no longer received any financial incentives from the Department of Works and Pensions (DWP) to detect fraud, however, every effort would continue to be made to prevent and detect fraud. From 2007, the Fraud Team would be working towards assisting the Section to achieve the target of reducing the amount of fraud and error in benefit claims.

Officers expressed concern that the target set by the DWP for 2007/8 of finding reductions in benefits from 6,880 claims within the existing caseload of approximately 11,500 claimants was unrealistic and unachievable within the existing available resources.

RESOLVED : That the progress in investigating alleged benefit fraud during the 2006/07 financial year be noted.

AC.35/06**TIMING OF FUTURE MEETINGS**

Members were of the opinion that should they be re-elected, the meetings should continue to be held at 6.00 p.m.

ACCESS TO INFORMATION

Any person wishing to exercise the right of inspection, etc., in relation to these Minutes and associated papers should contact Mrs. Gillian Garrigan Spennymoor 816166 Ext 4240 ggarrigan@sedgefield.gov.uk

This page is intentionally left blank

25TH JUNE 2007

REPORT OF DIRECTOR OF RESOURCES

Portfolio: STRATEGIC LEADERSHIP

ROLE AND FUNCTION OF THE AUDIT COMMITTEE

1. SUMMARY

- 1.1 This Committee was established by the Council at its meeting on the 19th May 2006 with the membership being determined at that time for the 2006/07 Municipal Year.
- 1.2 Following the Municipal Elections in May 2007, the Council has appointed five new members to serve on the Committee out of the membership of six, together with an Independent Member.
- 1.3 As there is a lack of continuity in the membership of the Committee, with a new Chair and Vice Chair having been appointed, it may be timely to remind all Committee members what the Council has determined will be the role and function of the Committee.
- 1.4 The purpose of this report is therefore to appraise Members of the role and function of the Audit Committee, as approved by the Council.

2. RECOMMENDATION

- 2.1 That the role and functions of the Committee, as approved by the Council, be noted

3. DETAIL

- 3.1 The Council had been encouraged by the Audit Commission and the Chartered Institute of Public Finance and Accountancy (CIPFA) to establish an Audit Committee, and a detailed report was presented to Cabinet on 13th April 2006 (Minute CAB.179/05 refers), Standards Committee on 5th May 2006 (Minute ST.33/05 refers). Council on 19th May 2006 (Minute C.6/06 refers), subsequently agreed to the establishment of the Committee.
- 3.2 The Council agreed the role and functions of the Committee and these are attached at Appendix 1 to this report for information.

4. RESOURCE IMPLICATIONS

- 4.1 There are no resource implications arising from this report.

5. CONSULTATIONS

- 5.1 Advice and guidance was obtained from the Audit Commission and CIPFA as to the possible Role and Functions of an Audit Committee but it is ultimately for this Council to determine what it requires the Committee to undertake.

6. OTHER MATERIAL CONSIDERATIONS

6.1 *Links to Corporate Objectives/Values*

The purpose of identifying the Role and Function of this Committee is to ensure that the Council is:-

- *Being responsible with and accountable for public finances.*
- *Being open, accessible, equitable, fair and responsive.*

6.2 *Risk Management*

No material considerations have been identified.

6.3 *Health and Safety*

No additional implications have been identified.

6.4 *Equality and Diversity*

No material considerations have been identified.

6.5 *Legal and Constitutional*

There are no legal or constitutional issues arising from this report.

7. OVERVIEW AND SCRUTINY IMPLICATIONS

There are no Overview and Scrutiny implications.

Contact Officer: Harold Moses (Head of Financial Services)
Telephone: 01388-816166 Ext. 4385
E-Mail: hmoses@sedgefield.gov.uk

Ward(s): Not Ward Specific

Background Papers: The Implications of the Establishment of An Audit Committee:
- Report to Cabinet 13/4/06
- Report to Standards Committee 5/5/06
Establishment of an Audit Committee:
- Report to Council 19/5/06

Examination by Statutory Officers:

	Yes	Not Applicable
1. The report has been examined by the Council's Head of the Paid Service or his representative.	<input type="checkbox"/>	<input type="checkbox"/>
2. The content has been examined by the Council's S.151 Officer or his representative.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
3. The content has been examined by the Council's Monitoring Officer or his representative.	<input type="checkbox"/>	<input type="checkbox"/>
4. Management Team has approved the report.	<input type="checkbox"/>	<input type="checkbox"/>

ROLE AND FUNCTION OF THE AUDIT COMMITTEE

The Audit Committee will have the following role and functions:-

- (a) To consider the effectiveness of the Council's Risk Management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements. To report at least annually to Cabinet on the effectiveness of the Risk Management arrangements.
- (b) To seek assurances that action is being taken on risk related issues, identified by Auditors and Inspectors and Management.
- (c) To be satisfied that the Council's Assurance Statements, including the Statement of Internal Control, properly reflect the risk environment and any actions required to improve it.
- (d) To approve the Council's Internal Audit Strategy Plan, Annual Audit Plan and monitor performance against all associated plans
- (e) To review summary Internal Audit reports and the main issues arising and seek assurance that action has been taken where necessary.
- (f) To receive an Annual Report from the Head of Internal Audit.
- (g) To ensure that there are effective relationships between External and Internal Audit, Inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.
- (h) To review financial statements, including the Council's Statement of Accounts, External Auditor's and other inspection agencies opinions and reports to Members and monitor management action in response to the issues raised by External Audit and other inspection agencies.
- (i) For the Chair and Vice-Chair to meet privately and separately at least once a year with the External Auditor and Head of Internal Audit.
- (j) To have the right to call any officers of the Council as required.
- (k) To consider performance and best value issues to the extent that they relate to the audit and control environment and risk management issues of the Council.

Note: For the purpose of these roles and functions 'Audit' relates to corporate issues, complaints, inquiries, financial probity and such other matters as may be decided by the Council.

This page is intentionally left blank

Audit Plan

June 2007

Audit and Inspection Plan

Sedgefield Borough Council

Audit 2007/2008

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

© Audit Commission 2007

For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

www.audit-commission.gov.uk

Contents

Introduction	4
Responsibilities	4
CPA and Inspection	5
Work under the Code of Audit Practice	7
Financial statements	7
Use of resources	7
Data quality	8
Best Value Performance Plan	9
Assessing risks	10
Work specified by the Audit Commission	11
Whole of government accounts (WGA)	11
National Fraud Initiative	11
Additional improvement work	12
Certification of grant claims and returns	13
The audit and inspection fee	14
Other information	15
The audit and inspection team	15
Independence and objectivity	16
Quality of service	16
Planned outputs	17
Appendix 1 – Initial risk assessment – use of resources	18
Appendix 2 – Audit and inspection fee	20
Specific audit risk factors	21
Assumptions	21
Specific actions Sedgefield Borough Council could take to reduce its audit and inspection fees	22
Process for agreeing any changes in audit fees	22
Appendix 3 – Independence and objectivity	23

Introduction

- 1 This plan has been developed by the Relationship Manager and the appointed auditor. It sets out the audit and inspection work that we propose to undertake for the 2007/08 financial year. The plan is based on the Audit Commission's risk-based approach to audit planning and the requirements of Comprehensive Performance Assessment (CPA). It reflects:
 - audit and inspection work specified by the Audit Commission for 2007/08;
 - current national risks relevant to your local circumstances; and
 - your local risks and improvement priorities.
- 2 Your Relationship Manager will continue to help ensure further integration and co-ordination with the work of other inspectorates.
- 3 As we have not yet completed our audit for 2006/07, the audit planning process for 2007/08, including the risk assessment, will continue as the year progresses, and the information and fees in this plan will be kept under review and updated as necessary.

Responsibilities

- 4 We comply with the statutory requirements governing our audit and inspection work, in particular:
 - the Audit Commission Act 1998;
 - the Local Government Act 1999 (best value inspection and audit); and
 - the Code of Audit Practice.
- 5 The Code of Audit Practice (the Code) defines auditors' responsibilities in relation to:
 - the financial statements (including the statement on internal control (SIC)); and
 - the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 6 The Audit Commission's Statement of responsibilities of auditors and of audited bodies sets out the respective responsibilities of the auditor and the Council. The Audit Commission has issued a copy of the Statement to every audited body.
- 7 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our audit work is undertaken in the context of these responsibilities.

CPA and Inspection

- 8 The Audit Commission's CPA and inspection activity is underpinned by the principle of targeting our work where it will have the greatest effect, based upon assessments of risk and performance.
- 9 The Council's CPA category is therefore a key driver in the Commission's inspection planning process. The Council is currently categorised as 'good'.
- 10 We have applied the principles set out in the CPA framework, *CPA – district council framework from 2006*, recognising the key strengths and areas for improvement in the Council's performance.
- 11 Strengths in the Council's performance include:
 - effective use of corporate planning arrangements, resources, partnership working and external funding to support improvements and contribute to wider community outcomes;
 - improvements to services in the Council's priority areas;
- 12 Areas for improvement in the Council's performance include:
 - addressing areas of weaker performance;
 - embedding improvements to target setting;
 - ensuring that recent improvements in housing services are maintained; and
 - taking action to tackle sickness absence if this does not decline.
- 13 On the basis of our planning process we have identified where our inspection activity will be focused for 2007/08 as follows.

Table 1 Summary of inspection activity

Inspection activity	Reason/impact
Relationship Manager (RM) role	To act as the Commission's primary point of contact with the Council and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Direction of Travel (DoT) assessment	An annual assessment, carried out by the RM, of how well the Council is securing continuous improvement. The DoT statement will be reported in the annual audit and inspection letter.

Inspection activity	Reason/impact
Access to Services inspection	A county-wide inspection to be carried out of the County Council and all seven district councils in the county as a joint inspection, to assess the accessibility to the public of local government services and how local councils work with other organisations to facilitate wider access to services. We will discuss the details of this inspection with all the councils before finalising its scope and timing.

Work under the Code of Audit Practice

Financial statements

- 14 We will carry out our audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 15 We are required to issue an opinion on whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Council as at 31 March 2008 and its income and expenditure for the year.
- 16 We are also required to review whether the SIC has been presented in accordance with relevant requirements, and to report if it does not meet these requirements or if the SIC is misleading or inconsistent with our knowledge of the Council.

Use of resources

Value for money conclusion

- 17 The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. The Code also requires auditors to have regard to a standard set of relevant criteria, issued by the Audit Commission, in arriving at their conclusion.
- 18 In meeting this responsibility, we will review evidence that is relevant to the Council's corporate performance management and financial management arrangements. Where relevant work has been undertaken by other regulators we will normally place reliance on their reported results to inform our work.
- 19 We will also follow up our work from previous years to assess progress in implementing agreed recommendations.

Use of resources assessment

- 20 The Audit Commission has specified that auditors will complete a use of resources assessment for 2007/08. The assessment focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the Council's priorities and improve services.
- 21 The work required to arrive at the use of resources assessment is fully aligned with that required to arrive at the auditor's value for money conclusion.

- 22 We will arrive at a score of 1 to 4, based on underlying key lines of enquiry, for each of the following themes.

Theme	Description
Financial reporting	<ul style="list-style-type: none"> • Preparation of financial statements. • External reporting.
Financial management	<ul style="list-style-type: none"> • Medium-term financial strategy. • Budget monitoring. • Asset management.
Financial standing	<ul style="list-style-type: none"> • Managing spending within available resources.
Internal control	<ul style="list-style-type: none"> • Risk management. • System of internal control. • Probity and propriety.
Value for money	<ul style="list-style-type: none"> • Achieving value for money. • Managing and improving value for money.

- 23 We will report details of the scores and judgements made to the Council. The scores will be accompanied, where appropriate, by recommendations of what the Council needs to do to improve its services.
- 24 The auditor’s scores are reported to the Commission and are used as the basis for its overall use of resources judgement for the purposes of CPA.

Data quality

- 25 The Audit Commission has specified that auditors will be required to undertake audit work in relation to data quality. This is based on a three-stage approach covering:
- stage 1 - management arrangements;
 - stage 2 - completeness check; and
 - stage 3 - risk-based data quality spot checks of a sample of performance indicators.
- 26 The work at stage 1 will link to our review of the Council’s arrangements to secure data quality as required for our value for money conclusion and, together with the results of stage 2, will inform the risk assessment for the detailed spot check work to be undertaken at stage 3. The results of the work at stage 3 will inform the Commission’s CPA assessment.

- 27 Our fee estimate reflects an assessment of risk in relation to the Council's performance indicators. This risk assessment may change depending on our assessment of your overall management arrangements at stage 1 and we will update our plan accordingly, including any impact on the fee.

Best Value Performance Plan

- 28 We are required to carry out an audit of your Best Value Performance Plan (BVPP) and report on whether it has been prepared and published in accordance with legislation and statutory guidance. The audit fee is based upon the assumption that Sedgefield Borough Council will continue to adhere to relevant legislation and guidance in this area.

Assessing risks

- 29 The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. It also means making sure that our work is co-ordinated with the work of other regulators, and that our work helps you to improve.
- 30 Our risk assessment process starts with the identification of the significant financial and operational risks applying at the Council with reference to:
- our cumulative knowledge of the Council;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
 - interviews with Council officers;
 - liaison with internal audit; and
 - the results of other review agencies' work where relevant.

We have not included a risk assessment for our audit of the financial statements as many of the specific risks may not become apparent until after we have completed our 2006/07 audit. We will issue a separate opinion audit plan for our audit of the financial statements in November 2007.

- 31 For each of the significant risks identified in relation to our use of resources work, we consider the arrangements put in place by the Council to mitigate the risk, and plan our work accordingly.
- 32 Our initial risk assessment for use of resources work is provided in Appendix 1. This will be updated through our continuous planning process as the year progresses.

Work specified by the Audit Commission

Whole of government accounts (WGA)

- 33 We will be required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office which is proportionate to risk.

National Fraud Initiative

- 34 The Council participates in the National Fraud Initiative which is the Audit Commission's computerised data matching exercise designed to detect fraud perpetrated on public bodies. This work will be carried out by an individual appointed to assist in the audit of the Council's accounts (in accordance with section 3(9) of the Audit Commission Act 1998).

Additional improvement work

- 35 Under section 35 of the Audit Commission Act 1998, the Commission may undertake additional improvement work at the request of the audited body. At this time we are not proposing to do any additional improvement work at the Council during 2007/08, but remain receptive to undertake such work where we are best placed to do so and it would provide benefit to the Council.

Certification of grant claims and returns

36 We will continue to certify the Council's claims and returns on the following basis:

- claims below £100,000 will not be subject to certification;
- claims between £100,000 and £500,000 will be subject to a reduced, light-touch certification; and
- claims over £500,000 will be subject to a certification approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment would lead to a reduced certification approach for these claims.

The audit and inspection fee

- 37 The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales 2007/08. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 38 The total indicative fee for audit and inspection work included in this audit and inspection plan for 2007/08 is £116,310 which compares with the planned fee of £105,000 for 2006/07.
- 39 Further details are provided in Appendix 2 which includes a breakdown of the fee; specific audit risk factors; the assumptions made when determining the audit fee, for example, the timeliness and quality of draft accounts presented for audit and the supporting working papers; specific actions Sedgefield Borough Council could take to reduce its audit and inspection fees; and the process for agreeing any changes to the fee. The fee includes all work identified in this plan unless specifically excluded.
- 40 In addition we estimate that we will charge approximately £18,500 for the certification of claims and returns.
- 41 As indicated in paragraphs 3 and 32, the audit planning process will continue as the year progresses and it is likely that there will be some changes to our planned work and hence to the indicative fee quoted in paragraph 38 above. Any changes to the fee will be agreed with you.

Other information

The audit and inspection team

- 42 The key members of the audit and inspection team for the 2007/08 audit are shown in the table below.

Table 2

Name	Contact details	Responsibilities
Sarah Diddle Relationship Manager & Area Performance Lead	s-diggle@audit-commission.gov.uk 0191 4602022	The primary point of contact with the authority and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders. Responsible for the delivery of elements of the use of resources work including the value for money theme of the use of resources assessment.
Steve Nicklin District Auditor	s-nicklin@audit-commission.gov.uk 0191 4602022	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive and Audit Committee.
Paul Heppell Audit Manager	p-heppell@audit-commission.gov.uk 01642 345601	Manages and co-ordinates the different elements of the audit work. Key point of contact for the Director of Resources.
Ross Woodley Principal Auditor	r-woodley@audit-commission.gov.uk 01642 345601	Team leader, responsible for delivering the main elements of our audit opinion and use of resources work and assisting in day to day management of the audit.

Independence and objectivity

- 43 We are not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.
- 44 We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised at Appendix 3.

Quality of service

- 45 We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact the Relationship Manager or District Auditor in the first instance. Alternatively you may wish to contact the North East Sub Region's Head of Operations, Dave Jennings.
- 46 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet *Something to Complain About* which is available from the Commission's website or on request.

Planned outputs

- 47 Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit committee.

Table 3

Planned output	Indicative date
Opinion audit plan	November 2007
Data quality report	September 2007
Interim audit memorandum	May 2008
Annual governance report	September 2008
Opinion on the financial statements and value for money conclusion	September 2008
Final accounts memorandum (to the Director of Resources)	October 2008
Use of resources report	December 2008
Direction of Travel report	March 2008, within Annual Audit and Inspection Letter
Access to Services inspection report (county-wide)	June 2008
Annual audit and inspection letter	March 2008 and 2009
BVPP report	December 2008

Appendix 1 – Initial risk assessment – use of resources

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor's responsibilities
Continuous improvements in Council services are expected and planned but performance indicators continue to convey a mixed picture. Sedgefield has some very deprived areas, which are a barrier to improvement.	The Council has achieved improvement in most service areas.	Yes	Consideration of the barriers to more rapid AIB improvement	VFM conclusion criterion Use of Resources - Value for money assessment
Sickness absence levels have risen to over 12 days per FTE and are relatively high.	Monitored through risk management arrangements.	Yes	Review the management of sickness absence.	VFM conclusion criterion, eg KLOE 4.1 - How the Council manages its significant business risks.
Local area agreements - The Council has a key role in shaping the local area and working with partners to deliver on community and neighbourhood priorities.	The Council is actively involved in the LAA and other community partnerships.	Yes	We will review the arrangements in place for achieving LAA targets and will undertake this work in liaison with other agencies. We will undertake specific pieces of work across the public bodies in Durham to assess arrangements.	VFM conclusion criterion, eg KLOE 4.1 - How the Council manages its significant business risks. Use of Resources - Internal Control & Financial Management KLOE.

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor’s responsibilities
Specific issues around childhood poverty exist in Co. Durham, linked with poor performance on indicators such as teenage pregnancy and low educational achievement.	The Council is actively involved in the LAA and other community partnerships.	Yes	We will undertake specific piece of work across the public bodies in Durham to assess services for vulnerable children and young people.	VFM conclusion criterion, eg KLOE 4.1 - How the Council manages its significant business risks.
Considerable health inequalities exist for people living in the area. Health indicators are worse than can be explained by deprivation alone.	The Council is actively involved in the LAA and other partnerships.	Yes	Review how health and LG bodies in Durham are working together to reduce health inequalities.	VFM conclusion criterion, eg KLOE 4.1 - How the Council manages its significant business risks.
Partnerships are central to the regeneration of County Durham.	Previous work (including CPA) suggests Sedgefield performs well on partnerships.	Yes	Risk-based probes selected from 2006/07 work on partnerships and regeneration.	VFM conclusion criterion Use of Resources - Value for money assessment.

Appendix 2 – Audit and inspection fee

- 1 Table 4 provides details of the planned audit and inspection fee for 2007/08 with a comparison to the planned fee for 2006/07.

Table 4

Audit area	Planned fee 2007/08 £	Planned fee 2006/07 £
Audit		
Financial statements	76,200	64,300
Use of resources (including BVPP)	18,975	24,300
Data quality	6,700	11,300
Whole of government accounts	1,600	0
National Fraud Initiative	625	0
Total audit fee	104,100	99,900
Inspection		
Relationship management	2,950	2,300
Direction of Travel	2,950	1,300
Service inspection	6,330	1,500
Corporate inspection	Not applicable	Not applicable
Total inspection fee	12,230	5,100
Total audit and inspection fee	116,310	105,000
Certification of claims and returns	18,500	18,000

- 2 The Audit Commission scale fee for audit and performance work at Sedgefield Borough Council is £113,600. The fee proposed for 2007/08 is - 8% per cent compared to the scale fee and is within the normal level of variation specified by the Commission.

- 3 The Audit Commission has the power to determine the fee above or below the scale fee where it considers that substantially more or less work is required than envisaged by the scale fee. The Audit Commission may, therefore, adjust the scale fee to reflect the actual work that needs to be carried out to meet the auditor's statutory responsibilities, on the basis of the auditor's assessment of risk and complexity at a particular body.
- 4 It is a matter for the auditor to determine the work necessary to complete the audit and, subject to approval by the Audit Commission, to seek to agree an appropriate variation to the scale fee with the Council. The Audit Commission expects normally to vary the scale fee by no more than 30 per cent (upwards or downwards). This fee then becomes payable.
- 5 The fee (plus VAT) will be charged in 12 equal instalments from April 2007 to March 2008.

Specific audit risk factors

- 6 In setting the audit fee we have taken into account the following specific risk factors:
 - a significant increase in the capital programme - planned capital expenditure of £20M; and
 - staff changes in the accountancy and internal audit sections.
- 7 At this stage no work has been programmed in the plan in respect of the possible review and restructuring of local government within the Durham county area. The scope and nature of any such work will be driven by the outcome of the Government's review of the proposals for re-organisation. We will provide details to officers of any additional audit or inspection activity proposed in due course, and will discuss the fee implications.

Assumptions

- 8 In setting the fee, we have assumed that:
 - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2006;
 - you will inform us of significant developments impacting on our audit;
 - internal audit meets the appropriate professional standards;
 - internal audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
 - good quality working papers and records will be provided to support the financial statements by 30 June 2008;
 - requested information will be provided within agreed timescales;

- prompt responses will be provided to draft reports; and
 - additional work will not be required to address questions or objections raised by local government electors.
- 9 Where these assumptions are not met, we will be required to undertake additional work which is likely to result in an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the opinion audit plan.
- 10 Changes to the plan will be agreed with you. These may be required if:
- new residual audit risks emerge;
 - additional work is required of us by the Audit Commission or other regulators; and
 - additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.

Specific actions Sedgefield Borough Council could take to reduce its audit and inspection fees

- 11 The Audit Commission requires its auditors to inform a council of specific actions it could take to reduce its audit and inspection fees. We have a constructive relationship with the Council and expect our recommendations and reports to have a high profile. The majority of risks that are driving the increase in fees are external but continued prompt and robust implementation of our recommendations will contribute to improvements in arrangements and ultimately impact on audit fees.

Process for agreeing any changes in audit fees

- 12 If we need to make any significant amendments to the audit fee during the course of this plan, we will firstly discuss this with the Director of Resources. We will then prepare a report outlining the reasons why the fee needs to change for discussion with the audit committee.

Appendix 3 – Independence and objectivity

- 1 Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of my appointment. When auditing the financial statements auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 2 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 3 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:
 - discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
 - confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.
- 4 The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the audit committee. The auditor reserves the right, however, to communicate directly with the authority on matters which are considered to be of sufficient importance.
- 5 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

6 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows:

- appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the audit plan as being 'additional work' and charged for separately from the normal audit fee;
- auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission;
- the District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years;
- the District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body; and
- the District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.

Item 6

AUDIT COMMITTEE

25TH JUNE 2007

REPORT OF DIRECTOR OF RESOURCES

PORTFOLIO : STRATEGIC LEADERSHIP

SUBJECT : INTERNAL AUDIT SERVICE – ANNUAL REPORT 2006/07

1. SUMMARY

- 1.1 The Accounts and Audit Regulations 2003 require the Council to maintain an adequate and effective system of internal audit of accounting records and control systems, as well as imposing the requirement to publish a Statement of Internal Control (SIC) on an annual basis. The SIC must be supported by comprehensive evidence that the features of a good internal control system are working. Additionally, the statutory duty placed on the Director of Resources, as the responsible financial officer by virtue of Section 151 of the Local Government Act 1972, for ensuring the proper administration of financial affairs is, in part, achieved by satisfactory performance of the Internal Audit Service.
- 1.2 Overview and Scrutiny Committee 1 approved a report on the planned work of the Internal Audit Service for 2006/07 on 10th April, 2006 (Minute Ref: OSC(1)44/05). The half yearly report on the work undertaken was considered by the Audit Committee on 30th October, 2006. This report provides performance information for the full year, with details of specific areas of work undertaken in the second half of the year.
- 1.3 The scheduled Audit Plan anticipated 915 man-days and a total of 909 days were actually achieved in the year.

2. RECOMMENDATIONS

- 2.1 That the report on Internal Audit Service work in 2006/07 be noted.
- 2.2 That half yearly reports for 2007/08 be reported to the appropriate meetings of this Committee.
- 2.3 That any relevant audit matters be reported to the quarterly meetings of this Committee.

3. AUDIT ACTIVITY 1ST APRIL, 2006 – 31ST MARCH, 2007

- 3.1 The Audit Plan approved on 10th April, 2006 scheduled a total of 915 days for the year.
- 3.2 The final outturn report at Appendix 1 shows a total of 909 days were actually achieved in the year.
- 3.3 Highlighted below are some of the major areas of work undertaken together with commentary on the key audit/control issues affecting the Council, which will require the continuing involvement of the Internal Audit staff.

3.4 Systems and Regularity Audit

3.4.1 All the major areas of work included in the Plan were either examined in the year or completed early in this current year, in accordance with anticipated year end pressures. The Audit Plan for 2007/08 reflects the latest expected audit requirements following the work done in 2006/07.

3.4.2 There were 75 “formal audit reports issued during the period with 39 confirming that there were satisfactory arrangements in place.

Within the 36 reports issued where recommendations had been made, there were a total of 45 classified as being of “high importance”, and 26 of “medium importance”.

3.4.3 All recommendations were made following detailed discussions and with the agreement of the appropriate service managers, and have been implemented in accordance with agreed action plans.

3.4.4 Details are shown in the Appendix which provides a brief summary of matters identified as part of the work undertaken by the Internal Audit team. The Appendix, together with the following paragraphs, are intended to give a flavour of the wide range of activities covered by the Audit team and the matters which may arise from the work performed. Members will note that the Appendix details positive progress being made in the resolution of the matters highlighted.

3.5 Corporate Governance

3.5.1 The Council has historically had strong governance arrangements and these are constantly under review to ensure a continuing relevance. Areas such as risk management, internal control arrangements, Constitution rules and performance management are key to the

Council's operations, and efforts continue to be made around the Council to ensure the highest possible standards.

3.5.2 The continuing development of the SIC requirements, which were introduced by the Accounts and Audit Regulations, 2003, will help demonstrate that quality governance arrangements are in place around the Council. The SIC features are important also to Key Lines of Enquiry (KLoE) and Comprehensive Performance Assessment (CPA).

3.5.3 Whilst Central Government's demands in relation to the performance improvement agenda continue to develop and change, the fundamental features of Corporate Governance must be maintained at the highest levels. Internal Audit will continue its interest in this crucial area.

3.6 **Financial Management System**

3.6.1 This major system continues to be developed and enhanced to provide high quality and timely budgetary information to all Managers around the Council.

3.7 **Risk Management**

3.7.1 Internal Audit continued its close involvement in the development of the Council's approach to risk management. Efforts to embed risk management into the Council's processes continued and the Risk Management Group has helped to develop a range of issues.

3.7.2 The need to formally undertake a review of the Council's strategic risk position was identified during the year. Following the initial work with senior management to identify areas of risk, a Strategic Risk Group was established in 2007 and work is progressing on the priority risks to ensure that these risks to the Council are minimized. This work will continue through 2007/08 year.

3.7.3 This Committee considered a progress report on risk management in January 2007, and the recommendations made to Cabinet were accepted.

3.8 Data Matching

3.8.1 The results of the National Fraud Initiative Data Matching exercise completed by the Audit Commission were made available to all local authorities during the year. These were examined and all issues were progressed as necessary. Some cases of overpaid Housing and Council Tax Benefit have been resolved and several cases are being further examined by the Department of Work and Pensions.

3.9 Energy Management

3.9.1 Internal Audit continued its involvement in energy contracting and management matters. The Council's energy arrangements continue as a priority area, where energy costs are approximately £1,000,000 per annum. Audit resources will continue to be deployed to ensure value for money on energy contracts.

3.9.2 Energy efficiency must be a priority area and an Energy Task Group has been established to progress energy initiatives, including the important area of energy monitoring.

4. STAFFING

4.1 The Audit Plan for 2006/07 was developed on the basis of five posts being available for the first half year with one vacancy being filled in September, 2006. The graduate trainee appointed to this vacancy in August, 2006 left the Council in January, 2007 with a replacement being made in February, 2007.

4.2 The structure of the Financial Services Division of the Resources Department, is currently under review.

5. RESOURCE IMPLICATIONS

5.1 Whilst this report has no direct implications for resources, The Plan work undertaken could lead to additional costs or savings in relation to service provision.

6. CONSULTATION

6.1 The Audit Plan has been prepared and delivered following consultation with Managers around the Council.

7. OTHER MATERIAL CONSIDERATIONS

7.1 Links to Corporate Objectives/Values

- 7.1.1 The Internal Audit activity effectively supports all services in the delivery of the Council's priorities, together with the re-enforcement of the need for accountability for public finances.

7.2 Risk Management

- 7.2.1 Much of the work undertaken by Internal Audit relates to minimizing the risk to the Council of major system problems and failure of the internal control arrangements. Activity is directed toward providing assurances on the control environment and thereby highlighting any risk issues capable of causing damage to the Council.

- 7.2.2 Audit efforts to help embed good risk management priorities around the Council will continue to form a significant element of work undertaken. Of course, the full co-operation of management across the Council is essential to the maintenance of good quality governance, including risk management.

7.3. Equality and Diversity

No material considerations have been identified.

7.4 Legal and Constitutional

- 7.4.1 The Audit Plan activity recognises the statutory framework associated with services, the corporate governance framework, as well as the Council's constitutional arrangements.

7.5 Other Material Considerations

Issues associated with procurement and efficiency are addressed within a wide range of audit activities.

8. LIST OF APPENDICES

- 8.1 Appendix 1 – Summary of Audit Work – April 2006 – March 2007.

Contact Officer: Dennis McKinnell
Telephone No: (01388) 816166 ext 4245
Email Address: dmckinnell@sedgefield.gov.uk
Ward(s) Not ward specific

Key Decision Validation: Not Applicable

Background Papers

1. **Overview and Scrutiny Committee 1 – 10th April, 2006**
Internal Audit Plan 2006/07
2. **Audit Committee – 26th June, 2006**
Statement of System of Internal Control and Corporate Governance
3. **Audit Committee – 30th October, 2006**
Internal Audit Service – Report for Half Year ended 30th September, 2006
4. **Audit Committee – 29th January, 2007**
Risk Management Progress Report 2006

Examination by Statutory Officers

	Yes	Not Applicable
1. The report has been examined by the Councils Head of the Paid Service or his representative	<input checked="" type="checkbox"/>	<input type="checkbox"/>
2. The content has been examined by the Councils S.151 Officer or his representative	<input checked="" type="checkbox"/>	<input type="checkbox"/>
3. The content has been examined by the Council's Monitoring Officer or his representative	<input checked="" type="checkbox"/>	<input type="checkbox"/>
4. The report has been approved by Management Team	<input checked="" type="checkbox"/>	<input type="checkbox"/>

SUMMARY OF AUDIT WORK : APRIL 2006 – MARCH 2007

LEISURE SERVICES

Analysis of Mandays

Leisure Centre and Pools

Fishburn Swimming Pool	5.50
Gaming Machines	9.50
Leisure Centre Bars	10.75
Leisure Centre - FLC	5.75
Leisure Centre - NALC	11.25
Leisure Centre - SSLC	6.00
Leisure Centre – SLC	12.00
Leisure Centre – Fitness Suites	3.50
Leisure Matters General	8.50
Torex System	<u>7.75</u>
	<u>80.50</u>

Other Leisure Activities

Cyber Cafes	4.75
Depot Canteen	5.25
Green Lane Canteen	6.00
Playleader Schemes	3.25
Leisure and Arts Events	5.75
Locomotion Canteen	0.25
Mobile Skate Park	<u>3.50</u>
	<u>28.75</u>

TOTAL : **109.25**

Formal Audit Reports Issued	Recommendations	Rating
Play Leadership Scheme	None	N/A
Newton Aycliffe Leisure Centre	Yes	Medium
Events Programme	Yes	Medium
Skate Park	None	N/A
Gaming Machines	Yes	High/Medium
Spennymoor Leisure Centre	Yes	High/Medium
Cyber Cafes	Yes	High
Leisure Management System	Yes	High/Medium
Leisure Centre Bars	Yes	High
Ferryhill Leisure Centre	Yes	High/Medium
Depot Canteen	None	N/A
Green Lane Canteen	None	N/A
Fishburn Swimming Pool	None	N/A
Shildon Leisure Centre	None	N/A

AUDIT PLAN REPORT

ISSUES REVIEWED

OCTOBER, 2006 – MARCH, 2007

LEISURE

1.	Torex Information Management System Accounting issues highlighted causing some control concerns. Progressing,
2.	Cyber Cafes Concern remains over availability and use of reports on internet sites being visited.
3.	Fitness Suites a) Minimum Income Guarantee calculations provided to Competition Line. Issue still outstanding. b) Revised income share arrangements explained
4.	Gaming Machines Reduced return on machines highlighted.

SUMMARY OF AUDIT WORK : APRIL 2006 – MARCH 2007

NEIGHBOURHOOD SERVICES

Analysis of Mandays

Carelink System	11.00
Community Safety Service	3.25
Concessionary Bus Passes	4.50
Concessionary TV Licences	4.00
Drain Rodding Income	2.00
Environmental Health Recharges	6.25
Homeless Service	5.00
Home Improvement Agency	12.75
Horticulture	0.50
Licensing Service	5.25
Outdoor Markets	4.75
Planning and Building Fees	4.50
Shop Improvement Grants	3.50
Supporting People	14.25
Trade Refuse Income	2.75
Vehicle Maintenance Operation	6.75

TOTAL : **91.00**

Formal Audit Reports Issued	Recommendations	Rating
Community Safety	Yes	Medium
Trade Waste	Yes	Medium
Drain Rodding	None	N/A
Carelink	Yes	Medium
Outdoor Markets	None	N/A
Licensing Service	Yes	Medium
Building Regulation Fees	None	N/A
Planning Fees	None	N/A
Environmental Health Recharges	Yes	High
Concessionary Travel	Yes	High
Homelessness	Yes	High
Home Improvement Agency	Yes	High
Supporting People	Yes	High
Concessionary TV Licence	Yes	High
Shop Improvement Grants	Yes	Medium
Vehicle Maintenance Service	None	N/A

AUDIT PLAN REPORT

ISSUES REVIEWED

OCTOBER, 2006 – MARCH, 2007

NEIGHBOURHOOD SERVICES

1.	Risk Matrix Information/assistance in risk matrix completion in relation to Capital Programme submissions.
2.	Concessionary Travel Concern over arrangements for issue – now resolved.
3.	Homelessness Lack of Income Reconciliations for service highlighted. Action agreed.
4.	Fuel Usage System proposed for monitoring of fuel consumption on Council fleet.
5.	Group Repair Scheme Financial advice re : contracting and risk management.

SUMMARY OF AUDIT WORK : APRIL 2006 – MARCH 2007

HOUSING SERVICES

Analysis of Mandays

Contractors' Final Accounts	24.75
Central Heating and Fire Alarm Contracts	2.75
Central Stores	9.75
Disabled Persons Adaptations	1.50
Fuel Stores	2.25
Disturbance and Redecoration Allowances	17.25
Housing Management	13.75
Housing Recharges	7.50
Housing Rent System	2.50
Housing Rent Arrears	20.75
Portable Data Capture	5.25

TOTAL : **108.00**

Formal Audit Reports Issued	Recommendations	Rating
Central Heating Maintenance	None	N/A
Disabled Persons Adaptations	None	N/A
Central Stores	Yes	High
Decoration/Disturbance	Yes	Medium
Rechargeable Repairs	Yes	High
Housing Rent Arrears	Yes	High
Housing Voids	None	N/A
Portable Data Capture	None	N/A

AUDIT PLAN REPORT

ISSUES REVIEWED

OCTOBER, 2006 – MARCH, 2007

HOUSING SERVICES

1.	Rechargeable Works Increasing levels of arrears on accounts raised for damage to property.
2.	Redecoration Vouchers Control arrangements reviewed.
3.	Central Stores Disposal arrangements agreed regarding obsolete stocks.
4.	Fuel Stores Improved security arrangements put in place.
5.	Contract Final Accounts Numerous final accounts from contractors completed and authorised.

SUMMARY OF AUDIT WORK : APRIL 2006 – MARCH 2007

CHIEF EXECUTIVES' DEPARTMENT

Analysis of Mandays

Civic Car	5.25
Industrial Estates	4.50
Industrial Promotions	0.25
Land Charges	4.00
Training and Employment Services	11.50
Regeneration Incentive Schemes	1.00
Shildon Business Centre	0.75
SASDA	3.50

TOTAL : **30.75**

Formal Audit Reports Issued	Recommendations	Rating
Shildon Business Centre	None	N/A
Council House Sales	None	N/A
Regeneration Initiatives	None	N/A
Local Land Searches	None	N/A
Sasda Financial Incentives	Yes	Medium
Civic Car	None	N/A
Training and Employment Services	Yes	High/Medium

AUDIT PLAN REPORT

ISSUES REVIEWED

OCTOBER, 2006 – MARCH, 2007

CHIEF EXECUTIVE OFFICER

1.	Register of Officer Interests Revised control arrangements agreed.
2.	Regeneration Initiatives Risk management input to this major new area.
3.	Enterprise Initiative Scheme Governance controls agreed for this new financial incentives programme.

SUMMARY OF AUDIT WORK : APRIL 2006 – MARCH 2007

RESOURCES DEPARTMENT

Analysis of Mandays

Income Audits

Cash Office – Green Lane	5.00
Cash Office – Newton Aycliffe	3.75
Cash Office – Shildon	3.00
Cash Office – Ferryhill	3.25
Collection Section Bank Recs	7.25
Emergency Receipts	2.50
Postal Remittances	10.25

General Audits

Bailiff Services	5.25
Capital Receipts and Accounting	10.75
Car Allowances	4.25
Car Leasing and Loans	6.75
Cheque Production Controls	12.00
Council House Sales	2.25
Financial Checks	16.75
Imprests and Floats	2.50
Insurances	5.75
Interest Free Loans	1.00
Members Allowances	1.50
Parish Recharges	5.50
Petty Cash	0.50
Recurring Receipts	2.00
Rent Refunds	3.25
Treasury Management	5.00
VAT	7.25

Systems Audits

Information Technology	13.25
Accounts Payable	27.25
Accounts Receivable	8.75
Payroll	27.25
NNDR	14.00
Council Tax	14.00
Housing Benefit	38.50
Treasury Management	7.00

TOTAL : **277.25**

Formal Audit Reports Issued	Recommendations	Rating
Data Matching – NFI	None	N/A
Housing Benefits System	Yes	Medium
Ferryhill Cash Office	Yes	High
Insurances	None	N/A
Newton Aycliffe Cash Office	Yes	High
Payroll System	None	N/A
Accounts Receivable	Yes	High
Collections Reconciliations	None	N/A
Rent Refunds	None	N/A
Shop Leases	None	N/A
Sildon Cash Office	None	N/A
Members' Allowances	None	N/A
Council Tax System	Yes	High
Treasury Management	Yes	High
Emergency Cheques	None	N/A
ICT Environmental Controls	Yes	High/Medium
Industrial Estates Income	None	N/A
Interest Free Loans	None	N/A
Green Lane Cash Office	Yes	High
Accounts Payable System	None	N/A
Non Domestic Rates (NNDR)	Yes	High/Medium
Imprest and Floats	None	N/A
Parish Recharges	None	N/A
Emergency Receipts	None	N/A
Bailiff Services	None	N/A
Petty Cash	None	N/A
VAT	Yes	Medium
Capital Receipts	Yes	High
Postal Remittances	None	N/A
Car Leasing	None	N/A

AUDIT PLAN REPORT

ISSUES REVIEWED

OCTOBER, 2006 – MARCH, 2007

RESOURCES

1.	Benchmarking of Audit Data shows the service to be performing well against a wide range of indicators.
2.	IT Equipment Requirement for much increased insurance valuations highlighted – now agreed.
3.	Cash Offices Document security/disposal arrangements agreed.
4.	Payroll –Establishment Control Review Group set up to review controls over staffing related issues. Report available shortly.
5.	ICT Security Policies and actions to be determined to cover assets and data security. Expected completion date of December, 2007.
6.	Income Collection Reconciliations position examined regularly through year to ensure that this important governance area continues to operate satisfactorily.
7.	Data Matching Queries raised through the National Fraud Initiative exercise by Audit Commission have been examined and resolved.

SUMMARY OF AUDIT WORK : APRIL 2006 – MARCH 2007

CORPORATE SERVICES

Analysis of Mandays

Corporate Governance	17.75
Corporate Performance Indicators	0.50
CPA – Data Quality KLOE	0.50
Data Quality	0.50
Energy Management	18.00
Fraud and Corruption Strategy	5.00
KLOE – Use of Resources	0.75
NFI Data Matching Exercise	4.75
Risk Management	45.25
Special Investigation – Fuel Stores	2.25
Standing Orders and Financial Regs.	2.50
Statement of Internal Control	3.75
TOTAL :	<u>101.50</u>

AUDIT PLAN REPORT

ISSUES REVIEWED

OCTOBER, 2006 – MARCH, 2007

CORPORATE SERVICES

1.	Risk Register Development of this software highlighted. Progress being made to enhance Risk Management position.
2.	Risk Management a) Assistance provided to all departments on various aspects of risk. b) Review of Risk Management Policy and Strategy undertaken.
3.	KLOE Revised criteria reviewed for impact across the authority.
4.	Strategic Risk Approach to the identification of major strategic risks developed and implemented.
5.	Business Continuity Corporate Group progress towards an agreed Business Continuity Plan.
6.	Gas Contract Negotiations concluded through NEPO for new gas contract effective from 1 st April, 2007. Principle of flexible purchasing agreed.

ISSUES REVIEWED

OCTOBER, 2006 – MARCH, 2007

CORPORATE SERVICES (CONTINUED)

7.	<p>Contract Procedure Rules</p> <p>Progress made through officer group for new contracting rules as part of the Council's Constitution. Expected implementation date of July, 2007.</p>
8.	<p>Energy Monitoring</p> <p>Energy Group discussions over progressing this activity.</p>
9.	<p>Statement of Internal Control (SIC)</p> <p>Arrangements agreed for supporting evidence to the 2006/07 Statement.</p>
10.	<p>Electricity Contract</p> <p>Reduced availability charges negotiated with supplier.</p>
11.	<p>Partnerships</p> <p>Important that partnerships have proper governance arrangements. Development around the Council progressing.</p>
12.	<p>Energy Budgets</p> <p>Review of budget provision following new contract rates underway.</p>

SUMMARY OF AUDIT WORK : APRIL 2006 – MARCH 2007

AUDIT POLICY AND MANAGEMENT

Analysis of Mandays

Chargeable Management

Audit Commission Liaison	1.50
Audit Management and Supervision	11.75
Audit Planning and Administration	48.25
All Departments Miscellaneous	7.25
Development and Awareness	57.00

Non Chargeable Management

Time Management System	24.25
Training In-House	5.50
Training External and Seminars	1.00
Staff Development	1.00
Manager and Other Staff Meetings	27.00
Audit Sub-Groups	7.00

TOTAL : **191.50**

GRAND SUMMARY

Leisure Services	109.25
Neighbourhood Services	91.00
Housing Services	108.00
Chief Executive Officer	30.75
Resources Department	277.25
Corporate	101.50
Audit Policy and Management	191.50

GRAND TOTAL : **909.25**

This page is intentionally left blank

11TH JUNE 2007

**REPORT OF
DIRECTOR OF RESOURCES**

Portfolio: STRATEGIC LEADERSHIP

**STATEMENT ON THE SYSTEM OF INTERNAL CONTROL
AND CORPORATE GOVERNANCE 2006/07**

1. SUMMARY

- 1.1 The Account and Audit Regulations 2003 and 2006, requires the Council to ensure that its financial management arrangements are adequate and effective and that there is a sound system of internal control in place which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.
- 1.2 The Regulations also require the Council to conduct a review at least once a year, of the effectiveness of its system of internal control.
- 1.3 To facilitate this requirement, the Chartered Institute of Public Finance and Accountancy (CIPFA) produced guidance for Local Authorities to follow. Officers have been following this guidance by reviewing the control environment and producing evidence as part of a Statement on the System of Internal Control and Corporate Governance (SIC) as recommended
- 1.4 Although the SIC is incorporated in the Annual Statement of Accounts (SOA), best practice recommends that the SIC should be considered separately from the SOA
- 1.5 The purpose of this report is therefore to consider the content of the draft Statement on the System of Internal Control and Corporate Governance, which is to be presented to the Audit Committee prior to its submission to Council on 29th June 2007.

2. RECOMMENDATION

- 2.1 That Management Team approves the Statement on the System of Internal Control and Corporate Governance 2006/07,as shown at Appendix 1
- 2.2 That the Statement on the System of Internal Control and Corporate Governance 2006/07 be reviewed by the Audit Committee prior to its submission to Council.
- 2.3 That the Chief Executive and Leader of the Council approve and sign the statement.
- 2.4 That the Statement be incorporated into the Statement of Accounts for the 2006/2007 financial year.

3. DETAIL

Statement of Internal Control

- 3.1 Regulation 4 of The Account and Audit Regulations 2003, as amended by the Account and Audit Regulations 2004 and 2006, requires the Council to make adequate and effective financial arrangements and to ensure that it has a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.
- 3.2 The Regulations also state that the arrangements shall be reviewed at least once a year to ensure that the system of internal control is effective.
- 3.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) produced a comprehensive guide looking at how best to adopt and apply the areas of proper practice.
- 3.4 The guide identified a number of main issues

- **The Background and Legislation**

The guide confirmed that this was a corporate issue and corporate ownership must be achieved. The most senior officer and Member must sign the statement and they must therefore be satisfied that the document is supported by reliable evidence and accurately reflects the internal control environment.

The guide emphasised that the statement is about all corporate controls and is not confined to financial issues.

The guide suggested that the following steps are integrated into the review of internal control and assurance process

- Establish statutory obligations and organisational objectives
- Identify the key risks to the achievement of the objectives
- Identify and evaluate key controls and management of principal risks
- Obtain assurances on the effectiveness of key controls
- Evaluate assurances and identify gaps
- Create action plans to address weaknesses and ensure continuous improvement in internal control systems
- Prepare a statement on internal control
- Report to the “appropriate Body charged with Governance”

- **Statement on the System of Internal Control and Corporate Governance (SIC)**

The SIC is a corporate document involving a variety of people charged with delivering governance within the Council.

- Directors, Heads of Service and Managers assigned with the delivery of services and the ownership of risks
- The Financial Officer responsible for the accounting control systems and the preparation of the Statement of Accounts
- The Monitoring Officer in meeting statutory responsibilities
- Members through the Audit Committee and Council
- Others responsible for providing assurance

The guide suggested that the SIC, as a corporate document, should be owned by all senior Officers and Members of the Council. It recommended a shared approach to compile the SIC, because any delegation to a single individual or section would dilute the statement's significance and encourage other people to distance themselves from their proper responsibilities.

- 3.5 Management Team considered a comprehensive report on the requirements to produce the SIC in February 2005 and agreed that a group of senior Officers from all Departments should gather the appropriate evidence as highlighted in paragraph 3.4 above.

Management Team agreed that every Director was required to comprehensively certify that all significant systems, including operational, as well as financial performance management and risk management arrangements are being maintained and that a full schedule of important control systems be prepared. It would demonstrate how services were organised, controlled and monitored, as well as detailing how financial, performance and risk management is being delivered.

- 3.6 The group of senior officers has met during the year to ensure that all relevant evidence was gathered and is available for inspection and review by the Audit Commission as part of their inspection of the Councils management procedures. During a review of the existing arrangements, it was agreed that Heads of Service should be required to complete a detailed self-assessment questionnaire to provide evidence to their appropriate Director that satisfactory arrangements were currently in place or to confirm that actions were to be undertaken to further improve their existing procedures
- 3.7 Attached at Appendix 1 is the Statement on the System of Internal Control and Corporate Governance for the 2006/2007 financial year.

In accordance with CIPFA guide and best practice the statement covers the following areas.

- The scope of responsibility
- The purpose of the system of internal control
- The internal control environment
- Major developmental areas
 - Performance management
 - Risk management
 - A review of the effectiveness of the system of internal control
 - Corporate governance arrangements

- 3.8 Assurance Statements have now been received from most Directors and Heads of Services, in respect of the 2006/2007 financial year and although there are still a number of Statements to be completed, there are no significant issues expected to be identified from them.
- 3.9 Whilst the subsequent corporate statement is generally very positive, there are a number of issues identified in section 6 and 7 of the document where some work was required to be undertaken during 2006/2007 to improve the control environment and further work is planned to ensure that the present systems have fully effective controls in place .

4. CORPORATE GOVERNANCE

4.1 The Council is responsible for ensuring that strong and effective Corporate Governance arrangements are in place which will demonstrate that:

- It has community focus.
- Effective service delivery arrangements.
- Robust structures and processes.
- Effective risk management and internal controls.
- Proper standards of conduct.

The principles underpinning these five 'dimensions' are accountability, integrity, openness and inclusivity.

The Council approved a Local Code of Corporate Governance in 2002, detailing the measures the Council takes to demonstrate how it meets the requirements of the five dimensions. An Action Plan was compiled to ensure that any tasks that were needed to be undertaken to fully comply with the Code were identified and regular monitoring of progress being made to complete the tasks is made by Management Team.

5. CONCLUSIONS

5.1 A substantial amount of progress has been achieved during the last 12 months to ensure that all appropriate control systems are in place and that evidence is available to support the statement.

5.2 It will be necessary to continue to review and update the evidence to ensure that all changes to the existing arrangements are documented.

6. RESOURCE IMPLICATIONS

There are no financial issues arising directly from this report.

7. CONSULTATIONS

Directors and senior Officers from all Departments have been involved in the production of this Statement.

8. LINKS TO CORPORATE OBJECTIVES/VALUES

Reviewing the effectiveness of the Council's systems of internal controls ensures that the following corporate values have been addressed.

- Being responsible with and accountable for public finances

9. RISK MANAGEMENT

9.1 If the Council is not able to demonstrate to the Audit Commission that it has an effective system of internal controls and corporate governance arrangements in place, or any weaknesses were not being addressed, it would inevitably have a detrimental

effect on any Comprehensive Performance Assessment (CPA) review, resulting in the Council not being able to achieve the highest possible rankings.

- 9.2 If there were not adequate control arrangements in place, there is the possibility of financial losses being sustained by the Council as a result of fraud, overpayments to creditors, loss of income etc.
- 9.3 If detailed procedural notes are not drawn up as part of the evidence to support the SIC, there could be a possibility that the business critical services provided by the Council could be affected by events such as a pandemic flu outbreak, a major fire or flood or utility supply disruption etc

10. HEALTH AND SAFETY

No additional implications have been identified.

11. EQUALITY AND DIVERSITY

No additional implications have been identified.

12. LEGAL AND CONSTITUTIONAL

The Council is complying with its statutory responsibilities to produce the statement.

13. OTHER MATERIAL CONSIDERATIONS

No other material considerations have been identified.

14. LIST OF APPENDICES

Appendix 1 Statement on the System of Internal Control and Corporate Governance 2006/07

Contact Officer: Harold Moses
Telephone No: (01388) 816166 Ext. 4385
Email Address: hmoses@sedgefield.gov.uk
Ward(s) Proposals are not ward specific
Background Papers: Account and Audit Regulations 2003, 2004, 2006
CIPFA Guide to the Statement of Internal Control
Departmental and Head of Services Assurance Statements

Examination by Statutory Officers

	Yes	Not Applicable
1. The report has been examined by the Council's Head of the Paid Service or his representative	<input checked="" type="checkbox"/>	<input type="checkbox"/>
2. The content has been examined by the Council's S.151 Officer or his representative	<input checked="" type="checkbox"/>	<input type="checkbox"/>
3. The content has been examined by the Council's Monitoring Officer or his representative	<input checked="" type="checkbox"/>	<input type="checkbox"/>
4. The report has been approved by Management Team	<input checked="" type="checkbox"/>	<input type="checkbox"/>

This page is intentionally left blank

STATEMENT ON THE SYSTEM OF INTERNAL CONTROL AND CORPORATE GOVERNANCE 2006/2007

1. Scope Of Responsibility

Sedgefield Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The Council also has a duty, under the Local Government Act 1999, to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard value for money

In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

2. The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable, and not absolute, assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised and to manage them efficiently, effectively and economically.

3. The Internal Control Environment

The system of internal control revolves around a framework of proper establishment of the Council's objectives, regular performance management information, risk awareness, financial regulations, standing orders, administrative procedures based on appropriate segregation of duties, management supervision and a system of delegation and accountability. Development and maintenance of the system is undertaken by managers within the Council. In particular, the system includes:-

- *Regular review and setting of the Council's priorities.*
- *Establishment and monitoring of targets within a performance management framework.*
- *Scheme of delegation within the approved Council Constitution.*
- *Ongoing development of risk management across the Council.*
- *Comprehensive budgeting processes and budgetary control information systems.*
- *Management Review of operational performance efficiency.*
- *Medium Term Financial Planning*
- *Financial performance reviews against forecasts.*
- *Clearly defined capital programme framework.*
- *Application of project management disciplines.*

4. Major Developmental Areas

4.1 **Performance Management**

The Council's framework for performance management has developed in recent years, prompted by Best Value, Comprehensive Performance Assessment and the need to monitor progress with the Council's priority service areas. The Service Planning process helps to identify a wide range of performance measures to be applied to the Council's broad range of activities. Performance results are reported to Strategic Working Groups as well as Overview and Scrutiny Committee for discussion and action where appropriate. Each department's approach to the application of performance management within its structure is continuing to be developed, with a view to best practices being applied across the Council. This action is in line with recommendations from the Audit Commission and will make a major contribution to the revised Comprehensive Performance Assessment results next year.

4.2 **Risk Management**

The development of the Council's approach to Risk Management continues to gather pace with the recent establishment of a Strategic Risk Management Group under the leadership of the Director of Resources to review the major risks facing the Council. Up to 75 Strategic Risks have been identified with Directors and Heads of Service being tasked with assessing the effectiveness of the current controls already in place to mitigate against those risks and if necessary to identify any further actions that will be required to be undertaken to ensure that risks to the Council are reduced to an acceptable level.

The Operational Risk Management Group continues to work towards increasing the awareness and importance of risk across the Council's activities, as well as developing and progressing risk initiatives and responding to legislative changes. Work is ongoing to identify how risk issues can be highlighted and addressed within each department, and brought to the attention of Members to inform the decision making process

During the year a Pandemic Flu Plan was developed and an action plan is now in place which identifies a number of tasks that will need to be undertaken to ensure that the Council is as fully prepared as possible to cope with the inevitable disruption that will occur during such an outbreak.

The Audit Committee received a report in January 2007 that reviewed the Risk Management activities undertaken during 2006. A number of recommendations made by the Committee on the actions that officers should undertake to further embed Risk Management throughout the Council, including the use of the Electronic Risk Register, Risk Prioritisation Matrix and Generic Risk Profiles, were subsequently endorsed by Cabinet.

5. **Review of Effectiveness**

The Council is responsible for ensuring the effectiveness of the system of internal control. The review of the effectiveness is informed by the work of the Council's Internal Auditors and Managers within the authority, which has responsibility for the development and maintenance of the internal control environment. Additionally, the Audit Commission, I and other external agencies carry out review work on specific areas.

The Council's Internal Audit is provided by a team of six directly employed staff, under the control of the Audit Services Manager. The annual Audit Plan for 2006/2007, based on sound risk assessment criteria, was considered by Overview and Scrutiny Committee One and identified the individual areas of audit activity planned, taking account of policy, structural and developmental changes affecting the Council. All the major systems of the Council are examined every year to confirm that internal financial control is operating satisfactorily and effectively contributing to the delivery of services. Performance management arrangements are also examined.

During the year a group of senior officers representing all departments met to review the progress being made within each Department to further improve on the control arrangements already in place. In order to comply with recent changes to the Accounts and Audit Regulations, the Group has also satisfied itself that the System of Internal Audit was operating effectively within the Council after having reviewed relevant evidence as suggested by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The Audit Committee considered a progress report on Internal Audit work in October 2006 which confirmed that much of the audit work had been concluded satisfactorily. A full report on 2006/07 will be considered by the Audit Committee in June 2007.

6. **Outstanding Issues from Previous Statements**

There were a number of issues identified in the 2005-2006 Statement of Internal Control as requiring remedial action. The imbalance within the Accounts Receivable System has now been satisfactorily resolved but further work is being undertaken with regard to the Establishment Control arrangements and although the main issues with the Torex Management Information System have been resolved there are still a number of minor problems still being addressed. With regard to achieving Value for Money in relation to

housing services, market testing of the Emergency Callout Service on housing repairs resulted in the work being out-sourced, achieving significant savings. Significant progress has now been achieved in establishing a partner to provide construction work until 2012. A partnering advisor has now been appointed and a short list of potential partners to undertake construction works, including maintenance, improvements and new build is currently being drawn up. The partnership is expected to become operative from October / November 2007. A Value for Money Strategy in respect of Housing Services has been developed and includes a detailed review of a number of aspects of current service delivery.

7. New Issues arising during 2006/07

One further issue has arisen during the 2006/2007 financial year as follows

Monitoring of Energy Management

As new energy contracts negotiated during 2006 have indicated that the Council's fuel costs are likely to be in the region of £1 million in 2007/08, progress is currently being made towards the development of appropriate monitoring arrangements and initiatives to ensure that consumption is reduced wherever possible.

8. Audit Commission

External audit and inspection is carried out by the Audit Commission in accordance with proposals agreed with the Council on an annual basis, with formal reports considered by the Audit Committee and Council as necessary. The Audit Commission has adopted a much more rigorous approach to the Comprehensive Performance Assessment (CPA) work, and the Council's self-assessment approach to the issues contained in various key lines of enquiry, including use of resources, will be used to develop our approach further.

9. Corporate Governance

Sedgefield Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. In discharging this responsibility, members and senior officers are responsible for putting in place proper arrangements for the governance of the authority's affairs and the stewardship of the resources at its disposal. To this end, the Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles and reflects the requirements of the CIPFA/SOLACE Framework 'Corporate Governance in Local Government: A Keystone for Community Governance'. A copy of the Local Code is on our website at www.sedgefield.gov.uk or can be obtained from the Head of Financial Services on 01388-816166 ext. 4385.

The Council has put in place appropriate management and reporting arrangements to enable it to satisfy itself that its approach to corporate governance is both adequate and effective in practice. The Chief Executive is responsible for:-

- Overseeing the implementation and monitoring the operation of the code.
- Reviewing the operation of the code in practice.
- Ongoing constitutional review processes.
- Reporting annually to Council on the compliance with the code and any changes that may be necessary to maintain it and ensure its effectiveness in practice. The 2006/2007 annual report on Corporate Governance will be presented to Council on 29th June 2007.

10. Conclusions

On the basis of information supplied to us, we are satisfied that the Council's Internal Control and Corporate Governance arrangements are adequate and operating effectively, subject to the observations made above.

All Directors are aware of their responsibilities and are progressing the actions necessary to achieve full compliance. A further level of assurance was required for the 2006/07 financial year when a detailed self-assessment questionnaire was required to be completed by all Heads of Service to demonstrate their awareness and commitment to full development of the control environment.

We are satisfied that these actions will address the need for improvements that have been identified and will review their implementation and operation as part of our continuous review processes.

<i>Signed</i>		<i>Dated</i>
	<i>Leader of the Council</i>	
<i>Signed</i>		<i>Dated</i>
	<i>Chief Executive</i>	

Item 8

REPORT TO AUDIT COMMITTEE

25th JUNE 2007

REPORT OF DIRECTOR OF RESOURCES

Portfolio: STRATEGIC LEADERSHIP

STATEMENT OF ACCOUNTS (FOR YEAR ENDED 31ST MARCH 2007)

1. SUMMARY

This report deals with the statutory requirements set out in the Accounts and Audit Regulations 2003 for the production and publication of the Annual Statement of Accounts.

2. RECOMMENDATIONS

- 2.1 That the Statement of Accounts for the year ended 31st March 2007 be recommended to Council for approval.

3. DETAIL

The Statement of Accounts is being presented to this Committee so that it can consider the content and recommend that the Statement of Accounts to the Council for Approval. The minutes of this meeting together with their recommendations will be circulated to all Members of Council on the 29th June prior to this report being considered by them.

- 3.1 The Account and Audit Regulations 2003 require the Council to approve the Accounts of the Authority by no later than the 30th June, prior to their publication and the formal signing off by the District Auditor.
- 3.2 Following the Audit of the Statement of Accounts, which has to be completed by no later than 30th September 2007, the District Auditor will submit a formal report on the Audit. If there are any material changes to the Statement of Accounts it will also be necessary for Council to re-approve the document.
- 3.3 Once the Audit has been completed the District Auditor will issue an Audit Certificate, on receipt of that document it is responsibility of the Director of Resources to publish the Statement of Accounts. In order to comply with this requirement apart from producing copies of the Statement it will also be placed on the Council's website. In addition the Council will once again be preparing a "summary of the accounts" which following stakeholder consultation will be distributed to all residents of the Borough as an insert in Inform.

4. FINANCIAL IMPLICATIONS

Statement of Accounts 31.3.07 – Report to Audit Committee

- 4.1 Paragraphs 4.5 and 4.7 detail the outturn financial position for the two principal revenue accounts that the Council maintains:
- General Fund
 - Housing Revenue Account
- 4.2 Para. 4.8 details the impact on the Council's level of revenue reserves of the outturn position on the revenue accounts.
- 4.3 Para. 4.9 details the outturn financial position on the Council's capital programme for both Housing Revenue Account and General Fund, how the programme has been financed and recommended amendments to the overall capital programme control totals for 2007/2008.
- 4.4 Cabinet Members are kept advised of the likely outturn position with regard to their portfolios' revenue and capital budgets during the financial year by way of quarterly budgetary control reports to Cabinet.

4.5 **GENERAL FUND**

(a) 2006 / 2007 Initial Plans

The Council received a relatively good Revenue Support Grant settlement from the Government for 2006/2007, which represented a very substantial increase of £1,552,824 over the 2005/2006 settlement. The settlement took into account the Council's share of the £350million made available nationally to improve the statutory minimum concessionary fares scheme from half fare to free fare as well as a year on year increase of 5.4%.

Notwithstanding this relatively good settlement the Council faced some significant budget pressures for 2006/2007, including pay award and pension increases, job evaluation, the fall out of external grant funding, fuel price inflation and implementing the new minimum concessionary fares scheme.

However, the Council was still able to include significant service growth in key priority areas in the 2006/2007 Budget mainly in environmental services such as street cleansing and the extension of the Civic pride teams dealing with issues such as graffiti and chewing gum removal and fly tipping.

In overall terms, the Budget Framework for 2006/2007 showed another year of spending growth assisted by a relatively good RSG settlement, investment income generated from significant housing land sale capital receipts received by the Council and the reallocation of available resources to help achieve Council priorities.

The Council approved a budget requirement of £14,045,480 for 2006/2007, which represented a net increase of £1,634,000 or 13% on 2005/2006. The Budget assumed a use of balances of £500,000 from the Budget Support Fund.

Careful planning of the budget meant that the commitment made in the Medium Term Financial Plan to restrict the council tax increase to 3% was delivered in 2006/2007.

(b) 2006 / 2007 Actual Position

The quarterly reporting of each portfolio's spending performance and probable outturn position to Cabinet and Strategic Working Groups has ensured that effective budgetary control has been achieved during 2006/2007.

The financial outturn position on the General Fund has improved considerably throughout 2006/2007, primarily as a result of the following items: -

- The Council's annual benefits bill now exceeds £30,000,000 with the level of overpayments being relative small in percentage terms and well within acceptable government limits. Housing Benefit Subsidy is paid at the rate of 100% of eligible payments, when an overpayment is made the rate of subsidy drops to 40% potentially leaving the Council to meet the remaining costs. If subsequently the Council recovers all of the overpayment surplus sums are generated.
- It has been the practice in the past to disregard the likely impact of recovered overpayments in the quarterly budget monitoring reports because of the difficulty in accurately assessing these amounts and only accounting for them at the year end when all relevant details are readily available.
- For 2006/2007 the level of recovered overpayments was in excess of £250,000. Revised monitoring arrangements are being introduced from 2007/2008 onwards and future budget monitoring reports will take into account likely levels of recovered overpayments
- The authority received grant from the Local Authority Business Growth Incentive Scheme [LAGBI]. This is the second of an initial three-year scheme designed to give local authorities an incentive to maximise local economic growth by allowing them to receive a proportion of increases in local business rate revenues to spend on their own priorities. The allocation for Sedgefield Borough in 2006/2007 was £410,000, and was not known until March meaning that it has not featured in previous outturn projections. There will be a further payment due in 2007/2008, however due to the difficulty in making an accurate assessment a similar situation will arise. To date no specific use has been determined for the award and therefore it has been added to the Budget Support Fund.
- During the year the turnover of staff employed by the Council, which is normally expected to be in the region of 2.5% per annum, was running at a much higher level than expected. As a consequence the impact of vacant posts and delays in filling posts resulted in significant cost savings on the salaries budget.

A summary of the outturn on the Council's General Fund is shown in the table below: -

Portfolio	What we Spent 2006/2007		
	Revised Budget £000	Actual Spend £000	(Under-spend) Overspend £000
Strategic Leadership*	(894)	(933)	(39)
Healthy Borough			
- <i>Community Health</i>	160	153	(7)
- <i>Leisure & Culture</i>	3,926	3,929	3
Strong Communities			
- <i>Housing</i>	2,263	2,300	37
- <i>Safer Communities</i>	812	911	99
Prosperous Borough			
- <i>Learning & Employment</i>	446	427	(19)
- <i>Social Regeneration & Partnership</i>	2,327	2,022	(305)
Attractive Borough			
- <i>Environment</i>	5,246	5,066	(180)
- <i>Planning & Development</i>	470	325	(145)
Salary Savings	(260)	-	260
Other Savings	-	(435)	(435)
Contingency	49	-	(49)
Budget Requirement	14,545	13,765	(780)
(Use of) / Contribution to Balances	(500)	280	780
Budget Requirement	14,045	14,045	-

* The Strategic Leadership Portfolio shows a credit budget and actual spend as it includes internal recharges to frontline services in respect of support services and significant interest receivable in relation to the Council's short term investments.

The above table is shown on a non FRS 17 basis.

The budgets for 2006/2007 have been fully revised to take account of the full reallocation of corporate support services and asset charges fully recharged to service areas.

As a result of the favourable outturn position on the General Fund and the incorporated LABGI grant, the Council has been able make a contribution of £280,000 to the Budget Support Fund as opposed to the budgeted use of balances of £500,000.

A detailed summary of the movements in the levels of all of the Council's Reserves is shown in paragraph 4.8.

Training and Employment Services

The initial budget prepared for 2006/2007 forecast that the Training Services account would make an operating loss of about £138,000 [excluding asset charges] by the 31st March 2007. As a consequence of higher contract income generated by the Job Centre plus and other contracts the overall loss for the year was only £13,457.

4.6 Revenue Provisions Into 2007/2008

In view of the Council's favourable outturn position, I have made provision in the 2006/2007 Accounts to carry forward unused resources for specifically identified purposes amounting to £223,600 into the current year to meet specific needs identified within the Budget and Policy Framework. This action is in line with the Financial Regulations.

Details of the provisions made are as follows: -

	£
General Fund	
<i>Organisational Training & Development Initiatives</i>	20,800
<i>Youth Music Initiative</i>	1,500
<i>Aycliffe Town Centre – Legal Fees</i>	5,000
<i>Housing Needs Study – Non HRA element</i>	7,500
<i>Leisure – Early Years Initiatives</i>	9,790
<i>Durham Women's Refuge - Support</i>	5,000
<i>Domestic Violence Initiatives</i>	1,120
<i>Safeguarding Children Board – Training Initiatives</i>	12,000
<i>Local Development Framework - Appraisals</i>	14,650
<i>Community Economic Appraisals</i>	38,000
<i>Council Tax Charter Mark Initiatives</i>	30,000
<i>Housing Benefits Admin Improvement Initiatives</i>	35,740
<i>Horticultural Maintenance</i>	20,000
Housing Revenue Account	
<i>Housing Needs Study</i>	2,500
<i>Refurbishment works at Grayson Grange [Carelink]</i>	20,000
Total Revenue Provisions	223,600

During 2006/2007 an offer was made to those employees who had lodged an equal pay claim against the Council in full and final settlement. The offer was subsequently rejected and following consultation with the employees unions further equal pay claims have been submitted. A provision of £773,000 has been provided for equalling the cost of the initial offer, all of which would fall against the Housing Revenue Account and this is being met from HRA balances.

In addition the Council has received grant funding in respect of specific initiatives that was unspent at the 31st March 2007 amounting to £605,460. The budget framework already assumes that some of this grant funding will be utilised in 2007/2008, however if the specific programmes do not need all of the funds in the current financial year

unspent resources will be rolled forward into later years to meet specific requirements of the relevant initiatives.

	£000
General Fund	
<i>LPSA – Cost Efficiency Grant</i>	157,790
<i>DEFRA- Waste Management & Efficiency Grant</i>	35,980
<i>D o H – Smoke free Legislation</i>	8,590
<i>Planning Delivery Grant</i>	190,890
<i>Local Enterprise Growth Initiative</i>	112,210
<i>D o H – Communities for Health</i>	100,000
Total Grant Provisions	605,460

4.7 HOUSING REVENUE ACCOUNT

(a) 2006/2007 Initial Plans

The structure of the Housing Revenue Account (HRA) has changed significantly in recent years with the introduction of the Supporting People Grant for Carelink services, rent restructuring and the transfer of rent rebates to the General Fund. In addition the subsidy settlement has undergone major methodology changes particularly with respect to how certain allowances are calculated.

In terms of spending in 2006/2007, the Council's management and maintenance allowances again increased well above inflationary levels. The management allowance was increased by 9.7% and the maintenance allowance showed an increase of 6.4%.

The extra spending capacity from increased allowances allowed some budget growth to be included in the 2006/2007 Budget, particularly in terms of repairs and maintenance and disabled persons adaptations to the housing stock. This was achieved without the need to draw on reserves, which stand at a relatively healthy level.

However, significant changes were made to the rent restructuring model for 2006/2007 that led to substantial rent increases for most tenants. This will continue over the next few years so that full convergence with housing association rents can be achieved by 2012.

Therefore whilst the 2006/2007 subsidy proposals allowed for increased investment in maintaining and managing the housing stock it was at the cost of above inflation rent increases for many tenants.

Overall the HRA remained in a negative subsidy position and indeed this worsened under the new proposals. In 2005/2006, £1.9m is being paid over to the Government and this increased to £2.7m in 2006/2007. So in effect £800,000 of the additional rent increase raised this year was transferred to the Government to assist with social housing in other parts of the country.

(b) 2006/2007 Actual Position

The approved budget for 2006/2007 assumed that the HRA would break even with no requirement for contribution to or from Balances.

However, following Cabinet Approval the budget has since been adjusted to assume a use of HRA Balances of £400,000. This is made up of £300,000 to ease spending pressures and backlog of works in respect of Disabled Persons Adaptations within the Repairs and Maintenance Budget and £100,000 towards the first year costs of the HRA Service Improvement Plan. In addition as part of the financing of the HRA capital programme it was anticipated that the sum of £500,000 would also be used.

The financial outturn position on the HRA shows a use of HRA Balances of £1,264,610. Details of which are shown in the following table: -

	<i>What We Spent 2006/2007</i>		
	<i>Planned £000</i>	<i>Actual £000</i>	<i>(Under- spend) Overspend £000</i>
<i>Income</i>			
<i>House Rents Net of Voids and Bad Debts</i>	21,567	21,731	(164)
<i>Other Rents</i>	882	856	26
<i>Government Subsidies</i>	85	85	-
<i>Other Grants, Contributions and Charges</i>	4,580	4,652	(72)
<i>Investment Income</i>	106	106	-
<i>Total Income</i>	27,220	27,430	(210)
<i>Expenditure</i>			
<i>Management Costs</i>	10,489	10,120	(369)
<i>Maintenance Costs</i>	6,653	6,985	332
<i>Equal Pay Provision</i>	-	773	773
<i>Capital Financing</i>	6,053	6,163	110
<i>Revenue Contribution to Capital #</i>	2,055	1,699	(356)
<i>Negative Subsidy Payable</i>	2,730	2,820	90
<i>Statutory Contributions to General Fund</i>	140	134	(6)
<i>Total Expenditure</i>	28,120	28,694	574
<i>Contribution from HRA Balances</i>	900	1,264	364

Includes £500,000 support to the HRA capital programme from HRA balances

The main reasons for the increased use of HRA balances are detailed below: -

- A revenue provision has been set aside to meet part of the equal pay claims that the Council recognises will at some time in the future be paid in respect of staff chargeable against the HRA, amounting to £773,000.
- The Council has benefited from the higher than estimated rental income as a result of a downturn in the level of RTB sales and reduced levels of rent loss through voids, which are currently running at historically low levels.
- The net overspend on management and maintenance relates in the main to increased staffing costs associated with the increased works budget in respect of disabled persons adaptations and the higher than anticipated use of agency staff used.

- The under spend on the revenue support to the capital programme is being carried forward to meet capital programme slippage.

4.8 RESERVES

The following statement sets out the actual position in respect of the level of reserves and balances available to the Council as at the 31st March 2007, which includes the LAGBI funds of £410,000. The overall level of resources available to the Council has fallen by £1.422m compared to the balances as at 31st March 2006. This is mainly attributable to the transfer of HRA resources to meet the cost of the equal pay claims outlined earlier in this report and the use of HRA resources to fund the new initiatives approved by Cabinet as detailed in Paragraph 4.7[b] above. The use of General Fund reserves is broadly in line with the expectations used when the 2006/2007 budgets were approved in February 2006.

		<i>Balances at</i>	
		<i>31/3/2006</i>	<i>31/3/2007</i>
		<i>£000</i>	<i>£000</i>
General Fund			
<i>Earmarked Reserves</i>			
	<i>Budget Support Fund</i>	1,721	2,002
	<i>Insurance Fund</i>	1,237	1,231
	<i>Economic Development Fund</i>	183	103
	<i>Asset Management Fund</i>	502	402
	<i>Private Sector Housing Fund</i>	203	203
	<i>Training Services Fund</i>	458	445
	<i>Youth Development Fund</i>	109	64
	<i>MRP (Debt Repayment) Fund</i>	456	256
	<i>Building Control Fund</i>	21	14
	<i>Other Earmarked Funds</i>	51	65
		4,941	4,785
<i>Non-Earmarked Reserves</i>			
	<i>General Reserves</i>	2,240	2,240
Housing Revenue Account			
	<i>HRA Working Balance</i>	4,647	3,382
	Total Reserves	11,828	10,407

The purposes for which the main reserves are held are detailed below: -

Budget Support Fund

This was set up to provide support to the General Fund to allow spending levels to be adjusted over the medium term. The Medium Term Financial Plan 2006-2009 [MTFP] anticipates that £1.5m of this fund will be used over the next three years. The balance shown currently includes the two LABGI awards

Insurance Fund

Established to cover the Council's self-insured risks. Whilst the revised balance will fall as claims continue to be met, the current level of funding is regarded as satisfactory in the medium term.

Economic Development Fund

Set up to provide incentives to industry, whilst the Fund has lasted much longer than initially anticipated. There are ongoing commitments against the fund and it is expected that as a consequence of no external grant funding being available to support the incentives programme the fund has a very limited future life.

Training and Employment Services

This Fund is used to support the Council's training schemes, which have provided training opportunities to thousands of people over many years.

Asset Management Fund

This fund is available to provide support to meet the Council's commitments under the Asset Management Plan. The MTFP anticipates that £0.3m of this fund will be used over the next three years.

Private Sector Housing Fund

Established some years ago, when Housing Association loans were repaid, to provide support to private sector housing regeneration initiatives. The MTFP anticipates that £0.1m of this fund will be used over the next three years.

Youth Development Fund

This Fund is used to support projects aimed at developing the skills and talents of young people in Sedgefield Borough. This will provide significant additional funds to support 'KoolKash' initiatives and is in line with the outcome from the review of Children and Young People.

Other Earmarked Funds

This covers a range of small balances, and funds that are used for technical accounting purposes.

General Reserve

The balance on this reserve represents around 16% of net revenue spending, which is well above the minimum level advised by the Audit Commission of 5%. However, the Council has always held a significant reserve reflecting its tradition of being an active Council, prepared to respond to new initiatives and it considers the level of balances to be adequate and appropriate for this authority and a balance of £2m is regarded as a target to be maintained in the medium term.

Housing Revenue Account

Balances have been built up over the last few years primarily as a result of buoyant capital receipts being generated, which have been used to finance capital expenditure rather than using revenue resources that are under pressure from the need to repay subsidy. The MTFP anticipates that £1.5m will be used over the next three years to support the capital programme so that the Council achieves its decent homes target.

Collection Fund

The Council, as billing authority, maintains the Collection Fund accounts in respect of all the precepting authorities within Sedgefield Borough. Surpluses and / or losses on the Fund have to be used to support future Council Tax bills.

During December 2006 the Council is required to estimate the likely surplus or deficit on the Collection Fund and advise the Principal Precepting Authorities of their share that has to be paid out during 2007/2008, that surplus was estimated at £648,500. As at the 31st March 2007 there was an accumulated surplus on the Fund of only £595,000. Whilst a higher level of funds has been distributed than is currently being held the shortfall will be collected during 2007/2008.

Sedgefield Borough Council utilised £150,000 of the assumed surplus to set its own level of Council Tax in 2007/2008 whilst the actual share of the Collection fund balance at 31st March 2007 was £137,500.

4.9 CAPITAL INVESTMENT & FINANCE

(a) Capital Investment in Sedgefield Borough 2006/2007

In preparing the Council's Capital Budgets for 2006/2007, account had to be taken of the resources available to the Council in the form of Government grants and allocations such as the Major Repairs Allowance, Supported Borrowing Approvals and the Council's own capital resources such as usable capital receipts, revenue contributions and accumulated reserves.

The approved net spending target for 2006/2007 was subsequently set at £15.65m with £4.4m set aside for General Fund Services, £7.8m for Council Housing Services and £3.45m for Major Regeneration Initiatives to be funded from Housing Land Capital Receipts.

The spending targets were revised during the year to reflect outstanding commitments carried forward from 2005/2006. Following these amendments, the revised net spending approval was set at £17.747m, with £7.800m set aside for Council Housing Services, £5.979m for General Fund Services and £3.968m for Major Regeneration Initiatives.

Taking into account additional external funding secured during the year, the total gross spending target was £20.742m with £8.674m for General Fund, £7.800m for Council Housing and £4.268m for Major Regeneration Initiatives.

The figures in the tables below detail the actual gross and net capital expenditure in 2006/2007 in respect of the General Fund, Council Housing and Major Regeneration Programmes. The net spend shown is after the deduction of any external capital grants and contributions received during the year and therefore represents the expenditure to be financed from the Council's own resources and Government allocations built into the base budget such as the Major Repairs Allowance and Supported Borrowing Allocations.

(b) General Fund Services

The final outturn position on the 2006/2007 General Fund Capital Programme (including the Major Regeneration Programme) can be summarised as follows: -

Portfolio	Net Capital Programme Budget £000	Gross Capital Programme Budget £000	Actual Gross Spend* £000	Less Capital Grants and Contributions £000	Actual Net Spend To Finance £000
Strategic Leadership					
ICT and E-Government	900	1,738	764	(81)	683
Green Lane	240	240	245	-	245
Chilton Depot	90	106	100	-	100
Healthy Borough					
Community Health	25	697	721	(615)	106
Leisure and Culture	600	1,103	1,317	(244)	1,073
Prosperous Borough					
Social Regeneration	300	1,433	923	(484)	439
Learning and Employment	300	1,136	763	(239)	524
Major Regeneration	3,450	4,268	313	-	313
Attractive Borough					
Environment	70	106	47	-	47
Strong Communities					
Housing (Private Sector)	1,800	1,918	2,736	(1,663)	1073
Safer Communities	75	197	180	(24)	156
TOTAL	7,850	12,942	8,109	(3,350)	4,759

* Net of deminimus spend transferred to revenue

The variances from the approved programme can be attributed to a number of reasons:

- Where capital schemes are funded through external agencies, such as the Single Capital pot these resources must be spent first as in most instances if the resources are not defrayed within the year they have to be repaid.
- Delays in the implementation of the Major Regeneration Initiatives Programme pending the recruitment of the implementation team and the complexities of getting the various initiatives started. Whilst little spend was incurred in 2006/2007 significant on-going commitments have been created.
- Delays in the commencement or completion of a number of schemes on the Regeneration and Economic Development Capital Programme mainly in respect of Spennymoor Town Centre, Neighbourhood Renewal and Aycliffe Industrial Park.
- A number of ICT capital projects were delayed or did not go ahead as planned during the year.
- Whilst Leisure & Culture has not spent all of its allocation the level of on-going commitments exceeds the overall underspend. This is partly as a result of increased costs on some of the projects and additional approved schemes being brought into the programme in advance of the 2007/2008 programmes.

The Council has again been successful in securing additional grants and contributions from external sources to support its capital investment. The amounts to be financed from the Council's own resources were therefore lower than anticipated.

c) Housing Services

The Housing Investment Programme (H.I.P.) provides, in the main, for the revitalization of the Council's dwellings and associated land and infrastructure. The significant areas of the Programme in 2006/2007 were all designed to help the Council achieve the Government's Decent Homes standard, including:

- *Continuation of Kitchen and Bathroom Improvement Programme where the tenant has significant choice in the new facilities installed in their homes.*
- *Continuation of a programme to renewing inefficient central heating systems and the provision of cavity wall insulation in all Council dwellings.*
- *Continuation of a programme to renew roofing on all Council dwellings along with the continuation of a programme of structural repairs and the replacement of dilapidated external components on Council dwellings*
- *Other works, including the works to sheltered housing schemes, fencing and landscaping works and works to Council owned shops.*

The outturn position on the 2006/2007 Council Housing Capital Programme can be summarised as follows:

Scheme	Capital Programme Budget £000	Net Spend To Finance £000*
Council Dwellings		
<i>Tenant Led Improvements</i>	-	227
<i>Kitchen Units</i>	582	221
<i>Kitchen and Bathroom Improvements</i>	2,000	2,489
<i>Bathroom Replacements</i>	440	386
<i>Structural Repairs</i>	264	254
<i>External Fabric Replacement</i>	-	55
<i>Central Heating / Cavity Wall Insulation</i>	3,150	2,576
<i>P.V.C.U. Doors / External Joinery</i>	-	127
<i>Re-roofing Works</i>	416	739
<i>Other Council Housing Works</i>	298	116
Other Works		
<i>Disabled Persons Adaptations</i>	80	53
<i>Infrastructure Works</i>	160	54
<i>Council Shops</i>	20	20
<i>Sheltered Housing</i>	380	-
<i>Other Land and Buildings</i>	10	28
Total	7,800	7,345

* Net of deminimus spend transferred to revenue

Overall the Council spent £15.454m gross on the 2006/2007 Capital Programme against a gross spending target of £20.742m. The financing of the capital programme outturn is detailed in the section below.

(d) Capital Financing in 2006/2007

The following table sets out how the 2006/2007 Capital Programme was financed: -

	£000
Expenditure to Finance	
General Fund	8,109
HRA	7,345
Financed By	
Major Repairs Allowance (MRA)	5,043
Capital Receipts	5,015
Capital Grants	2,615
Capital Contributions	768
Direct Revenue Financing	1,800
Supported Capital Expenditure	213
	15,454

(e) Capital Programme – Carry Forward to 2007/2008

The following table highlights the outstanding commitments on each portfolio's capital programme, which will need to be carried forward into 2007/2008 to meet on-going expenditure plans.

These allocations are in addition to the already approved 2007/2008 capital programme and the 2007/2008 control totals will need to be adjusted accordingly: -

Portfolio / Capital Programme	Slippage & Savings / (Overspend) 2006/07 £000	Commitments/ Carry Forward To 2007/2008 £000
Strategic Leadership		
ICT and E-Government	852	829
Green Lane	(5)	-
Chilton Depot	6	6
Healthy Borough		
Community Health #	7	14
Leisure and Culture	(3)	164
Prosperous Borough		
Social Regeneration	324	388
Learning and Employment	203	162
Major Regeneration	2,435	1,981
Attractive Borough		
Environment	23	18
Strong Communities		
Housing (Private Sector)	83	83
Council Housing (HRA)	343	343
Safer Communities #	(38)	31
TOTAL	4,230	4,019

These carried forward commitments are being financed from Capital contributions

Social Regeneration spend includes an additional £77,000 relating to underground cabling works at Dean Bank, Ferryhill which had not been paid in 2005/06 and for which there was no carry forward commitment created in the current year.

Culture and Recreation overspend includes approx £50,000 for work on Locomotion at Shildon which relates to the Council's share of the increased costs on the original building contract. It also includes £67,000 in relation to essential DDA works at all four leisure centres which cost more than anticipated. The carry forward figure represents contractual commitments relating to 2006/2007 capital works.

(f) Usable Capital Receipts

As a consequence slippage and other savings on the 2006-2007 Capital Programme and the Capital Receipts generated during the year, the Council has Usable Capital Receipts available to finance future capital works, amounting to £15.196m as at 31st March 2007. In accordance with decisions taken by Council in July 2004, £13.642m of these Capital Receipts is being earmarked specifically for major regeneration and affordable housing schemes.

5. RESOURCE IMPLICATIONS

There are no further resource implications arising from this report.

6. CONSULTATIONS

Comprehensive consultation has previously been held during the construction of the 2007/2008 Budget Framework. This report does not contain any proposals or recommendations requiring further consultation.

7. OTHER MATERIAL CONSIDERATIONS

7.1 *Links to Corporate Objectives/Values*

The Council's Corporate Objectives and Values have guided the preparation of the 2006/07 Budget Framework throughout. Resource availability has been fully re-assessed and directed to assist in achieving the Council's key priorities as set out in the Corporate Plan. Particular emphasis has been placed on the following Corporate Values: -

- *Be responsible with and accountable for public finances.*
- *Consult with service users, customers and partners.*

7.2 *Risk Management*

There have been no further risks identified other than those highlighted in the report to Council on the 24th February 2006.

7.3 *Health and Safety*

No additional implications have been identified.

7.4 *Equality and Diversity*

No material considerations have been identified.

7.5 *Legal and Constitutional*

The Budget Framework for 2006/2007 was prepared in accordance with the Council's Constitution. No other legal or constitutional implications have been identified.

8. OVERVIEW AND SCRUTINY IMPLICATIONS

Consultation and engagement with Overview and Scrutiny Committees has previously been held in development and review of the 2006/2007 Budget Framework.

Contact Officer: Alan Smith [Director of Resources]
Telephone No.: 01388-816166 ext. 7776
E-Mail Address: asmith@sedgefield.gov.uk

Ward: Not Ward specific
Key Decision: Validation

Background Papers:

- ~ Report to Special Council 24th February 2006 – Budget Framework 2006/2007.
- ~ Report to Council 30th June 2006- Statement of Accounts 2005-2006
- ~ Reports to Cabinet 14th September 2006- Revenue & Capital Budgetary Control Report – Position at 31st July 2006
- ~ Reports to Cabinet 16th November 2006- Revenue & Capital Budgetary Control Report – Position at 30th September 2006
- ~ Reports to Cabinet 2nd March 2007- Revenue & Capital Budgetary Control Report – Position at 31st December 2006

Examination by Statutory Officers:

	Yes	Not Applicable
1. The report has been examined by the Council's Head of the Paid Service or his representative.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
2. The content has been examined by the Council's S.151 Officer or his representative.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
3. The content has been examined by the Council's Monitoring Officer or his representative.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
4. Management Team has approved the report.	<input type="checkbox"/>	<input checked="" type="checkbox"/>

This page is intentionally left blank

REPORT TO AUDIT COMMITTEE

25th JUNE 2007

REPORT OF DIRECTOR OF RESOURCES

Portfolio: STRATEGIC LEADERSHIP

STATEMENT OF ACCOUNTS (FOR YEAR ENDED 31ST MARCH 2007)

1. SUMMARY

This report deals with the statutory requirements set out in the Accounts and Audit Regulations 2003 for the production and publication of the Annual Statement of Accounts.

2. RECOMMENDATIONS

- 2.1 That the Statement of Accounts for the year ended 31st March 2007 be recommended to Council for approval.

3. DETAIL

The Statement of Accounts is being presented to this Committee so that it can consider the content and recommend that the Statement of Accounts to the Council for Approval. The minutes of this meeting together with their recommendations will be circulated to all Members of Council on the 29th June prior to this report being considered by them.

- 3.1 The Account and Audit Regulations 2003 require the Council to approve the Accounts of the Authority by no later than the 30th June, prior to their publication and the formal signing off by the District Auditor.
- 3.2 Following the Audit of the Statement of Accounts, which has to be completed by no later than 30th September 2007, the District Auditor will submit a formal report on the Audit. If there are any material changes to the Statement of Accounts it will also be necessary for Council to re-approve the document.
- 3.3 Once the Audit has been completed the District Auditor will issue an Audit Certificate, on receipt of that document it is responsibility of the Director of Resources to publish the Statement of Accounts. In order to comply with this requirement apart from producing copies of the Statement it will also be placed on the Council's website. In addition the Council will once again be preparing a "summary of the accounts" which following stakeholder consultation will be distributed to all residents of the Borough as an insert in Inform.

4. FINANCIAL IMPLICATIONS

4.1 Paragraphs 4.5 and 4.7 detail the outturn financial position for the two principal revenue accounts that the Council maintains:

- General Fund
- Housing Revenue Account

4.2 Para. 4.8 details the impact on the Council's level of revenue reserves of the outturn position on the revenue accounts.

4.3 Para. 4.9 details the outturn financial position on the Council's capital programme for both Housing Revenue Account and General Fund, how the programme has been financed and recommended amendments to the overall capital programme control totals for 2007/2008.

4.4 Cabinet Members are kept advised of the likely outturn position with regard to their portfolios' revenue and capital budgets during the financial year by way of quarterly budgetary control reports to Cabinet.

4.5 GENERAL FUND

(a) 2006 / 2007 Initial Plans

The Council received a relatively good Revenue Support Grant settlement from the Government for 2006/2007, which represented a very substantial increase of £1,552,824 over the 2005/2006 settlement. The settlement took into account the Council's share of the £350million made available nationally to improve the statutory minimum concessionary fares scheme from half fare to free fare as well as a year on year increase of 5.4%.

Notwithstanding this relatively good settlement the Council faced some significant budget pressures for 2006/2007, including pay award and pension increases, job evaluation, the fall out of external grant funding, fuel price inflation and implementing the new minimum concessionary fares scheme.

However, the Council was still able to include significant service growth in key priority areas in the 2006/2007 Budget mainly in environmental services such as street cleansing and the extension of the Civic pride teams dealing with issues such as graffiti and chewing gum removal and fly tipping.

In overall terms, the Budget Framework for 2006/2007 showed another year of spending growth assisted by a relatively good RSG settlement, investment income generated from significant housing land sale capital receipts received by the Council and the reallocation of available resources to help achieve Council priorities.

The Council approved a budget requirement of £14,045,480 for 2006/2007, which represented a net increase of £1,634,000 or 13% on 2005/2006. The Budget assumed a use of balances of £500,000 from the Budget Support Fund.

Careful planning of the budget meant that the commitment made in the Medium Term Financial Plan to restrict the council tax increase to 3% was delivered in 2006/2007.

(b) 2006 / 2007 Actual Position

The quarterly reporting of each portfolio's spending performance and probable outturn position to Cabinet and Strategic Working Groups has ensured that effective budgetary control has been achieved during 2006/2007.

The financial outturn position on the General Fund has improved considerably throughout 2006/2007, primarily as a result of the following items: -

- The Council's annual benefits bill now exceeds £30,000,000 with the level of overpayments being relative small in percentage terms and well within acceptable government limits. Housing Benefit Subsidy is paid at the rate of 100% of eligible payments, when an overpayment is made the rate of subsidy drops to 40% potentially leaving the Council to meet the remaining costs. If subsequently the Council recovers all of the overpayment surplus sums are generated.
- It has been the practice in the past to disregard the likely impact of recovered overpayments in the quarterly budget monitoring reports because of the difficulty in accurately assessing these amounts and only accounting for them at the year end when all relevant details are readily available.
- For 2006/2007 the level of recovered overpayments was in excess of £250,000. Revised monitoring arrangements are being introduced from 2007/2008 onwards and future budget monitoring reports will take into account likely levels of recovered overpayments
- The authority received grant from the Local Authority Business Growth Incentive Scheme [LAGBI]. This is the second of an initial three-year scheme designed to give local authorities an incentive to maximise local economic growth by allowing them to receive a proportion of increases in local business rate revenues to spend on their own priorities. The allocation for Sedgefield Borough in 2006/2007 was £410,000, and was not known until March meaning that it has not featured in previous outturn projections. There will be a further payment due in 2007/2008, however due to the difficulty in making an accurate assessment a similar situation will arise. To date no specific use has been determined for the award and therefore it has been added to the Budget Support Fund.
- During the year the turnover of staff employed by the Council, which is normally expected to be in the region of 2.5% per annum, was running at a much higher level than expected. As a consequence the impact of vacant posts and delays in filling posts resulted in significant cost savings on the salaries budget.

A summary of the outturn on the Council's General Fund is shown in the table below: -

Portfolio	What we Spent 2006/2007		
	Revised Budget £000	Actual Spend £000	(Under-spend) Overspend £000
Strategic Leadership*	(894)	(933)	(39)
Healthy Borough			
- <i>Community Health</i>	160	153	(7)
- <i>Leisure & Culture</i>	3,926	3,929	3
Strong Communities			
- <i>Housing</i>	2,263	2,300	37
- <i>Safer Communities</i>	812	911	99
Prosperous Borough			
- <i>Learning & Employment</i>	446	427	(19)
- <i>Social Regeneration & Partnership</i>	2,327	2,022	(305)
Attractive Borough			
- <i>Environment</i>	5,246	5,066	(180)
- <i>Planning & Development</i>	470	325	(145)
Salary Savings	(260)	-	260
Other Savings	-	(435)	(435)
Contingency	49	-	(49)
Budget Requirement	14,545	13,765	(780)
(Use of) / Contribution to Balances	(500)	280	780
Budget Requirement	14,045	14,045	-

* The Strategic Leadership Portfolio shows a credit budget and actual spend as it includes internal recharges to frontline services in respect of support services and significant interest receivable in relation to the Council's short term investments.

The above table is shown on a non FRS 17 basis.

The budgets for 2006/2007 have been fully revised to take account of the full reallocation of corporate support services and asset charges fully recharged to service areas.

As a result of the favourable outturn position on the General Fund and the incorporated LABGI grant, the Council has been able make a contribution of £280,000 to the Budget Support Fund as opposed to the budgeted use of balances of £500,000.

A detailed summary of the movements in the levels of all of the Council's Reserves is shown in paragraph 4.8.

Training and Employment Services

The initial budget prepared for 2006/2007 forecast that the Training Services account would make an operating loss of about £138,000 [excluding asset charges] by the 31st March 2007. As a consequence of higher contract income generated by the Job Centre plus and other contracts the overall loss for the year was only £13,457.

4.6 Revenue Provisions Into 2007/2008

In view of the Council's favourable outturn position, I have made provision in the 2006/2007 Accounts to carry forward unused resources for specifically identified purposes amounting to £223,600 into the current year to meet specific needs identified within the Budget and Policy Framework. This action is in line with the Financial Regulations.

Details of the provisions made are as follows: -

	£
General Fund	
<i>Organisational Training & Development Initiatives</i>	20,800
<i>Youth Music Initiative</i>	1,500
<i>Aycliffe Town Centre – Legal Fees</i>	5,000
<i>Housing Needs Study – Non HRA element</i>	7,500
<i>Leisure – Early Years Initiatives</i>	9,790
<i>Durham Women's Refuge - Support</i>	5,000
<i>Domestic Violence Initiatives</i>	1,120
<i>Safeguarding Children Board – Training Initiatives</i>	12,000
<i>Local Development Framework - Appraisals</i>	14,650
<i>Community Economic Appraisals</i>	38,000
<i>Council Tax Charter Mark Initiatives</i>	30,000
<i>Housing Benefits Admin Improvement Initiatives</i>	35,740
<i>Horticultural Maintenance</i>	20,000
Housing Revenue Account	
<i>Housing Needs Study</i>	2,500
<i>Refurbishment works at Grayson Grange [Carelink]</i>	20,000
Total Revenue Provisions	223,600

During 2006/2007 an offer was made to those employees who had lodged an equal pay claim against the Council in full and final settlement. The offer was subsequently rejected and following consultation with the employees unions further equal pay claims have been submitted. A provision of £773,000 has been provided for equalling the cost of the initial offer, all of which would fall against the Housing Revenue Account and this is being met from HRA balances.

In addition the Council has received grant funding in respect of specific initiatives that was unspent at the 31st March 2007 amounting to £605,460. The budget framework already assumes that some of this grant funding will be utilised in 2007/2008, however if the specific programmes do not need all of the funds in the current financial year

unspent resources will be rolled forward into later years to meet specific requirements of the relevant initiatives.

	£000
General Fund	
<i>LPSA – Cost Efficiency Grant</i>	157,790
<i>DEFRA- Waste Management & Efficiency Grant</i>	35,980
<i>D o H – Smoke free Legislation</i>	8,590
<i>Planning Delivery Grant</i>	190,890
<i>Local Enterprise Growth Initiative</i>	112,210
<i>D o H – Communities for Health</i>	100,000
Total Grant Provisions	605,460

4.7 HOUSING REVENUE ACCOUNT

(a) 2006/2007 Initial Plans

The structure of the Housing Revenue Account (HRA) has changed significantly in recent years with the introduction of the Supporting People Grant for Carelink services, rent restructuring and the transfer of rent rebates to the General Fund. In addition the subsidy settlement has undergone major methodology changes particularly with respect to how certain allowances are calculated.

In terms of spending in 2006/2007, the Council's management and maintenance allowances again increased well above inflationary levels. The management allowance was increased by 9.7% and the maintenance allowance showed an increase of 6.4%.

The extra spending capacity from increased allowances allowed some budget growth to be included in the 2006/2007 Budget, particularly in terms of repairs and maintenance and disabled persons adaptations to the housing stock. This was achieved without the need to draw on reserves, which stand at a relatively healthy level.

However, significant changes were made to the rent restructuring model for 2006/2007 that led to substantial rent increases for most tenants. This will continue over the next few years so that full convergence with housing association rents can be achieved by 2012.

Therefore whilst the 2006/2007 subsidy proposals allowed for increased investment in maintaining and managing the housing stock it was at the cost of above inflation rent increases for many tenants.

Overall the HRA remained in a negative subsidy position and indeed this worsened under the new proposals. In 2005/2006, £1.9m is being paid over to the Government and this increased to £2.7m in 2006/2007. So in effect £800,000 of the additional rent increase raised this year was transferred to the Government to assist with social housing in other parts of the country.

(b) 2006/2007 Actual Position

The approved budget for 2006/2007 assumed that the HRA would break even with no requirement for contribution to or from Balances.

However, following Cabinet Approval the budget has since been adjusted to assume a use of HRA Balances of £400,000. This is made up of £300,000 to ease spending pressures and backlog of works in respect of Disabled Persons Adaptations within the Repairs and Maintenance Budget and £100,000 towards the first year costs of the HRA Service Improvement Plan. In addition as part of the financing of the HRA capital programme it was anticipated that the sum of £500,000 would also be used.

The financial outturn position on the HRA shows a use of HRA Balances of £1,264,610. Details of which are shown in the following table: -

	<i>What We Spent 2006/2007</i>		
	<i>Planned £000</i>	<i>Actual £000</i>	<i>(Under- spend) Overspend £000</i>
<i>Income</i>			
<i>House Rents Net of Voids and Bad Debts</i>	21,567	21,731	(164)
<i>Other Rents</i>	882	856	26
<i>Government Subsidies</i>	85	85	-
<i>Other Grants, Contributions and Charges</i>	4,580	4,652	(72)
<i>Investment Income</i>	106	106	-
<i>Total Income</i>	27,220	27,430	(210)
<i>Expenditure</i>			
<i>Management Costs</i>	10,489	10,120	(369)
<i>Maintenance Costs</i>	6,653	6,985	332
<i>Equal Pay Provision</i>	-	773	773
<i>Capital Financing</i>	6,053	6,163	110
<i>Revenue Contribution to Capital #</i>	2,055	1,699	(356)
<i>Negative Subsidy Payable</i>	2,730	2,820	90
<i>Statutory Contributions to General Fund</i>	140	134	(6)
<i>Total Expenditure</i>	28,120	28,694	574
<i>Contribution from HRA Balances</i>	900	1,264	364

Includes £500,000 support to the HRA capital programme from HRA balances

The main reasons for the increased use of HRA balances are detailed below: -

- A revenue provision has been set aside to meet part of the equal pay claims that the Council recognises will at some time in the future be paid in respect of staff chargeable against the HRA, amounting to £773,000.
- The Council has benefited from the higher than estimated rental income as a result of a downturn in the level of RTB sales and reduced levels of rent loss through voids, which are currently running at historically low levels.
- The net overspend on management and maintenance relates in the main to increased staffing costs associated with the increased works budget in respect of disabled persons adaptations and the higher than anticipated use of agency staff used.

- The under spend on the revenue support to the capital programme is being carried forward to meet capital programme slippage.

4.8 RESERVES

The following statement sets out the actual position in respect of the level of reserves and balances available to the Council as at the 31st March 2007, which includes the LAGBI funds of £410,000. The overall level of resources available to the Council has fallen by £1.422m compared to the balances as at 31st March 2006. This is mainly attributable to the transfer of HRA resources to meet the cost of the equal pay claims outlined earlier in this report and the use of HRA resources to fund the new initiatives approved by Cabinet as detailed in Paragraph 4.7[b] above. The use of General Fund reserves is broadly in line with the expectations used when the 2006/2007 budgets were approved in February 2006.

		<i>Balances at</i>	
		<i>31/3/2006</i>	<i>31/3/2007</i>
		<i>£000</i>	<i>£000</i>
General Fund			
<i>Earmarked Reserves</i>			
	<i>Budget Support Fund</i>	1,721	2,002
	<i>Insurance Fund</i>	1,237	1,231
	<i>Economic Development Fund</i>	183	103
	<i>Asset Management Fund</i>	502	402
	<i>Private Sector Housing Fund</i>	203	203
	<i>Training Services Fund</i>	458	445
	<i>Youth Development Fund</i>	109	64
	<i>MRP (Debt Repayment) Fund</i>	456	256
	<i>Building Control Fund</i>	21	14
	<i>Other Earmarked Funds</i>	51	65
		4,941	4,785
<i>Non-Earmarked Reserves</i>			
	<i>General Reserves</i>	2,240	2,240
Housing Revenue Account			
	<i>HRA Working Balance</i>	4,647	3,382
	Total Reserves	11,828	10,407

The purposes for which the main reserves are held are detailed below: -

Budget Support Fund

This was set up to provide support to the General Fund to allow spending levels to be adjusted over the medium term. The Medium Term Financial Plan 2006-2009 [MTFP] anticipates that £1.5m of this fund will be used over the next three years. The balance shown currently includes the two LABGI awards

Insurance Fund

Established to cover the Council's self-insured risks. Whilst the revised balance will fall as claims continue to be met, the current level of funding is regarded as satisfactory in the medium term.

Economic Development Fund

Set up to provide incentives to industry, whilst the Fund has lasted much longer than initially anticipated. There are ongoing commitments against the fund and it is expected that as a consequence of no external grant funding being available to support the incentives programme the fund has a very limited future life.

Training and Employment Services

This Fund is used to support the Council's training schemes, which have provided training opportunities to thousands of people over many years.

Asset Management Fund

This fund is available to provide support to meet the Council's commitments under the Asset Management Plan. The MTFP anticipates that £0.3m of this fund will be used over the next three years.

Private Sector Housing Fund

Established some years ago, when Housing Association loans were repaid, to provide support to private sector housing regeneration initiatives. The MTFP anticipates that £0.1m of this fund will be used over the next three years.

Youth Development Fund

This Fund is used to support projects aimed at developing the skills and talents of young people in Sedgefield Borough. This will provide significant additional funds to support 'KoolKash' initiatives and is in line with the outcome from the review of Children and Young People.

Other Earmarked Funds

This covers a range of small balances, and funds that are used for technical accounting purposes.

General Reserve

The balance on this reserve represents around 16% of net revenue spending, which is well above the minimum level advised by the Audit Commission of 5%. However, the Council has always held a significant reserve reflecting its tradition of being an active Council, prepared to respond to new initiatives and it considers the level of balances to be adequate and appropriate for this authority and a balance of £2m is regarded as a target to be maintained in the medium term.

Housing Revenue Account

Balances have been built up over the last few years primarily as a result of buoyant capital receipts being generated, which have been used to finance capital expenditure rather than using revenue resources that are under pressure from the need to repay subsidy. The MTFP anticipates that £1.5m will be used over the next three years to support the capital programme so that the Council achieves its decent homes target.

Collection Fund

The Council, as billing authority, maintains the Collection Fund accounts in respect of all the precepting authorities within Sedgefield Borough. Surpluses and / or losses on the Fund have to be used to support future Council Tax bills.

During December 2006 the Council is required to estimate the likely surplus or deficit on the Collection Fund and advise the Principal Precepting Authorities of their share that has to be paid out during 2007/2008, that surplus was estimated at £648,500. As at the 31st March 2007 there was an accumulated surplus on the Fund of only £595,000. Whilst a higher level of funds has been distributed than is currently being held the shortfall will be collected during 2007/2008.

Sedgefield Borough Council utilised £150,000 of the assumed surplus to set its own level of Council Tax in 2007/2008 whilst the actual share of the Collection fund balance at 31st March 2007 was £137,500.

4.9 CAPITAL INVESTMENT & FINANCE

(a) Capital Investment in Sedgefield Borough 2006/2007

In preparing the Council's Capital Budgets for 2006/2007, account had to be taken of the resources available to the Council in the form of Government grants and allocations such as the Major Repairs Allowance, Supported Borrowing Approvals and the Council's own capital resources such as usable capital receipts, revenue contributions and accumulated reserves.

The approved net spending target for 2006/2007 was subsequently set at £15.65m with £4.4m set aside for General Fund Services, £7.8m for Council Housing Services and £3.45m for Major Regeneration Initiatives to be funded from Housing Land Capital Receipts.

The spending targets were revised during the year to reflect outstanding commitments carried forward from 2005/2006. Following these amendments, the revised net spending approval was set at £17.747m, with £7.800m set aside for Council Housing Services, £5.979m for General Fund Services and £3.968m for Major Regeneration Initiatives.

Taking into account additional external funding secured during the year, the total gross spending target was £20.742m with £8.674m for General Fund, £7.800m for Council Housing and £4.268m for Major Regeneration Initiatives.

The figures in the tables below detail the actual gross and net capital expenditure in 2006/2007 in respect of the General Fund, Council Housing and Major Regeneration Programmes. The net spend shown is after the deduction of any external capital grants and contributions received during the year and therefore represents the expenditure to be financed from the Council's own resources and Government allocations built into the base budget such as the Major Repairs Allowance and Supported Borrowing Allocations.

(b) General Fund Services

The final outturn position on the 2006/2007 General Fund Capital Programme (including the Major Regeneration Programme) can be summarised as follows: -

Portfolio	Net Capital Programme Budget £000	Gross Capital Programme Budget £000	Actual Gross Spend* £000	Less Capital Grants and Contributions £000	Actual Net Spend To Finance £000
Strategic Leadership					
ICT and E-Government	900	1,738	764	(81)	683
Green Lane	240	240	245	-	245
Chilton Depot	90	106	100	-	100
Healthy Borough					
Community Health	25	697	721	(615)	106
Leisure and Culture	600	1,103	1,317	(244)	1,073
Prosperous Borough					
Social Regeneration	300	1,433	923	(484)	439
Learning and Employment	300	1,136	763	(239)	524
Major Regeneration	3,450	4,268	313	-	313
Attractive Borough					
Environment	70	106	47	-	47
Strong Communities					
Housing (Private Sector)	1,800	1,918	2,736	(1,663)	1073
Safer Communities	75	197	180	(24)	156
TOTAL	7,850	12,942	8,109	(3,350)	4,759

* Net of deminimus spend transferred to revenue

The variances from the approved programme can be attributed to a number of reasons:

- Where capital schemes are funded through external agencies, such as the Single Capital pot these resources must be spent first as in most instances if the resources are not defrayed within the year they have to be repaid.
- Delays in the implementation of the Major Regeneration Initiatives Programme pending the recruitment of the implementation team and the complexities of getting the various initiatives started. Whilst little spend was incurred in 2006/2007 significant on-going commitments have been created.
- Delays in the commencement or completion of a number of schemes on the Regeneration and Economic Development Capital Programme mainly in respect of Spennymoor Town Centre, Neighbourhood Renewal and Aycliffe Industrial Park.
- A number of ICT capital projects were delayed or did not go ahead as planned during the year.
- Whilst Leisure & Culture has not spent all of its allocation the level of on-going commitments exceeds the overall underspend. This is partly as a result of increased costs on some of the projects and additional approved schemes being brought into the programme in advance of the 2007/2008 programmes.

The Council has again been successful in securing additional grants and contributions from external sources to support its capital investment. The amounts to be financed from the Council's own resources were therefore lower than anticipated.

c) Housing Services

The Housing Investment Programme (H.I.P.) provides, in the main, for the revitalization of the Council's dwellings and associated land and infrastructure. The significant areas of the Programme in 2006/2007 were all designed to help the Council achieve the Government's Decent Homes standard, including:

- *Continuation of Kitchen and Bathroom Improvement Programme where the tenant has significant choice in the new facilities installed in their homes.*
- *Continuation of a programme to renewing inefficient central heating systems and the provision of cavity wall insulation in all Council dwellings.*
- *Continuation of a programme to renew roofing on all Council dwellings along with the continuation of a programme of structural repairs and the replacement of dilapidated external components on Council dwellings*
- *Other works, including the works to sheltered housing schemes, fencing and landscaping works and works to Council owned shops.*

The outturn position on the 2006/2007 Council Housing Capital Programme can be summarised as follows:

Scheme	Capital Programme Budget £000	Net Spend To Finance £000*
Council Dwellings		
<i>Tenant Led Improvements</i>	-	227
<i>Kitchen Units</i>	582	221
<i>Kitchen and Bathroom Improvements</i>	2,000	2,489
<i>Bathroom Replacements</i>	440	386
<i>Structural Repairs</i>	264	254
<i>External Fabric Replacement</i>	-	55
<i>Central Heating / Cavity Wall Insulation</i>	3,150	2,576
<i>P.V.C.U. Doors / External Joinery</i>	-	127
<i>Re-roofing Works</i>	416	739
<i>Other Council Housing Works</i>	298	116
Other Works		
<i>Disabled Persons Adaptations</i>	80	53
<i>Infrastructure Works</i>	160	54
<i>Council Shops</i>	20	20
<i>Sheltered Housing</i>	380	-
<i>Other Land and Buildings</i>	10	28
Total	7,800	7,345

* Net of de minimus spend transferred to revenue

Overall the Council spent £15.454m gross on the 2006/2007 Capital Programme against a gross spending target of £20.742m. The financing of the capital programme outturn is detailed in the section below.

(d) Capital Financing in 2006/2007

The following table sets out how the 2006/2007 Capital Programme was financed: -

	£000
Expenditure to Finance	
General Fund	8,109
HRA	7,345
Financed By	
Major Repairs Allowance (MRA)	5,043
Capital Receipts	5,015
Capital Grants	2,615
Capital Contributions	768
Direct Revenue Financing	1,800
Supported Capital Expenditure	213
	15,454

(e) Capital Programme – Carry Forward to 2007/2008

The following table highlights the outstanding commitments on each portfolio's capital programme, which will need to be carried forward into 2007/2008 to meet on-going expenditure plans.

These allocations are in addition to the already approved 2007/2008 capital programme and the 2007/2008 control totals will need to be adjusted accordingly: -

Portfolio / Capital Programme	Slippage & Savings / (Overspend) 2006/07 £000	Commitments/ Carry Forward To 2007/2008 £000
Strategic Leadership		
ICT and E-Government	852	829
Green Lane	(5)	-
Chilton Depot	6	6
Healthy Borough		
Community Health #	7	14
Leisure and Culture	(3)	164
Prosperous Borough		
Social Regeneration	324	388
Learning and Employment	203	162
Major Regeneration	2,435	1,981
Attractive Borough		
Environment	23	18
Strong Communities		
Housing (Private Sector)	83	83
Council Housing (HRA)	343	343
Safer Communities #	(38)	31
TOTAL	4,230	4,019

These carried forward commitments are being financed from Capital contributions

Social Regeneration spend includes an additional £77,000 relating to underground cabling works at Dean Bank, Ferryhill which had not been paid in 2005/06 and for which there was no carry forward commitment created in the current year.

Culture and Recreation overspend includes approx £50,000 for work on Locomotion at Shildon which relates to the Council's share of the increased costs on the original building contract. It also includes £67,000 in relation to essential DDA works at all four leisure centres which cost more than anticipated. The carry forward figure represents contractual commitments relating to 2006/2007 capital works.

(f) Usable Capital Receipts

As a consequence slippage and other savings on the 2006-2007 Capital Programme and the Capital Receipts generated during the year, the Council has Usable Capital Receipts available to finance future capital works, amounting to £15.196m as at 31st March 2007. In accordance with decisions taken by Council in July 2004, £13.642m of these Capital Receipts is being earmarked specifically for major regeneration and affordable housing schemes.

5. RESOURCE IMPLICATIONS

There are no further resource implications arising from this report.

6. CONSULTATIONS

Comprehensive consultation has previously been held during the construction of the 2007/2008 Budget Framework. This report does not contain any proposals or recommendations requiring further consultation.

7. OTHER MATERIAL CONSIDERATIONS

7.1 *Links to Corporate Objectives/Values*

The Council's Corporate Objectives and Values have guided the preparation of the 2006/07 Budget Framework throughout. Resource availability has been fully re-assessed and directed to assist in achieving the Council's key priorities as set out in the Corporate Plan. Particular emphasis has been placed on the following Corporate Values: -

- *Be responsible with and accountable for public finances.*
- *Consult with service users, customers and partners.*

7.2 *Risk Management*

There have been no further risks identified other than those highlighted in the report to Council on the 24th February 2006.

7.3 *Health and Safety*

No additional implications have been identified.

7.4 *Equality and Diversity*

No material considerations have been identified.

7.5 *Legal and Constitutional*

The Budget Framework for 2006/2007 was prepared in accordance with the Council's Constitution. No other legal or constitutional implications have been identified.

8. OVERVIEW AND SCRUTINY IMPLICATIONS

Consultation and engagement with Overview and Scrutiny Committees has previously been held in development and review of the 2006/2007 Budget Framework.

Contact Officer: Alan Smith [Director of Resources]
Telephone No.: 01388-816166 ext. 7776
E-Mail Address: asmith@sedgefield.gov.uk

Ward: Not Ward specific
Key Decision: Validation

Background Papers:

- ~ Report to Special Council 24th February 2006 – Budget Framework 2006/2007.
- ~ Report to Council 30th June 2006- Statement of Accounts 2005-2006
- ~ Reports to Cabinet 14th September 2006- Revenue & Capital Budgetary Control Report – Position at 31st July 2006
- ~ Reports to Cabinet 16th November 2006- Revenue & Capital Budgetary Control Report – Position at 30th September 2006
- ~ Reports to Cabinet 2nd March 2007- Revenue & Capital Budgetary Control Report – Position at 31st December 2006

Examination by Statutory Officers:

	Yes	Not Applicable
1. The report has been examined by the Council's Head of the Paid Service or his representative.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
2. The content has been examined by the Council's S.151 Officer or his representative.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
3. The content has been examined by the Council's Monitoring Officer or his representative.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
4. Management Team has approved the report.	<input type="checkbox"/>	<input checked="" type="checkbox"/>

This page is intentionally left blank

**ANNUAL REVIEW OF
TREASURY MANAGEMENT**

2006-07

1. Introduction

- 1.1** The purpose of this report is to review the performance of the Council's Treasury Management activities during the 2006-07 financial year, in accordance with Treasury Management Practice (TMP) Number 6 'Reporting Requirements and Management Information Arrangements'.
- 1.2** The Council's constitution (Part 4 Rules of Procedure – Financial Regulations) requires that an annual report be presented after the close of the financial year in the form prescribed in TMP's.

2. Performance Against Strategy

2.1 Long Term Borrowing from the Public Works Loan Board (PWLB)

The objective set out in the Strategy was to continue the policy of ensuring that the level of external debt and the capital financing requirement were broadly at similar levels. This is achieved by a combination of loans being repaid at the end of their normal loan period and prematurely redeeming other debt.

The capital financing requirement and external PWLB loan debt at 31st March 2007 was **£18.983m** and **£18.317m** respectively.

There was a requirement for long term borrowing from the PWLB to facilitate a debt rescheduling exercise, details of which are provided below in paragraph 2.2.

An analysis of the PWLB Loan Debt as at 31st March 2007 is attached at **Appendix A**.

2.2 Premature Redemption of Debt

Debt rescheduling opportunities were constantly monitored throughout the year, taking into account interest rate fluctuations and recommendations made by our external Treasury Management Consultants.

The Council's actual level of external debt and the capital financing requirement were broadly similar throughout the year and therefore no debt repayment activities were necessary to bring the two measures together.

However, the Council did reschedule **£9.618** of PWLB loan debt during the year, to achieve savings on interest payments. The Council was successful in replacing loan debt at **5.16%** with a lower rate of **4.40%** resulting in annual savings of £73,000 after taking into account the cost of premiums. Details are shown in the following table:

Table 1: Changes in PWLB Debt during 2006-07

Loan No.	Date of Borrowing	Principal Amount Repaid £	No. of Years	Rate of Interest (%)	Date Repaid	Premium/ (Discount) Paid £
Loans Repaid						
470733	09/03/92	1,594,779	25	10.125	08/02/07	656,989
487165	17/02/02	2,183,125	25	4.625	08/02/07	(35,643)
487463	06/02/03	2,000,000	25	4.500	08/02/07	(65,818)
491154	23/01/06	3,840,000	45	3.700	08/02/07	(555,528)
		9,617,904		5.160		Nil
Replacement Loans						
492884	08/02/07	3,617,904	45	4.400	06/07/52	N/a
492885	08/02/07	3,000,000	46	4.400	06/07/53	N/a
492886	08/02/07	3,000,000	47	4.400	06/07/54	N/a
		9,617,904		4.400		N/a

The Council holds premiums and discounts amounting to **£1.118m** on its balance sheet (as a prepayment) relating to debt restructuring exercises conducted in previous years. In line with proper accounting practices, these premiums are being charged to the appropriate revenue accounts over a number of years. As at 31st March 2007, the General Fund element of these pre-payments equates to **£0.436m** and the HRA share is **£0.682m**. Full provision is made in the budget framework for the annual charge to both the General Fund and HRA and summary details are provided in the following table.

Table 2: Premiums and Discounts charged to Revenue Accounts

Timescale	General Fund £000	HRA £000
1 – 2 years	65	401
2 – 5 years	98	229
5 – 10 years	164	52
More than 10 years	109	-
Total	436	682

2.3 Long Term Debt - Other than PWLB

The objective in the Strategy was to monitor money market rates, in order to borrow additional sums within the overall borrowing limit, from sources other than the PWLB - had it been in the Council's best interests to do so.

It was not necessary to borrow from these sources during 2006-07.

The Council had **£0.323m** loans outstanding with financial institutions other than the PWLB on 31st March 2007 and there have been no significant changes in this amount during the year.

2.4 Summary – All Long Term Loan Transactions

An analysis of all long term loan transactions (both PWLB and non-PWLB) during 2006-07 is as follows:-

Table 3: All Long Term Loan Debt 2006-07

Type of Institution	Balance at 01.04.06 £m	New Borrowing £m	Normal Repayments £m	Premature Repayments £m	Balance at 31.03.07 £m
PWLB	18.349	9.618	(0.032)	(9.618)	18.317
Other	0.330	-	(0.007)	-	0.323
Total	18.679	9.618	(0.039)	(9.618)	18.640

NB: The Council's assets, against which the debt is effectively secured, have a book value of **£377m** at the 31st March 2007.

2.5 Investments

Officers assess the Council's cash flows on a daily basis, taking into account detailed forecasts of funds needed throughout the year, and invest surplus funds and in accordance with approved Treasury Management Practices (TMPs) and only to authorised counter parties. Excess funds that are held temporarily for only a few days, for cash flow purposes, are invested in three specific accounts - the Anglo Irish Bank, Bank of Scotland or the Co-operative Bank – depending on which of these is offering the best rate of interest at the time.

The objective in the strategy was to optimise investment income in accordance with the Council's Treasury Management Statement by achieving a level of return greater than that which would have accrued if all surplus cash was invested at interest rates applicable to the average seven day investment rate, as quoted by the Council's nominated brokers.

The average seven-day compounded London Inter Bank Bid rate (LIBID) for 2006-07 was **4.82%**.

The actual return achieved by this Council during 2006-07 was **5.01%**, which is 0.19% higher than the above comparator. In financial terms this equates to an additional £52,411 interest earned during 2006-07.

INVESTMENTS	<i>Target %</i>	<i>Outturn %</i>
Return compared with the 7 day LIBID Rate	+ 0.10	+ 0.19

Initial estimates for the total level of investment income earned in 2006-07 were set at £1.310m. Actual total investment income received during 2006-07 was **£1.382m** - £72,000 more than the budget - which reflects the

higher level of interest being earned on investments following successive bank base rate increases.

The total value of investments at the start of the year was **£28.580m**, and this was broadly maintained at the end of the year with investments of **£27.260m** as at 31 March 2007. An analysis of the investments is shown at **Appendix B**.

3. Economic Trends During 2006-07

- 3.1 The Council employs external Treasury Management Consultants to advise on the Treasury Strategy, provide economic data and interest rate forecasts, assist in planning and reduce the impact of unforeseen adverse interest rate movements. Throughout the course of the year the Council received weekly guidance and advice on interest rate changes from the external consultants and, together with cash flow forecasts and within approved TMPs, this was fully taken into account in determining investment decisions
- 3.2 The Bank of England's monetary policy objective is to deliver price stability (i.e. low inflation) and to support Government objectives for growth and employment. Price stability is defined by the Government's inflation target of 2%. The Bank seeks to meet the inflation target by setting and adjusting the interest rate level. Lowering or raising the interest rate affects spending in the economy, which affects the level of inflation.
- 3.3 The 2006-07 financial year featured a rising trend in short term interest rates as policy makers and financial markets responded to the twin effects of strengthening economic activity and rising inflation. Base rates started the financial year at 4.50% and were increased by 0.25% to 4.75% in August 2006. Expectations about higher inflation prompted additional rate increases during the year. Two quarter point rate increases were announced in November 2006 to 5% and then in January 2007 to 5.25%.
- 3.4 Long-term interest (PWLB) rates followed an erratic course but the overall trend was towards higher levels. Inflation expectations on both the domestic (UK) and international fronts was the principal force driving rates higher.

4. Compliance with the Council's Procedures and External Requirements

- 4.1 The Council fully complied with its internal procedures and the requirements of the CIPFA Code of Practice on Treasury Management during 2006-07. The Council was bound by the requirements of the Local

Government Act 2003, which introduced 'The Prudential Code for Capital Finance in Local Authorities' (The Prudential Code) in April 2004.

4.2 The Prudential Code sets out a framework of self-regulation of capital spending, in effect allowing Councils to invest in capital projects as long as they are affordable, prudent and sustainable. In general terms, the Council complies with the Prudential Code by:

- Having medium term plans (Corporate Capital Strategy, Revenue and Capital Budgets);
- Having plans to achieve sound capital investment (Capital Strategies, Capital Project Appraisals and Asset Management Plans);
- Complying with the Treasury Management Code of Practice.

4.3 To support capital investment decisions, the Prudential Code requires the Council to agree and monitor a number of Prudential Indicators. These indicators are mandatory and cover capital expenditure, affordability, prudence, external debt levels and Treasury Management activities. The indicators are purely for internal use by the Council and are not to be used as comparators between Councils.

4.4 Council adopted and approved its prudential indicators in February 2006 - as part of the 2006-07 Treasury Management Strategy. Actual performance against these indicators is shown in **Appendix C**, which demonstrates that all limits have been adhered to. A summary of the key controls surrounding the treasury and capital finance position is shown below:

	<i>Key Prudential Indicators</i>	<i>2006-07 Budget £'000</i>	<i>2006-07 Outturn £'000</i>
	Gross Borrowing	18,640	18,640
	Investments	(20,000)*	(27,260)
(1)	Net Borrowing	(1,360)	(8,620)
(2)	Capital Financing Requirement	19,307	18,983
(3)	Authorised Limit	30,000	18,640
(4)	Operational Boundary	22,000	18,640

* in accordance with the risk assessment of the Budget Framework 2006/07, no budgetary provision had been made for significant capital receipts arising from housing land sales in 2006/07 that would lead to additional investment income in that year.

- The **Capital Financing Requirement** (CFR) in 2) above shows the Council's underlying need to borrow for a capital purpose. Under normal circumstances, actual borrowing should be broadly in line with

the CFR. The table above shows that the Council's gross borrowing is just under the CFR.

- The **Authorised Limit** in 3) above is the statutory 'Affordable Borrowing Limit' required by Section 3 of the Local Government Act 2003. The table demonstrates that during 2006-07 the Council has maintained gross borrowing within its Authorised Limit.
- The **Operational Boundary** in 4) above is the expected borrowing position of the Council during the year, and periods where the actual position is either below or over the Boundary is acceptable subject to the Authorised Limit not being breached.

4.5 Treasury Management Practices set out in the Local Code establish strict controls governing the day-to-day investment activity of the Council. All investments in the year were made in accordance with these practices in terms of the authorised counter parties that the Council deals with and the maximum deposits applying to those individual institutions and the investment periods. An analysis of the investment maturity profile at the year-end is shown at **Appendix D**, which shows that 64% of investments were for periods of less than 12 months and at no point in the year were the limits and control totals set out in the Local Code exceeded.

5. Risk, Performance and Corporate Governance

5.1 The Council is aware of the risks of passive management of Debt and Investment and, with the support of Butlers, the Council's Treasury Management advisers, has proactively managed the debt and surplus cash flows over the year.

5.2 As a result of the above, the Council has been able to redeem high interest related debt and take advantage of lower interest rates prevailing in the market. This has led to a reduction in the average rate of interest on its outstanding long-term debt, from **7.20%** in 2005-06 to **6.34%** in 2006-07 – a reduction of **0.86%**. There is no risk of volatility of costs in the current debt portfolio as the interest rates are all at fixed, long-term levels.

LONG TERM DEBT	<i>Target</i> %	<i>Outturn</i> %
Change in average rate of interest paid on debt	- 0.20	- 0.86

5.3 In adopting the Local Code, the Council has agreed a low risk strategy to only invest its surplus cash in a limited number of Banks and Building Societies. This policy was determined in order to ensure that the Council is not at risk of losing funds by extending the number of organisations for

investment to obtain higher returns. Similarly, the Council has not used surplus cash to invest in Managed Funds or Certificates of Deposits where again there is risk of losing some of the capital invested, although a higher rate of return may have been achievable.

- 5.4** The Council's investment return is predominantly determined by movements in base rates and therefore these returns can be volatile and, whilst the risk of loss of the investment is minimised through the lending list, accurately forecasting returns can often be difficult.
- 5.5** The Local Code of Treasury Management is published on the Council's website and the application of the TMP's contained within it fully support the Local Code of Corporate Governance. Treasury management activities and decisions are underpinned by the key principles of good corporate governance – accountability; integrity; and openness and inclusivity. These are monitored and reviewed on a regular basis and the Corporate Governance dimension of risk management and internal controls underpins the whole TM function.

6. Treasury Management Consultants

- 6.1** Butlers were originally appointed as the Council's consultants in February 1999. They have supplied a high level of specialist advice throughout the year, including providing advice on the timing of the premature repayment of debt to the PWLB and guidance in terms of the impact of the introduction of the new Prudential Framework. The officers remain satisfied with the level and quality of service provided by Butlers. In accordance with delegated powers and contract procedure rules, following consultation with the relevant portfolio holder, the Director of Resources agreed to extend the contract with Butlers to 31st March 2009.

7. Investments - Money Brokers and Instant Access Deposits

- 7.1** The Council has appointed three approved money brokers to act on its behalf. These brokers are responsible for securing the best interest rates available from the market for the investment of surplus loans. Investments are limited to the approved counter parties' list and control totals govern the maximum value of investments with each of these. In addition, the Council also operates three instant access deposit accounts (Anglo-Irish Bank, Bank of Scotland and Co-operative Bank), which are used to invest smaller sums frequently on a temporary basis.
- 7.2** All brokers work within a highly competitive environment and contact the Council on a daily basis to provide details of market rates applicable for different investment periods. The following table identifies the total number

of investments in 2006-07, showing the number and total value of deals per broker and by deposit account type : -

Table 4: All Long Term Loan Debt 2006-07

Investment Type	Number of Deals	Value of Deals (£'000)	Percentage of Overall Deals (%)
Fixed Investments via Brokers			
Tullet Prebon (UK) Ltd	9	8,000	4
Martin Brokers (UK) plc	20	16,750	10
Tradition (UK) Ltd	20	17,000	10
Direct Dealings (Co-op Bank)	4	9,250	2
	53	51,000	26
Instant Access Deposit Accounts			
Anglo Irish Bank	126	48,970	62
Co-op Bank	11	2,110	5
Bank of Scotland	13	5,320	7
	150	56,400	74
Grand Total	203	107,400	100

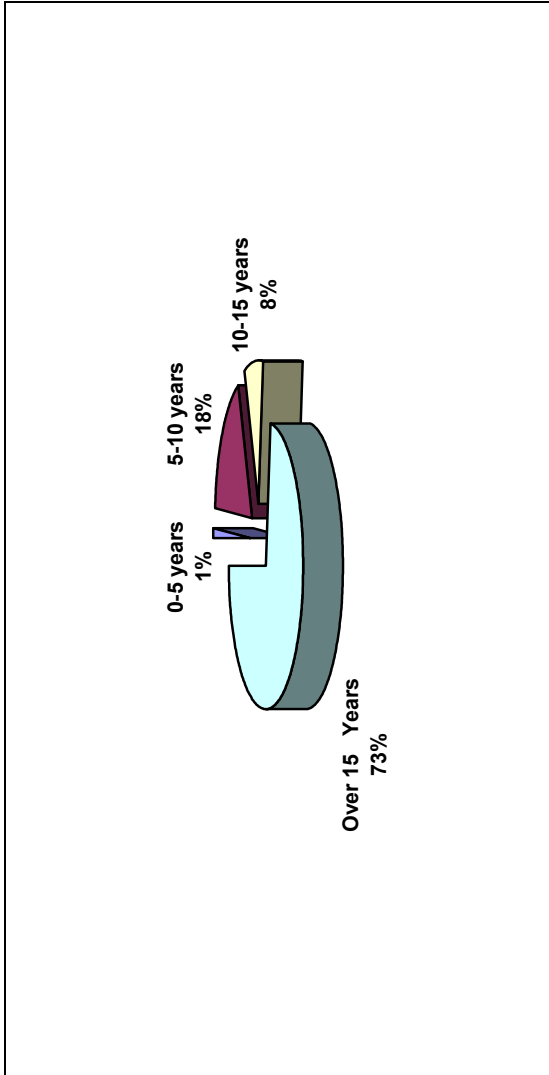
- 7.3** Officers are satisfied with the service received from Tullet Prebon (UK) Ltd, Martin Brokers (UK) plc and Tradition (UK) Ltd. Their performance is continually reviewed with reference to the market for competitiveness.

8. Conclusions

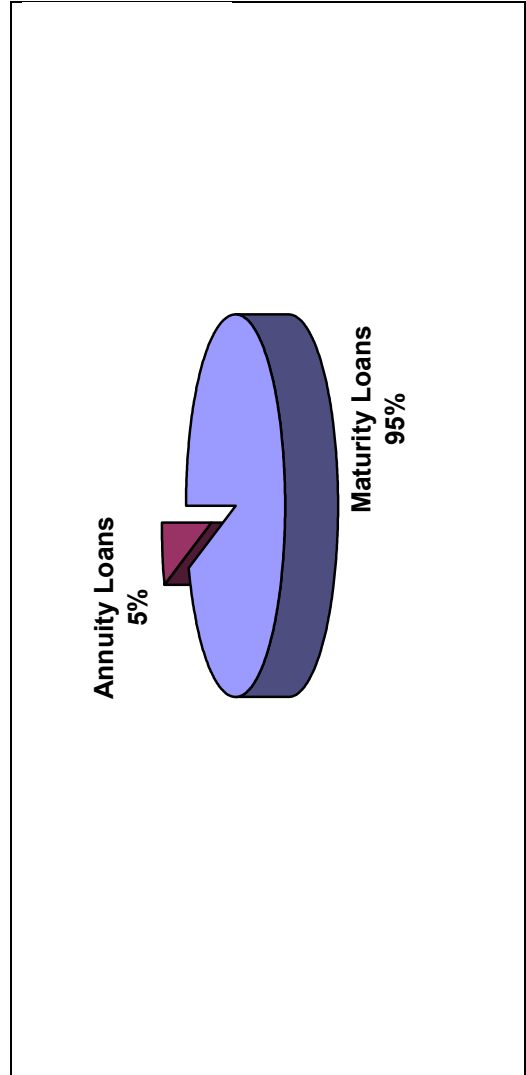
- 8.1** The Council has maintained the level of external debt in line with its capital financing requirement. It has also achieved a satisfactory return on its investments during the 2006-07 financial year, whilst operating within the approved borrowing limits at all times.
- 8.2** It can therefore be concluded that the Treasury Management activities undertaken during 2006-07 met all of the strategic aims and objectives by the Council, set at the beginning of the year.

ANALYSIS OF PWLB LOAN DEBT AS AT 31 MARCH 2007

Period to Repayment Within:-	Amount Repayable £
Within 1 Year	33,614
1 - 2 Years	35,975
2 - 5 Years	123,798
5 - 10 Years	3,249,293
10 - 15 Years	1,490,826
Over 15 Years	13,383,910
	18,317,416



Loan Type	Amount Outstanding £
Maturity Loans	17,373,125
Annuity Loans	944,291
	18,317,416



APPENDIX B

SEDGEFIELD BC – SUMMARY OF INVESTMENTS AS AT 31/03/07

Date of Loan	Borrower	Value (£)	% Total	Interest Rate	Loan Period (Days)	Date Repaid
BANKING SECTOR						
08/06/05	HSBC Bank PLC	5,000,000	18.34%	5.16%	4Year 6mth.Callable Deposit	Optional every 6months
04/10/05	Royal Bank of Scotland	2,500,000	9.17%	5.30%	5Year 6mth.Callable Deposit	Optional every 6months
21/10/05	Toronto Dominion Bank	2,000,000	7.34%	5.38%	5Year 6mth.Callable Deposit	First year fixed@5.38%
N/a	Anglo Irish Bank (Star Call A/c)	1,260,000	4.62%	5.32%	N/a	N/a
	SUB TOTAL – BANKING SECTOR	10,760,000	39.47%			
BUILDING SOCIETIES						
15/03/07	Ipswich	1,500,000	N/a	5.52%	106	29/06/07
20/03/07	Ipswich	1,000,000	N/a	5.54%	92	20/06/07
	Sub Total – Ipswich	2,500,000	9.17%			
30/10/06	Vernon	1,250,000	N/a	5.88%	365	30/01/08
09/03/07	Vernon	750,000	N/a	5.52%	94	11/06/07
	Sub Total – Vernon	2,000,000	7.34%			
03/11/06	Cumberland	750,000	N/a	5.25%	178	30/04/07
01/02/07	Cumberland	1,000,000	N/a	5.78%	277	05/11/07
	Sub Total – Cumberland	1,750,000	6.42%			
25/01/07	Loughborough	500,000	N/a	5.75%	246	28/09/07
30/01/07	Loughborough	1,250,000	N/a	5.83%	273	30/10/07
	Sub Total – Loughborough	1,750,000	6.42%			
02/01/07	Tipton & Colesley	500,000	N/a	5.28%	90	05/04/07
23/01/07	Tipton & Colesley	1,000,000	N/a	5.74%	177	19/07/07
	Sub Total – Tipton & Colesley	1,500,000	5.50%			
15/11/06	Leek United	1,000,000	3.68%	5.26%	152	16/04/07
01/11/06	The Mansfield	1,000,000	3.68%	5.27%	180	30/04/07
12/10/06	Universal	750,000	2.75%	5.20%	186	16/04/07
04/12/06	Saffron	750,000	2.75%	5.26%	122	05/04/07
31/10/06	Darlington	750,000	2.75%	5.21%	153	02/04/07
02/02/07	Furness	750,000	2.75%	5.50%	73	16/04/07
20/10/06	Progressive	500,000	1.83%	5.17%	164	02/04/07
10/01/07	Manchester	500,000	1.83%	5.33%	92	12/04/07
16/02/07	Dudley	500,000	1.83%	5.44%	62	19/04/07
01/12/06	Barnsley	500,000	1.83%	5.26%	122	02/04/07
	SUB TOTAL – BUILDING SOCIETIES	16,500,000	60.53%			
	GRAND – TOTAL	27,260,000				

APPENDIX C

CAPITAL EXPENDITURE AND THE CAPITAL FINANCING REQUIREMENT***Capital Expenditure***

This indicator shows the overall capital spending plans of the Council over the medium term and reflects planned investment levels in line with the Corporate Capital Strategy.

<i>Capital Expenditure</i>	<i>2003/2004 Actual</i>	<i>2004/2005 Actual</i>	<i>2005-06 Actual</i>	<i>2006-07 Budget</i>	<i>2006-07 Actual</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Housing	6,738	7,414	7,211	7,800	7,345
Non-Housing	3,363	4,550	7,882	7,850	8,109
Total	10,101	11,964	15,093	15,650	15,454

Capital Financing Requirement (CFR)

This figure represents the Council's underlying need to borrow for a capital purpose, and the change year on year will be influenced by the capital expenditure in the year and how much of this is supported directly through grants, contributions and capital receipts.

<i>Capital Financing Requirement</i>	<i>2003/2004 Actual</i>	<i>2004/2005 Actual</i>	<i>2005-06 Actual</i>	<i>2006-07 Budget</i>	<i>2006-07 Actual</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Housing	8,388	9,410	9,714	9,927	9,927
Non-Housing	10,973	10,846	9,433	9,380	9,056
Total CFR	19,361	20,256	19,147	19,307	18,983

Previous legislation required the Council to set aside a proportion of its capital receipts to repay debt, which has meant that the Council's debt levels have traditionally been falling year on year. However, with the introduction of the 'pooling system' for housing capital receipts from 1st April 2004, it is expected that debt levels will not significantly reduce.

LIMITS TO BORROWING ACTIVITY***Net Borrowing***

The first key control over the Council's activity is to ensure that over the medium term net borrowing will only be for a capital purpose. The Council needs to ensure that net external borrowing does not, except in the short term, exceed the CFR in the preceding year plus the estimates of any additional capital financing requirement for the following three years.

<i>Net Borrowing</i>	<i>2003/2004 Actual</i>	<i>2004/2005 Actual</i>	<i>2005-06 Actual</i>	<i>2006-07 Budget</i>	<i>2006-07 Actual</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Gross Borrowing	19,270	18,493	18,679	18,640	18,640
Investments	(12,890)	(14,593)	(28,580)	(20,000)	(27,260)
Net Borrowing	6,380	3,900	(9,901)	(1,360)	(8,620)

A further two prudential indicators control the overall level of borrowing: **Authorised Limit** and the **Operational Boundary**. These limits separately identify borrowing from other long-term liabilities such as finance leases.

Authorised Limit

This represents the limit beyond which borrowing is prohibited and reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need with some headroom for unexpected movements. This is a statutory limit that the Council must determine in accordance with Section 3(1) of the Local Government Act 2003.

Operational Boundary

This indicator is based on the probable external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year. It should act as an indicator to ensure that the authorised limit is not breached.

<i>Authorised Limit</i>	<i>2003/2004 Actual</i>	<i>2004/2005 Actual</i>	<i>2005-06 Actual</i>	<i>2006-07 Budget</i>	<i>2006-07 Actual</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Borrowing	n/a	18,493	18,679	30,000	18,640
Long Term Liabilities	n/a	-	-	-	-
Total	n/a	18,493	18,679	30,000	18,640
<i>Operational Boundary</i>	<i>2003/2004 Actual</i>	<i>2004/2005 Actual</i>	<i>2005-06 Actual</i>	<i>2005-06 Budget</i>	<i>2005-06 Actual</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Borrowing	n/a	18,493	18,679	22,000	18,640
Long Term Liabilities	n/a	-	-	-	-
Total	n/a	18,493	18,679	22,000	18,640

AFFORDABILITY PRUDENTIAL INDICATORS

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

Ratio of Financing Costs to Net Revenue Stream

This indicator expresses the amount of interest payable on external debt and other debt management expenses (i.e. financing costs) as a proportion of the amount of income received from Government and local taxpayers (i.e. net revenue stream). The definition of net revenue stream for the HRA is based on the statutory definition which incorporates charges to the account under Part 4 of the Local Government and Housing Act 1989.

<i>Financing Costs to Net Revenue Stream</i>	<i>2003-04 Actual</i>	<i>2004-05 Actual</i>	<i>2005-06 Actual</i>	<i>2006-07 Budget</i>	<i>2006-07 Actual</i>
Housing	34.7%	31.8%	44.8%	49.0%	45.1%
Non-Housing	7.2%	5.6%	0.5%	-2.2%	-2.0%

Incremental Impact of Capital Investment Decisions on the Council Tax and Housing Rents

As the Council's capital programme is financed by Government allocations, external funding from partners, and from the Council's own resources, such as capital receipts, there is no requirement for the Council to borrowing to finance its capital investment over the medium term. As a consequence there are no additional financing charges to be absorbed by both the General Fund and Housing Revenue Accounts over this period. This is reflected in the following two indicators, which show the impact on Council Tax and Housing Rents.

<i>Incremental Impact of Capital Programme</i>	<i>2006-07 Budget</i>	<i>2006-07 Actual</i>
Council Tax at Band D	£0.00	£0.00
Council Tax at Band A	£0.00	£0.00

Incremental Impact of Capital Investment Decisions on Housing Rent Levels

Similar to the Council Tax calculation this indicator identifies the impact of the Housing Capital Programme on revenue budgets, expressed in terms of weekly rent levels. This reflects the revenue contribution that is made to support the Housing Capital Programme.

<i>Incremental Impact of Capital Programme</i>	<i>2006-07 Budget</i>	<i>2006-07 Actual</i>
Weekly Housing Rent	£0.00	£0.00

TREASURY PRUDENTIAL INDICATORS

The purpose of these Prudential Indicators is to contain the activity of the Treasury Management function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decisions, impacting negatively on the Council's overall financial position. Four Prudential Indicators are required under this category:-

Upper Limits on Fixed Interest Rate Exposure

This indicator provides the range within which the authority will manage its exposure to fixed rates of interest.

Upper Limits on Variable Interest Rate Exposure

This indicator provides the range within which the authority will manage its exposure to variable rates of interest.

Maturity Structure of Fixed Borrowing

This indicator measures the amount of fixed rate borrowing maturing at each period expressed as a percentage of total borrowing at fixed rate at the start of each period.

Maximum Principal Sums Invested for more than 1 year

The purpose of this indicator is to contain the exposure to the possibility that loss might arise as a result of seeking early repayment or redemption of sums invested, or exposing public funds to unnecessary or unquantified risk.

Actual performance at the year end is as follows:

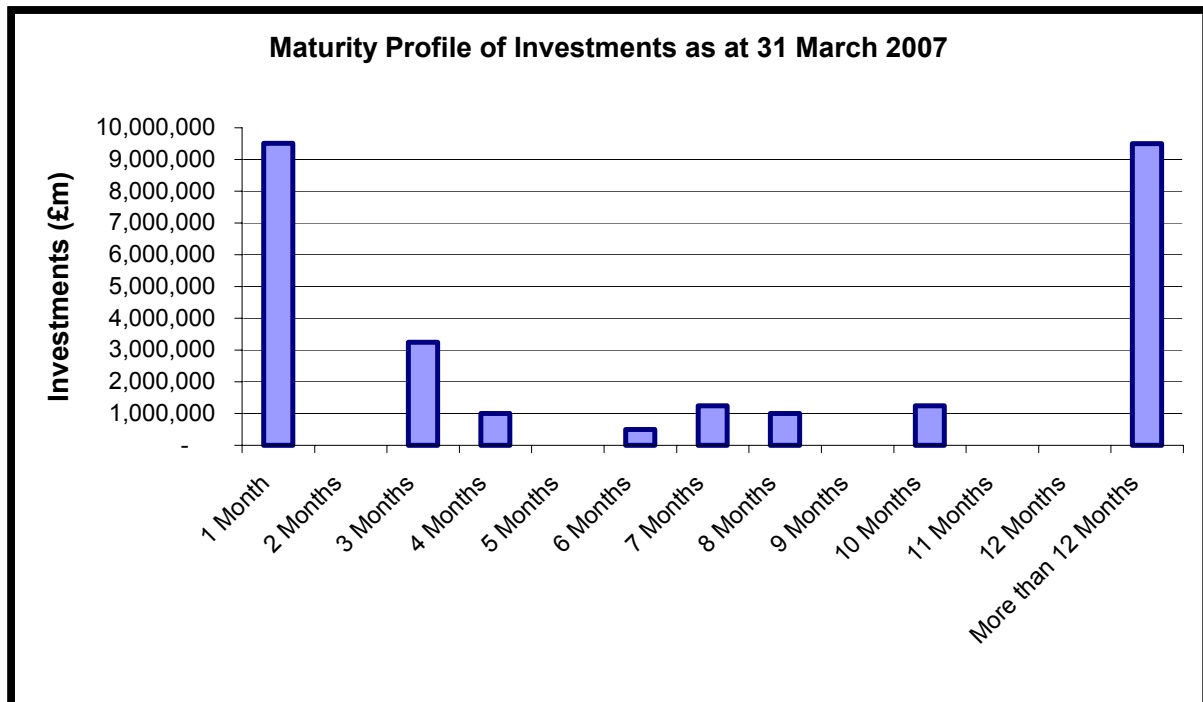
<i>Treasury Indicators</i>	<i>2006-07 % of debt Budget</i>	<i>2006-07 % of debt Actual</i>
Upper Limits on Fixed Interest Rates	100	100
Upper Limits on Variable Interest Rates	50	50
Maturity Structure of Fixed Borrowing		
Under 12 months	50	50
12 months to 2 years	50	50
2 years to 5 years	50	50
5 years to 10 years	50	50
10 years and above	100	100
Upper Limit on Principal Sums Invested for more than 1 year	75	75

As can be seen from the above table, all relevant limits and exposure ratios for interest, loan debt and investments were adhered to during the year.

APPENDIX D

MATURITY PROFILE OF EXTERNAL INVESTMENTS AT 31 MARCH 2007

Period to Maturity	Value of Investment (£)	% Total Investments
Up to 1 Month	9,510,000	35
2 Months	-	-
3 Months	3,250,000	12
4 Months	1,000,000	3
5 Months	-	-
6 Months	500,000	2
7 Months	1,250,000	4
8 Months	1,000,000	3
9 Months	-	-
10 Months	1,250,000	5
11 Months	-	-
12 Months	-	-
More than 12 months	9,500,000	36
	27,260,000	100%



25TH JUNE 2007

REPORT OF THE DIRECTOR OF RESOURCES

Portfolio: STRATEGIC LEADERSHIP

PROPOSED TRAINING FOR MEMBERS OF THE COMMITTEE

1. SUMMARY

- 1.1 In order for the Audit Committee to be fully effective, it is essential that training be provided to allow Members to obtain some further detailed knowledge and increased awareness of issues that will be brought to the Committee for consideration.
- 1.2 As there has been a change in the membership of the Committee following the Elections in May 2007 it will therefore be necessary to arrange for suitable training to be organised.
- 1.3 There are a number of options available to facilitate appropriate training and these are described with the report, together with a suggested time scale within which training should be provided.

2. RECOMMENDATION

- 2.1 That the appropriate officers of the Council and the Audit Commission arrange for suitable training to be provided in conjunction with the Chair and Vice-Chair of the Committee.

3. DETAIL

- 3.1 The report, which the Council approved on 19th May 2006 (Minute C.6/06 refers) to establish this Committee, referred to guidance that had been issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 3.2 The guidance issued by CIPFA did recommend that Members of an Audit Committee should be properly trained to fulfil their role and to ensure that the Committee will be fully effective.
- 3.3 There are a number of ways in which training can be provided to Members.

External Provision

There are a growing number of consultants who provide (usually) a day-long course at various locations throughout the country on a regular basis which has a pre-determined content. The costs normally associated with this type of training are typically £400 per day, per member. In addition there are the costs of getting to the venue, as well as accommodation costs, depending upon the location and length of the course.

Some consultants are also willing to provide training locally and will tailor the training to take into account any specific requirements of a local authority and its members. There is a minimal cost of approx. £1,200 plus the cost of the consultant travelling to the appropriate venue as well as the potential of overnight accommodation costs also being incurred.

Internal Provision

The Council's officers, together with Audit Commission staff, could provide some training within Council owned premises, which could be tailored to the requirements of the Members of the Committee.

Alternatively a mix of internal and external training could be provided.

- 3.4 It is suggested that officers from the Council and the Audit Commission prepare a Training Programme for consideration, by the Chair and Vice-Chair of this Committee, to be arranged preferably prior to the next meeting of the Committee on the 29th October 2007, taking into account the Role and Functions of the Committee
- 3.5 It is envisaged that, over time, the training could encompass the areas identified in Appendix 1 to this report.
- 3.6 Members may also wish to identify other relevant training that they consider relevant.

Electronic Documents

- 3.7 Access to relevant websites and publications may also assist Members gain a fuller appreciation of the areas of responsibilities the Committee has, for example the Council has a subscription with the Chartered Institute of Public Finance and Accountancy (CIPFA) for all members and staff to access <http://www.tisonline.net>. There is a simple registration process to access information about Local Authority Accounting, Internal Audit, Budgeting, Contract Management, Capital, Procurement, Financial Management and Governance, Risk Management and Insurance, Charging, Council Tax, Housing and VAT.
- 3.8 Within the Internal Audit Section of the website, an electronic copy of CIPFA's publication "Audit Committee - Practical Guidance for Local Authorities" is available may assist members in gaining a greater appreciation of the role of the Committee as well their own role.

4. RESOURCE IMPLICATIONS

- 4.1 It will be necessary to make arrangements for a suitable venue to be booked and appropriate documents and online access to be made available.
- 4.2 The costs associated for Member training can be accommodated within the existing revenue budget for Member training.

5. CONSULTATION

- 5.1 The Chair and Vice-Chair will be consulted about the content and time scale of the training to be provided.

6. OTHER MATERIAL CONSIDERATION

6.1 **Links to Corporate Objectives/Values**

The provision of appropriate training to Members will maximise the potential effectiveness of the Committee and demonstrate that the Council is being

- Responsible with and accountable for public finances

6.2 **Risk Management**

If Members do not receive appropriate training, the Committee may not effectively undertake its role and carry out its responsibilities

6.3 **Health and Safety**

No additional implications have been identified.

6.4 **Equality and Diversity**

No material considerations have been identified.

6.5 **Legal and Constitutional**

There are no legal or constitutional issues arising from this report.

6.6 **Overview and Scrutiny Implications**

There are no Overview and Scrutiny implications.

Contact Officer:

Harold Moses (Head of Financial Services)

Telephone:

01388-816166 Ext. 4385

E-Mail:

hmoses@sedgefield.gov.uk

Ward(s):

Not Ward Specific

Background Papers:

The Implications of the Establishment of an Audit Committee:

- Report to Cabinet 13/4/06
- Report to Standards Committee 5/5/06

Establishment of an Audit Committee:

- Report to Council 19/5/06

Examination by Statutory Officers:

	Yes	Not Applicable
1. The report has been examined by the Council's Head of the Paid Service or his representative.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
2. The content has been examined by the Council's S.151 Officer or his representative.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
3. The content has been examined by the Council's Monitoring Officer or his representative.	<input type="checkbox"/>	<input checked="" type="checkbox"/>
4. Management Team has approved the report.	<input type="checkbox"/>	<input checked="" type="checkbox"/>

AUDIT COMMITTEE
POTENTIAL TRAINING AREAS

1. Role of Internal Audit
2. Role of Audit Commission
3. Purpose of Risk Management.
4. Performance Management Arrangements.
5. Appreciation of Content of the Statement of Accounts.
6. Statement on the System of Internal Control and Corporate Governance
7. Prevention of Fraud and Corruption Arrangements
8. Partnership Arrangements.
9. Efficiency Agenda/Value for Money Arrangements.
10. Procurement Arrangements.
11. Data Quality Arrangements.
12. CPA Use of Resources Requirements
13. Financial Procedure Rules.
14. Contract Procedure Rules..
15. National Fraud Initiative Data Matching.
16. Business Continuity Arrangements.
17. Prevention of Money Laundering.
18. Treasury Management Arrangements