

# AUDIT COMMITTEE

Monday, 30 June 2008

9.00 a.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 پوچھئے۔

**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 correct records the Minutes of the following meetings:

(a) 15th April 2008

(b) 2nd June 2008

(Pages 1 – 12)

**4. ANNUAL GOVERNANCE STATEMENT 2007/08**

Report of Director of Resources. (Pages 13 - 24)

**5. STATEMENT OF ACCOUNTS (FOR YEAR ENDED 31ST MARCH 2008)**

Report of Director of Resources. (Pages 25 - 42)

**6. 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  
20<sup>th</sup> June 2008

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

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

B. Argyle – Co-opted Member

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# Item 3a

## SEDGEFIELD BOROUGH COUNCIL

### AUDIT COMMITTEE

Conference Room 2,  
Council Offices,  
Spennymoor

Tuesday,  
15 April 2008

Time: 5.30 p.m.

**Present:** Councillor D. Chaytor (Chairman) and  
Councillors J.G. Huntington and Mrs. C. Potts  
B. Argyle (Independent Member)

**Apologies:** Councillors T. Brimm, C. Nelson and B. Stephens

**AC.24/07 DECLARATIONS OF INTEREST**  
Members had no interests to declare.

**AC.25/07 MINUTES**  
The Minutes of the meeting held on 28<sup>th</sup> January were confirmed as a correct record and signed by the Chairman.

**AC.26/07 THE ROLE OF THE AUDIT COMMISSION**  
Paul Heppell from the Audit Commission gave a presentation on the role of the Audit Commission.

It was reported that the Audit Commission was an independent body, which was responsible for ensuring that public money was spent economically, efficiently and effectively to achieve high quality local and national services for the public. Its remit covered more than 15,000 bodies, which between them spend nearly £125 billion of public money every year. Its work covered local government, housing, health, criminal justice and fire and rescue services.

Its strategic objectives were as follows:

- To raise standards of financial management and financial reporting.
- To challenge public bodies to deliver better value for money.
- To encourage continual improvement in public services so they meet the changing needs of diverse communities and provide fair access for all.
- To promote high standards of governance and accountability.
- To stimulate significant improvement in the quality of data and the use of information by decision makers.

The duties and powers of auditors appointed by the Audit Commission were set out in the Audit Commission Act 1998, the Local Government

Act 1999 and the Commission's statutory Code of Audit Practice.

It was explained that under the Code of Practice, the Council's appointed auditor would review and report on the following:

- The Council's financial statements and statements of internal control
- Whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources – value for money conclusion
- Whether the Council had made proper arrangements to collect, record and publish performance information.

Details were also given on the responsibilities of the Council – its members and officers and those of the auditors.

RESOLVED: That the information be received.

#### **AC.27/07**

#### **WORKING TOGETHER PROCOTOL**

Consideration was given to a report prepared by the Audit Commission, which set out the way that the Council and the Audit Commission would work together in the delivery of the work programme up until Local Government Re-organisation in April 2009. (For copy see file of Minutes)

Ross Woodley from the Audit Commission presented the report.

Specific reference was made to the liaison arrangements with the Council and the preparation for comprehensive area assessment. It was noted that in April 2008 a new post of Comprehensive Area Assessment Lead (CAAL) would be created. The CAAL would take over the relationship manager role as the Commission's primary point of contact with the Council and be responsible for ensuring a smooth transition from an inspection system based on individual authorities to one based on the whole County.

It was noted that the Audit Commission had assessed LGR (Local Government Review) as the greatest audit risk facing all the local authorities within the County and had included work to address the issue in the 2008/09 audit and inspection plans. The work would be co-ordinated county-wide to ensure that emerging risks and good practice were communicated appropriately. The main risks to be addressed were:

- The impact of increased turnover and key vacancies on internal control.
- The security of assets.
- Access to records and officers of the demising Council during and after the transition.
- The use of reserves and balances.
- Commitments to long term projects and capital schemes.

It was planned that a lighter touch would be given to scored assessments such as Use of Resources and Direction of Travel in view

of their reduced relevance to the public.

*RESOLVED : That the report be received.*

**AC.28/07 ANNUAL AUDIT AND INSPECTION LETTER 2006/07**

Consideration was given to 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).

Paul Heppell from the Audit Commission presented the report.

The inspection letter included the latest assessment on the Council's performance under the CPA framework, including the Direction of Travel report and the results of any inspections carried out by the Audit Commission under Section 10 of the Local Government Act 1999.

The key messages arising from the inspection were as follows:

- The Council had clearly identified its priorities and was generally making progress towards achieving its ambitions. It had a strong focus on community needs and priorities and had revised its aims, objectives and targets in 2007.
- A relatively high number of the Council's national performance indicators had performed at the top level in 2006/07. Whilst the improvement in its services had slowed down in 2006/07 compared to previous years, the Council had sound plans for future improvement. Satisfaction with Council's services was generally at a high level. Sickness absence, however, remained a weakness in the Council's capacity. Absence rates were poor and were the worst in the county for 2006/07 at 13.8 days compared to a median for Durham districts of 9.32 days. It was noted that the Council had put improvements plans in place, however they had not yet come to fruition.
- In common with Councils across Durham, the Council had implemented good regeneration projects, however, councils were not working together well enough to close the gap between economic prosperity in Durham and the rest of the country.

Members noted that the District Audit had issued unqualified opinions on the 2006/07 Accounts and Value for Money Arrangements and on the Best Value Performance Plan.

It was explained that the Council's overall use of resources judgement was at level 3, which indicated that the Council was consistently above minimum requirement – performing well. During 2006/07 systems of risk management and performance management had been embedded at a corporate and service level, which should help the Council sustain an effective use of resources through the challenges created by local government reorganisation.

There had been, however, a fall in Council Tax collection rate. The rate of collection was the lowest in County Durham and amongst the lowest nationally in 2006/07. It was noted that the Council had responded to the decrease by implementing a number of measures to improve future performance.

Specific reference was made to paragraphs 4, 5 and 6 of the inspection letter, which set out the actions needed that to be taken by the Council.

It was pointed out that early indications were that the Council was making a positive contribution to the creation of the new unitary Council, however, the early impetus needed to be maintained over the coming months.

Members requested that when the letter was presented to Cabinet at its meeting on 24<sup>th</sup> April 2008, reference should be made to the fact that the Committee had noted that the problem with regard to the fall in the council tax collection rate had been subsequently addressed by the appointment of 2 additional staff which was expected to improve the in-year collection rate. Reference should also be made to the Council's sickness absence rates, which were being monitored and were expected to improve following the introduction of new procedures during the year and the transfer of employees to a new Housing Partner.

*RESOLVED : That the report be received and Cabinet be informed of the Committee's findings..*

#### **AC.29/07**

#### **COMPUTER ROOM INSTALLATION CONTROLS REVIEW**

Consideration was given to a report prepared by the Audit Commission regarding the above. (For copy see file of Minutes).

Ross Woodley from the Audit Commission presented the report.

It was explained that a review of computer room installation controls had been completed as part of the Audit Commission's annual risk assessment associated with planning the 2006/07 audit of Sedgefield Borough Council. The review had been carried out following a recent upgrading of the computer room infrastructure and also to aid the Commission's understanding of the information and communications technology (ICT) environment that was required to comply with the International Standards of Auditing.

It was explained that the Council provided and managed all of its key business systems in-house. The main physical access and environmental controls were adequate and were operating in a satisfactory manner with some minor areas identified for improvement. One of the indicators for a well managed ICT service was the availability of policies and procedures. The ICT Department had online operational procedures in place, however, it was weak in the availability of a council wide IT usage related policies, for example ICT security policy.

Logical access controls to the corporate network and some of the key business systems in the main were good and followed best practice



suggested in BS17799 (Now ISO27001:2) guidance. The only exception was the commonly set parameter for 90 day frequency between passwords which was longer than best practice recommended.

The Council was one of very few authorities that had developed an in-house disaster recovery off-site facility for its business systems. At the time of the review, it was noted that updated insurance cover for IT equipment/inventory was in progress/complete and there was no history of theft, computer virus attacks or breaches of network security.

During 2006/07 internal audit had reviewed ICT security and their findings had been assessed and the Commission's work concurs with some of their reported results. Overall, there were no significant threats or concerns to the data processing activities operated by the Council.

Members' attention was drawn to the Action Plan detailed in Appendix 1, which set out five recommendations which officers had considered.

*RESOLVED : That the report be received.*

#### **AC.30/07 INTERNAL AUDIT PLAN FOR 2008/09**

Consideration was given to a report of the Director of Resources detailing the Internal Audit Plan for the period 1<sup>st</sup> April 2008 to 31<sup>st</sup> March 2009. (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 works required to ensure the practical completion of identified projects. For planning purposes, the availability of the equivalent of four persons for 2008/09 had been assumed to deliver the work detailed in the Audit Plan.

The proposed Plan, detailed in Appendix 3, showed a total of 808 audited days compared with the approved Plan for 2007/08 of 911 days.

The content of the 2008/09 Plan reflected a wide range of Council activities and had been developed following consultation across all departments to ensure that changing priorities and pressures had been recognised, particularly in the light of Local Government Review and the priorities contained in the Council's Transition Plan. The maintenance of a proper control environment was fundamental to the delivery of services and must be the main purpose of internal audit activity.

It was pointed out that consideration had been given to the views of the Audit Commission, particularly in respect of issues surrounding Local Government Re-organisation and its impact on Councils within County Durham. The views were shown in Appendix 2 to the report and the Audit Plan had been developed to accommodate those issues.

*RESOLVED : 1. That the Internal Audit Plan for 2008/09 as detailed in Appendix 3 be approved.*

2. *That a half yearly report be submitted to a future meeting of the Committee.*
3. *That significant developments associated with the Audit Plan be reported to Audit Committee as necessary.*

#### ACCESS TO INFORMATION

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# Item 3b

## SEDGEFIELD BOROUGH COUNCIL

### AUDIT COMMITTEE

Conference Room 1,  
Council Offices,  
Spennymoor

Monday,  
2 June 2008

Time: 5.30 p.m.

**Present:** Councillor D. Chaytor (Chairman) and  
Councillors J.G. Huntington, Mrs. C. Potts and B. Stephens

**Apologies:** Councillors T. Brimm and C. Nelson

**AC.1/08      **DECLARATIONS OF INTEREST****  
Members had no interests to declare.

**AC.2/08      **ELECTION OF VICE CHAIRMAN****

*RESOLVED :      That Councillor J.G. Huntington be elected as Vice-Chairman for the 2008/09 municipal year.*

The Chairman expressed his appreciation of the work undertaken by the Vice-Chairman during the past year and he looked forward to working with him in the new municipal year.

**AC.3/08      **STATEMENT OF RESPONSIBILITIES OF AUDITORS AND OF AUDITED BODIES****

The Committee considered the above statement prepared by the Audit Commission to clarify the roles and responsibilities of auditors and audited bodies. (For copy see file of Minutes).

Paul Heppell from the Audit Commission was in attendance to present the above report.

It was explained that the term 'audited body' covered both the members of the body (elected members in local authorities) and its management (senior officers of the body).

Members noted that the responsibilities of auditors were derived from statute, principally the Audit Commission Act 1998 and the Code of Audit Practice.

Audited bodies were responsible for making sure that proper arrangements were in place to ensure that public business was conducted in accordance with the law and proper standards and that public money was safeguarded and properly accounted for and used economically, efficiency and effectively.

It was noted that had it not been for these two factors, the overall fee for 2008/09 would have reduced.

The report gave details of the responsibilities of auditors and audited bodies in relation to the audit of financial statements, the securing of economy, efficiency and effectiveness in the use of resources and the certification of grant claims and returns. It also set out how the results of audit work would be reported.

*RESOLVED : That the report be received.*

#### **AC.4/08**

#### **AUDIT AND INSPECTION PLAN FOR 2008/09**

The Committee considered a report setting out the audit and inspection work to be undertaken by the Audit Commission during 2008/09. (For copy see file of Minutes).

Paul Heppell of the Audit Commission was in attendance to present the report.

It was explained that the Plan was based on the Audit Commission's risk-based approach to audit planning and the requirements of moving towards Comprehensive Area Assessment. It reflected:

- Audit and inspection work specified by the Audit Commission for 2008/09.
- Existing national risks relevant to local circumstances
- Local risks and challenges.

It was noted that as a result of Local Government Re-organisation in County Durham, 2008/09 would be the final year of operation for Sedgefield Borough Council and the proposed work detailed in the Plan had been tailored to reflect that position. There would be no corporate assessments in County Durham during the year

The inspection programme was designed to support the development of the new unitary Council by assessing key areas of activity that were important in improving the quality of life in the county. On the basis of the Commission's previous work and analysis of key issues, 'sustainable communities' had been identified as an important area for inspection activity.

Specific reference was made to table 1 on page 27, which set out the planned fee for 2008/09. It was pointed out that the fee of £129,000, which took account of the significant audit risks attached to Local Government Review and the Council's proposed LSVT of its housing stock, had only increased by 3% when compared with to the planned fee for 2007/08. It was noted that had it not been for those two factors, the overall fees for 2008/09 would have reduced.

Members' attention was drawn to the tables on Pages 34 and 38, which gave a summary of inspection activity and listed the planned outputs.

*RESOLVED : That the report be received.*

**ANNUAL BENEFIT FRAUD REPORT - 2007/08 FINANCIAL YEAR**

The Committee considered a report of the Director of Resources, which reviewed the results of investigating allegations of Housing and Council Tax Benefit fraud during the 2007/08 financial year. (For copy see file of Minutes).

It was explained that Council was committed to preventing and detecting fraud and a reduction in the level of fraud was a key priority of the Benefits Section.

Members noted that the target originally set for the Council in 2007/08 by the Department of Work and Pensions (DWP) was to find reductions in benefits from 6880 claims within the existing caseload of approximately 11,5000 claimants. Following the loss of personal data between Government departments in autumn 2007, the target was subsequently reduced to 3150, based on results for the first 6 months. The Council achieved 3248 reductions, resulting in a top rating of 4, in terms of the DWP Performance Standards.

It was reported that during the 2007/08 financial year, the Investigations Team had received 671 cases of suspected fraud following anonymous letters and telephone calls from the public, mainly using the Benefits Fraud Hot Line, tip offs from other departments and data matching information from other agencies. The Team had been able to investigate a total of 505 cases, including 186 received from the Housing Benefit Matching Service.

In respect of 345 cases, sufficient evidence had been obtained to confirm that fraudulent overpayments, valued at £295,957, had been made, of which only £30,821 remained to be paid. The investigations had also resulted in the issuing of 87 sanctions in accordance with the Council's Sanctions Policy, 13 prosecutions, 69 cautions and 5 administration penalties, details of which were outlined in paragraph 4.3 of the report.

Members noted that the Council continued to work with the Department for Work and Pensions and a further 29 cases were being processed.

It was reported that a number of directed surveillance activities had been carried out during the year in accordance with the Regulations of Investigatory Powers Act 2000.

Reference was also made to the results of a joint operation that had been undertaken in the year between the Fraud Investigation Team, the Taxi Licensing Section, the Vehicle and Operator Services Agency, HM Revenue and Customs and Durham Constabulary.

It was estimated that the Council granted approximately £32.5m housing benefits during the 2007/08 financial year and the amount of benefit fraud identified during the year represented less than 0.9%.

The Committee's attention was also drawn to the paragraphs 5.4 to 5.6, which set out the cost of providing the fraud service.

It was noted that the costs of providing the Council's Benefit Service, which included the Fraud Prevention and Detection activity, was contained within an Administration Grant provided by the Government and there was no cost falling on the Borough Council for the service. The cost of the Fraud Team was a relatively small element of the overall cost and much lower than the 30% recommended by DWP, making performance all the more commendable.

It was pointed out that arrangements had been made for the outcome of the investigations to be publicised in a future edition of 'Inform'.

*RESOLVED : That the progress in investigating alleged benefit fraud during the 2007/08 financial year be noted.*

#### **AC.6/08**

#### **INTERNAL AUDIT SERVICE - ANNUAL REPORT 2007 - 08**

Consideration was given to a report of the Director of Resources regarding the above. (For copy see file of Minutes).

It was explained that the Accounts and Audit Regulations 2006 required the Council to 'maintain an adequate and effective system of internal audit of accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.

Members were reminded that the Internal Audit Plan for 2007/08 had been approved by the Audit Committee at its meeting on 23<sup>rd</sup> April 2007. The Plan had scheduled a total of 911 days for the full year, however actual audit work carried out during the year totalled 805 days. The reason for the shortfall was that the Section had been operating with staff vacancies during the year, however, work had been prioritised to ensure greater emphasis on those areas of higher risk. The programme of regularity audit for 2007/08, which formed the core of the Audit Plan, had been substantially completed. 59 formal audit reports had been issued during the period, of which 25 confirmed that satisfactory arrangements were in place.

Appendix A to the report provided a brief summary of actual audit work carried out and of matters that had been identified as part of the work undertaken by the Internal Audit Section.

Members' attention was drawn to the revised Code of Practice for Internal Audit, which had been issued by CIPFA in 2006. It was pointed out that Internal Audit regularly reviewed its service against the Code of Practice to ensure continued compliance. The latest assessment had been undertaken in April 2008, and indicated that the Section continued to be effective and sufficiently compliant with the Code of Practice to ensure that the opinion given in the annual report could be relied upon for assurance purposes.

Appendix B to the report identified those areas of partial or non-compliance with the Code, which amounted to only 20 individual criteria, out of a total of just under 200.

*RESOLVED : That the contents of the Internal Audit Service Annual Report 2007/08 be noted.*

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**30th JUNE 2008**

**REPORT OF  
DIRECTOR OF RESOURCES**

**Portfolio: STRATEGIC LEADERSHIP**

**Annual Governance Statement 2007/08**

**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) and the Society of Local Authority Chief Executives (SOLACE) have produced guidance for Local Authorities to follow. Evidence has been produced by Heads of Service's and Directors following a review of their current internal control and governance arrangements and a Corporate Annual Governance Statement (AGS) covering all aspects of the Council's activities has now been compiled.
- 1.4 Although the AGS is incorporated in the Annual Statement of Accounts (SOA), best practice recommends that it should be considered separately from any review of the SOA
- 1.5 The purpose of this report is therefore for this Committee to review the content of the Annual Governance Statement, prior to its submission to the Council on 30<sup>th</sup> June 2008. Any comments that this Committee may have on the content of the Statement will be conveyed to the Council for its consideration.

**2. RECOMMENDATION**

- 2.1 That the Audit Committee approves the Annual Governance Statement for 2007/08, as shown in the Appendix , and recommends its acceptance by Council
- 2.2 That the Statement be incorporated into the Statement of Accounts for the 2007/2008 financial year.

**3. BACKGROUND**

- 3.1 Regulation 4 of The Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) Regulations 2006, requires the Council to

conduct a review at least once a year of the effectiveness of its system of internal control and to prepare an appropriate statement in accordance with “proper practices”.

- 3.2 “Proper practice” for the purpose of the Annual Governance Statement is set out in the CIPFA/SOLACE framework document “Delivering Good Governance in Local Authorities - Guidance Note for English Authorities”. This document suggests the form and content of a governance statement to meet the requirement to prepare and publish a statement on internal control in accordance with the above regulations.
- 3.3 The Framework document suggest that the governance statement should include the following information
- An acknowledgement of responsibility for ensuring there is a sound system of governance (incorporating the system of internal control)
  - An indication of the level of assurance that the systems and processes that comprise the Council’s governance arrangements can provide
  - A brief description of the key elements of the governance framework
  - A brief description of the process that has been applied in maintaining and reviewing the effectiveness of the governance arrangements, including some comment on the role of
    - The Council
    - The Executive
    - The Audit Committee
    - Internal Audit
    - Other explicit review/assurance mechanisms
  - an outline of actions taken ,or proposed, to deal with significant governance issues, including an agreed action plan.
- 3.4 The Framework also points out that it is important to recognise that the governance statement covers all significant corporate systems, processes and controls, spanning the whole range of the council’s activities, including in particular those designed to ensure that:
- The Council’s policies are implemented in practice
  - High quality services are delivered efficiently and effectively
  - The Council’s values and ethical standards are met
  - Laws and regulations are complied with
  - Required processes are adhered to
  - Financial statements and other published performance information are accurate and reliable
  - Human, financial, environmental and other resources are managed efficiently and effectively
- 3.5 The Governance Statement is therefore expected to cover performance issues – good governance promoting good service but poor service performance reflecting a failure of governance.
- 3.6 Consequently, the Framework document suggests that approval and ownership of the governance statement should be at a corporate level and should be confirmed by the most senior officer and the most senior member signing the statement on behalf of the Council.
- 3.7 Equally, it goes on to point out, that the review and approval of the governance statement by a member group separately from the accounts will help ensure its robustness and reinforce its corporate standing. They must therefore be satisfied that

the document is supported by reliable evidence and accurately reflects the internal control environment.

#### **4 Annual Review Process**

- 4.1 A group of senior officers, who have been tasked with monitoring the Council's governance arrangements, met to consider how to provide the necessary assurance statement. They agreed that all Heads of Service should be required to complete a self-assessment questionnaire to provide evidence to their appropriate Director that satisfactory internal control and governance arrangements were currently in place or to confirm where necessary that actions were to be undertaken to further improve their existing arrangements. In turn, the Directors were able to provide an assurance statement to the Chief Executive in respect of their service responsibilities.
- 4.2 Assurance Statements have now been received from all Directors and Heads of Services, in respect of the 2007/2008 financial year and any relevant significant control, risk or governance issues have been included in the Corporate Annual Governance Statement shown as an Appendix to this report.
- 4.3 The group has also met to review evidence submitted by the Audit and Resources Manager to demonstrate the effectiveness of the system of internal audit which is also recommended best practice. For the purposes of that review, a number of sources of information were submitted for consideration, including
  - a self assessment measuring Internal Audit compliance with the CIPFA Code of Practice for Internal Audit in Local Government which was issued in 2006,
  - evidence provided by the Audit Commission following an assessment to the extent to which reliance can be placed on the work of the Internal Audit Team, particularly in relation to their reviews of the Council's core financial systems,
  - the Audit Commission's Use of resources score on the Internal Control theme
  - the Audit and Resources Managers interim and annual reports to the Audit Committee on the internal audit activities throughout the year
  - and customer satisfaction survey results
- 4.4 The group was satisfied with the evidence produced and explanations provided that the system of internal audit was effective.

#### **5. Corporate Annual Governance Statement**

- 5.1 As mentioned above, the resultant Corporate Annual Governance Statement for the 2007/2008 financial year which will be inserted into the Statement of Accounts is attached to this report as an Appendix.
- 5.2 In accordance with the CIPFA/SOLACE guide and best practice, the statement covers the following areas.
  - The scope of responsibility
  - The purpose of the governance framework
  - The governance framework itself
  - A review of its effectiveness
  - Outstanding issues from previous statements
  - Any significant governance issues
- 5.3 Whilst the statement is generally very positive, there are a number of issues identified in the document where there is recognition of the importance of having sound internal control and governance arrangements in place during 2008/2009 to improve the

governance environment, in particular in connection with the Council's Transition Plan projects and in dealing with the many issues involved in the re-organisation of local government in the County.

## **6. RESOURCE IMPLICATIONS**

6.1 There are no financial issues arising directly from this report.

## **7. CONSULTATIONS**

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

## **8. LINKS TO CORPORATE OBJECTIVES/VALUES**

8.1 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 effective systems of internal control and governance arrangements in place, or any weaknesses were not being addressed, it would inevitably have a detrimental effect on any Comprehensive Area Assessment (CAA) review by the Audit Commission, 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 were not available to support the control environment, 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**

10.1 No additional implications have been identified.

## **11. EQUALITY AND DIVERSITY**

11.1 No additional implications have been identified.

## **12. LEGAL AND CONSTITUTIONAL**

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

## **13. OTHER MATERIAL CONSIDERATIONS**

13.1 No other material considerations have been identified.

## **14. LIST OF APPENDICES**

14.1 Appendix 1 Annual Governance Statement 2007/08

**Contact Officer:** Harold Moses  
**Telephone No:** (01388) 816166 Ext. 4385  
**Email Address:** [hmoses@sedgefield.gov.uk](mailto:hmoses@sedgefield.gov.uk)  
**Ward(s)** Proposals are not ward specific  
**Background Papers:** **Various** Account and Audit Regulations  
 CIPFA/SOLACE Framework Document – “Delivering Good Governance in Local Government”  
 Departmental and Head of Services Assurance Statements

**Examination by Statutory Officers**

	<b>Yes</b>	<b>Not Applicable</b>
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 type="checkbox"/>	<input type="checkbox"/>
4. The report has been approved by Management Team	<input type="checkbox"/>	<input type="checkbox"/>

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### **Scope of Responsibility**

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. 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 to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs and for facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework *'Delivering Good Governance in Local Government'*. A copy of the Local Code is on our website at [www.sedgefield.gov.uk](http://www.sedgefield.gov.uk) or can be obtained from the Head of Financial Services. This Statement explains how the Council has complied with the Code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a Statement on Internal Control.

### **The Purpose of the Governance Framework**

The Governance Framework comprises the systems and processes and culture and values by which the authority is directed and controlled, and the activities through which it accounts to, engages with and leads the community. It enables the Council to monitor progress against its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The System of Internal Control is a significant part of this framework and is designed to manage risk to a reasonable level. It is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's aims, objectives and policies; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically. It cannot however eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The Governance Framework has been in place at the Council for the year ended 31<sup>st</sup> March 2008 and up to the date of approval of the Statement of Accounts on 30<sup>th</sup> June 2008.

## **The Governance Framework**

The Council has maintained and developed comprehensive governance processes designed to ensure the achievement of objectives, quality of service and public accountability through proper systems of internal control and management arrangements. Key areas of good governance include the setting of strategic and operational objectives, quality performance management information, risk awareness, financial regulations compliance and internal check procedures , all supported by an appropriate management structure with supervision, delegation and accountability accepted as fundamentals.

The present governance arrangements include the following, and are subject to continuous improvement by management:-

### ***Constitution, Management Structure and Relationship Management***

- A Council Constitution which includes clear decision-making processes, responsibility for functions, a scheme of delegation, financial/budgetary/procurement regulations, codes of conduct and management structure.
- Well developed and communicated codes of conduct for Members and officers, supported by processes for declarations of interest.
- Responsibility for compliance with relevant laws, regulations and policies placed with senior managers, with Legal Section support as necessary.
- Appropriate governance arrangements developed to cover major Council partnerships in existence around the Borough.

### ***Strategic Planning***

- Strategic corporate planning cycle driven by a robust evidence base developed with partners through the Local Strategic Partnership.
- Regular establishment and review of the Council's priority areas, including both strategic and major operational activities.
- Medium Term Financial Planning has been developed.
- All key decisions being made by this Council are now submitted to the County Council, and to the Audit Commission and Department for Communities and Local Government for comment, if necessary, in accordance with the provisions of section 24 of the Local Government and Public Involvement in Health Act 2007

### ***Performance Management, Service Improvement and Efficiency***

- Comprehensive performance management processes to ensure targets are established and monitored on major activity areas.
- Management review of operational performance efficiency.
- Project management principles applied to ensure project delivery compliant with expectations.
- Comprehensive public complaints processes maintained.
- Well developed public consultation and communications strategies to ensure participation and accountability.

### ***Financial Management***

- Comprehensive budgeting processes supported by effective budgetary control information systems.



- Well developed and controlled systems covering the Council's major financial activities.
- Financial performance reviews against forecasts, to ensure best use of available resources.
- Capital programme framework designed to maximise quality project delivery in accordance with the strategic visions of the Council.

### ***Risk Management***

- Ongoing development of risk management arrangements to ensure both strategic and operational areas across the Council are addressed.

### ***Audit and Inspection***

- Maintenance of an Internal Audit service responsible for reviewing all significant resource and performance areas of the Council.
- Well developed consultative arrangements with the Audit Commission, which complement their statutory role in reviewing and reporting on the Council's control framework.
- Regulatory and review responsibilities maintained by the Council's Audit Committee.

### **Review of Effectiveness**

The Council's Constitution requires an annual review of the Governance arrangements to be undertaken and reported to Council as the "Body charged with Governance".

The review of effectiveness is informed by the work of the Heads of Service and Directors within the Council who have responsibility for the development and maintenance of the governance environment, and also by comments made by the Audit Commission in their role as the Council's external auditors, and other review agencies and inspectorates.

The Audit Committee is also involved in reviewing the effectiveness of the Council's Governance arrangements when considering the progress being made by the Internal Audit Team during the year in achieving the Annual Audit Plan objectives.

### **Outstanding Issues from Previous Statements**

#### **Monitoring of Energy Management**

It is pleasing to note that satisfactory arrangements have been introduced during the 2007/08 financial year to address this issue because of the escalation in the Council's fuel costs and the need to ensure that consumption is reduced wherever possible.

### **Significant Governance Issues 2007/08**

#### **Local Government Re-Organisation in County Durham**

Following the decision to create a Unitary Council in County Durham with effect from April 2009, a number of significant strategic risks have been identified in connection with the process including the **failure to maintain/improve on the quality of corporate governance** within the Council. Other risks/governance issues not separately identified within this Statement, include **a failure to reduce sickness absence levels**, the anticipated difficulties associated with **staff morale** and the **recruitment and retention of staff**, a potential **failure in the Council's ICT**

**infrastructure**, the possibility of **non compliance with legislation**, a **failure to develop performance management** across departments, a potential **failure of the Councils other Partnership arrangements** in terms of performance, funding or exit strategies, and a **failure to undertake a comprehensive assessment of Resource needs**.

A nominated Lead Officer has been identified to be responsible for preparing and maintaining a risk log for each of the above issues and a regular review of progress will be a key feature of the project management approach being undertaken.

It will also be important to ensure that the various Workstreams involved in the LGR process give due consideration to the governance and risk management issues of the activities they are responsible for reviewing.

### **Transition Plan**

It will be important to ensure that appropriate governance arrangements are put into place with regard to the major initiatives identified in the Councils Transition Plan, namely:

#### **Housing Partnering Arrangements**

Measures are being developed and implemented to secure a significant and sustained improvement in the provision of Housing Construction Services to the Council following the recently introduced Partnering Agreement with Mears Limited.

#### **Large Scale Voluntary Transfer (LSVT) of the Councils Housing Stock**

The Council has agreed to ballot its tenants to achieve a LSVT of its housing stock to ensure that it can meet not only the Decent Homes Standard but the higher asset management requirements of the stock. This higher standard will be nearer to the tenants' aspirations for investment in their homes, estates and services. This investment would also provide a high quality Housing Service. A Shadow Board has been established to monitor progress towards registration with the Housing Corporation including the consideration and acceptance of various governance related issues

#### **Coalfields Housing Renewal**

The Council is working closely with English Partners to develop either a Special Purpose Vehicle or a Contractual Joint Venture to optimise the use of public assets by maximising land values, and innovate in developing joint ventures and leveraging both public and private finance to support the development of the former coalfield areas of Dean Bank, Ferryhill Station and West Chilton .

#### **New Training Service and Centre for the Borough**

Agreement has been reached in principle between the Council and Bishop Auckland College to provide a new Training Service and Centre for the Borough. It will be important to ensure that appropriate governance arrangements are put into place for this significant partnership venture which is expected to narrow the gap in quality of life experienced by the most disadvantaged groups in the Borough.

#### **Redevelopment of Newton Aycliffe Town Centre**

The Council is currently working with the Durham County Council, County Durham Primary Care Trust, Great Aycliffe Town Council and Freshwater, the private owners of much of the Centre, to bring about a comprehensive regeneration solution for this area. It will be important to ensure that appropriate governance arrangements are put into place for this significant partnership venture which is expected to enhance

the vitality of the Town Centre and support the development of a cohesive community.

### **Extension of the Pioneering Care Centre**

The Council has approved a £1.25m (part grant-funded) extension of its Pioneering Care Centre in Newton Aycliffe and the subsequent award of a 125 lease at a peppercorn rent to the Pioneering Care Partnership, a registered charity that manages and operates from the building. This decision will safeguard the future of this valuable organisation. Robust project management arrangements are in place to ensure that this work is completed by September 2009.

### **Other Governance Issues**

#### **ICT Security Policy**

The ICT Manager intends to develop an ICT Security Policy along with a number of supporting policies and procedures following a review of the Computer Room Installation Controls by the Audit Commission.

We propose, over the coming year, to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed on behalf of Sedgefield Borough Council:

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*Councillor Mrs. Agnes Armstrong (Leader of the Council)*

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*Brian Allen, CPFA (Chief Executive)*

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# Item 5

## REPORT TO AUDIT COMMITTEE

30<sup>TH</sup> JUNE 2008

## REPORT OF DIRECTOR OF RESOURCES

**Portfolio: STRATEGIC LEADERSHIP**

### **STATEMENT OF ACCOUNTS (FOR YEAR ENDED 31<sup>ST</sup> MARCH 2008)**

#### **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 31<sup>st</sup> March 2008 be recommended to Council for approval.

#### **3. DETAIL**

- 3.1 The Statement of Accounts is being presented to this Committee so that it can consider the content and their approval to Council. Any comments made by this committee will be conveyed to the Council when the Statement will be considered later today.
- 3.2 The Account and Audit Regulations 2003 require the Council to approve the Accounts of the Authority by no later than the 30<sup>th</sup> June, prior to their publication and the formal signing off by the District Auditor.
- 3.3 Following the audit of the Statement of Accounts, which has to be completed by no later than 30<sup>th</sup> September 2008, 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.
- 3.4 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.
- 3.5 Once again there have been a number of changes to the format of the accounts required to be made by the Statement of Recommended Practice 2007 [SORP] applicable to Local Authorities, details of these changes are shown in the appendix.

#### **4. FINANCIAL IMPLICATIONS**

Statement of Accounts 31.3.08 – 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 details the capital commitments into 2008/2009 that were approved by Cabinet on the 19<sup>th</sup> June 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) 2007 / 2008 Initial Plans***

The Revenue Support Grant settlement was broadly in line with expectations. Notwithstanding that the Council faced some significant budget pressures not least that of pay inflation. Although the pay settlement effective from 1<sup>st</sup> April 2007 had not been agreed, an assumed 2.5% increase was built into the budgets. The effects in 2007/08 of implementing the Job Evaluation Agreement last year was also incorporated into the base budgets and the final stage of the stepped increases to the Council's contribution to the Pension Fund in accordance with the last Actuarial Valuation, also added a further 1.5% to the total pay bill. These factors represented a significant increase in the pay costs incurred by the Council

In addition a number of initiatives designed to build and maintain strong cohesive communities in order to tackle deprivation and social exclusion that had relied on external finance streams came to a close in March 2008. Account was therefore made of the fall out of grant support in this important area.

Fuel price inflation will also significantly add to costs particularly in the areas of high-energy use for example, the leisure centres.

The Council approved a net budget requirement for 2007/08 of £14,618,060 after a use of balances of £700,000, which represents a net increase in spending of £572,580 or 4.1%. The gross budget requirement was subsequently increased by £60,000 to take into account additional anticipated costs associated with Local Government reorganisation in County Durham were to be funded from balances.

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 2007/2008.

***(b) 2007 / 2008 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 2007/2008.

The financial outturn position on the General Fund has improved considerably throughout 2007/2008, primarily as a result of the following items: -

- Salaries and Wages costs amount to approximately 30% of the gross spend on the Council's General Fund services, and as a consequence the relevant budgets are monitored very closely on a monthly basis. The Council set a savings target of £385,000 equivalent to a turnover rate of 4% for 2007/08. Actual outturn was considerably higher than predicted with a turnover rate of approximately 8%.
- Depending upon where staffing vacancies fell there has been a need to seek the appointment of agency staff; use of overtime or honoraria payments where it has been difficult to recruit a replacement to ensure continuity of service delivery in key service areas.
- During the year some of the volatile income budgets have been closely monitored to ensure material changes were identified at an early stage and corrective action taken to mitigate the shortfall of income. Overall income from these sources fell by £230,000. In the case of Leisure Centre income, operating costs were reduced accordingly.
- There was a small increase in investment income received over and above that predicted when the Budgets were set even after taking account of lower interest rates and impaired cashflow net of recharges to the housing revenue account mainly as a consequence of delays in the sale of some assets.
- There has also been a general underspend across all budget areas within all Portfolios particularly on operating costs

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

<b>Portfolio</b>	<b>What we Spent 2007/2008</b>		
	<b>Revised Budget £000</b>	<b>Actual Spend £000</b>	<b>(Under-spend) Overspend £000</b>
<b>Strategic Leadership*</b>	(4,936)	(4,9100	26
<b>Healthy Borough</b>			
- <i>Community Health</i>	162	162	-
- <i>Leisure &amp; Culture</i>	4,002	3,963	(39)
<b>Strong Communities</b>			
- <i>Housing</i>	2,144	2,214	70
- <i>Safer Communities</i>	927	1,067	140
<b>Prosperous Borough</b>			
- <i>Learning &amp; Employment</i>	816	933	(117)
- <i>Social Regeneration &amp; Partnership</i>	6,205	6,009	(196)
<b>Attractive Borough</b>			
- <i>Environment</i>	5,623	5,276	(347)
- <i>Planning &amp; Development</i>	455	440	(15)
<b>Other Savings</b>	(20)	-	20
<b>Budget Requirement</b>	<b>15,378</b>	<b>15,154</b>	<b>(224)</b>
<b>(Use of) / Contribution to Balances</b>	(760)	(536)	<b>224</b>
<b>Budget Requirement</b>	<b>14,618</b>	<b>14,618</b>	-

\* 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 capital accounting charges

The above table is shown on a non Financial Reporting Standard 17 basis.

The budgets for 2007/2008 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 the Council has only been required to use £536,000 of the Budget Support Fund as opposed to the budgeted use of balances of £760,000.

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 2007/2008 forecast that the Training Services account would make an operating loss of about £33,000 [excluding asset charges] by the 31<sup>st</sup> March 2008. As a consequence of significantly higher levels of income mainly generated by contracts with Job Centre Plus together with a prudent approach to spending on operating costs and savings on staffing costs, an overall surplus for the year amounted to approximately £119,000.

### 4.6 Revenue Provisions In to 2008/2009

In view of the Council's favourable outturn position, I have made provision in the 2007/2008 Accounts to carry forward unused resources for specifically identified purposes amounting to £617,270 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 in respect of the General Fund are as follows: -

	£
<i>Organisational Training &amp; Development Initiatives</i>	13,250
<i>Equality and Diversity Self Assessment</i>	7,900
<i>Aycliffe Town Centre – Legal Fees</i>	5,000
<i>Local Development Framework - Initiatives</i>	25,730
<i>Local Strategic Partnership - Initiatives</i>	83,000
<i>Upgrade to Council Tax software</i>	15,000
<i>Leisure Centre Fitness suite promotion</i>	8,000
<i>Community Economic Appraisals</i>	69,390
<i>LGR and Transition Plan</i>	380,000
<i>Community Investment Fund</i>	10,000
<b>Total Revenue Provisions</b>	<b>617,270</b>

The Council has received grant funding in respect of specific initiatives that was unspent at the 31<sup>st</sup> March 2008 amounting to £641,900. The budget framework already assumes that some of this grant funding will be utilised in 2008/2009, however if the specific programmes do not need all of the funds in the current financial year unspent resources will either be rolled forward into later years to meet specific requirements of the relevant initiatives or amalgamated into the Budget Support Fund depending upon the budget framework requirements of the new Unitary Council.

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. As at 31<sup>st</sup> March 2008 no settlement has been reached

	<b>£000</b>
<b>General Fund</b>	
<i>Planning Delivery Grant</i>	82,350
<i>Children's Fund</i>	4,910
<i>Local Enterprise Growth Initiative</i>	61,000
<i>LPSA – Cost Efficiency Grant</i>	93,540
<i>DEFRA - Waste Management &amp; Efficiency Grant</i>	35,980
<i>D o H – Smoke free Legislation</i>	25,000
<i>D o H – Communities for Health</i>	217,030
<i>DWP - Local Housing Allowance</i>	6,240
<i>DOT – Concessionary Fares</i>	80,400
<i>DWP – Employment Support Allowance</i>	35,450
<b>Total Grant Provisions</b>	<b>641,900</b>

#### **4.7 HOUSING REVENUE ACCOUNT**

##### **(a) 2007/2008 Initial Plans**

The funding of the Council's Housing Revenue Account (HRA) is very much driven by the Government. The Housing Subsidy System provides the resources for the funding of Council Housing throughout the country, via the annual Housing Subsidy Settlement. The Government via its Rent Restructuring methodology also controls the Council's annual rent increases. The Housing Subsidy and Rent Restructuring System have undergone major methodology changes over recent years and this has had a significant impact on the Council's HRA.

The 2007/08 Housing Subsidy settlement left the Council's HRA worse off. In terms of spending allowances for Management and Maintenance increased in excess of inflation by 3.97% and 4.34% respectively. In addition the Council's Major Repairs Allowance, which is used to finance the Council Housing Capital Programme, has been increased by 3.1%, which gives a grant figure of £5.061M for 2007/08, after accounting for adjustments in respect of falling stock numbers.

The continued implementation of the Government's Rent Restructuring methodology will lead to substantial rent increases for most of our tenants over the next few years so that full convergence with housing association rents can be achieved by 2012.

In overall terms, the Housing Subsidy Settlement has effectively left the Council's HRA in the position of having no additional resources available to fund inflationary pressures or committed service growth in 2007/08. The HRA remains in a negative subsidy position and indeed this has worsened under the new proposals. In 2006/07, £2.73M was paid over to the Government and it was forecast to increase to around £3.34M in 2007/08. So in effect £610,000 of the additional rent increase to be raised this year will be transferred to the Government to assist with social housing in other parts of the country.

The HRA faced inflationary pressures in respect of pay costs, pensions and energy costs.

There also had been some major changes in the funding of the Council's Carelink Service for 2007/08. Supporting People Grant has been withdrawn for Sheltered Housing Warden Services, and a new contract for the provision of Alarm Monitoring and Mobile Response Services within this Borough, Wear Valley and Teesdale was awarded to this Council at an annual contract value of £1.4m.

However, there has been a significant impact on the Council's HRA, as a result of the withdrawal of Supporting People funding for the Sheltered Housing Warden Service. This resulted in an additional call on the HRA Budget of around £300,000.

The poor Subsidy settlement left the HRA needing to make significant savings of around £400,000 in order to balance the Budget. The savings were achieved mainly through reduced revenue contributions to the capital programme, which have been replaced by use of Regeneration Capital Receipts, under the affordable Housing definition, in order to maintain and indeed enhance the capital programme budget for 2007/08. Significant efficiency savings were also achieved in respect of the Housing Maintenance Budget and small savings were also made on Housing Management Budgets and a reduction in the HRA Contingency Sum.

Budgeted spending on Housing Revenue Account services amounted to £30.085m. This included funding of £6.698m towards the Housing Capital programme in respect of the Major Repairs Allowance Grant from the Government of £5.061m (which is accounted for through the HRA) and Direct Revenue Support from rents totalling £1.637m.

Included in the spending total above is a payment of £3.34m, which will be made to the DCLG and used by the Government to support national housing priorities. This was an increase of £610,000 over 2006/07.

The increase in Housing Rents was in line with the Government guideline of 4.1% + £2 adjustment for rent restructuring. This had the impact of increasing the average base rent, prior to the rent restructuring adjustment, by £2.20 per week over 47 weeks. However very many tenants will face an additional adjustment of up to £2.00 towards target rents and overall the average rent increase on the Housing Revenue Account was 5%.

#### ***(b) 2007/2008 Actual Position***

The approved budget for 2007/08 assumed that the HRA would require the use of £100,000 from Balances to support the Service Improvement Plan. Cabinet in June approved a further use of HRA balances of £60,000 to fund the review of the Council's Stock Option appraisal. A further use of HRA reserves amounting to £411,000 was approved for initial works in respect of the potential stock transfer and £300,000 was allocated to clear the backlog of Disabled persons Adaptations.

In addition HRA balances of £843,000 were used to fund the HRA capital programme.

The outturn position to the 31<sup>st</sup> March 2008 is a use of HRA reserves of £1,949,000 compared to a revised budget use of £1,714,000.

Details of which are shown in the following table: -

	<b>What We Spent 2007/2008</b>		
	<b>Planned £000</b>	<b>Actual £000</b>	<b>(Under- spend) Overspend £000</b>
<b>Income</b>			
<i>House Rents Net of Voids and Bad Debts</i>	22,465	22,507	(42)
<i>Other Rents</i>	915	890	25
<i>Government Subsidies</i>	16	16	-
<i>Other Contributions and Charges</i>	4,879	4,899	(20)
<i>Mortgage Interest &amp; Investment Income</i>	96	108	(12)
<b>Total Income</b>	<b>28,371</b>	<b>28,420</b>	<b>(49)</b>
<b>Expenditure</b>			
<i>Management Costs</i>	11,184	11,658	474
<i>Maintenance Costs</i>	6,675	6,793	118
<i>Stock options and transfer Expenses</i>	471	261	(210)
<i>Capital Financing</i>	5,935	5,926	(9)
<i>Revenue Contribution to Capital #</i>	2,480	2,270	(210)
<i>Negative Subsidy Payable</i>	3,340	3,461	121
<b>Total Expenditure</b>	<b>30,085</b>	<b>30,369</b>	<b>284</b>
<b>Contribution from HRA Balances</b>	<b>1,714</b>	<b>1,949</b>	<b>235</b>

#includes £843,000 support to the HRA capital programme from HRA balances

The significant change in the outturn projection relates to a number of specific items:

- Costs associated with the Stock Transfer of £196,000 were incurred by 31<sup>st</sup> March 2008. The 2008/09 HRA budget assumed all spend would fall in that year and the budget was prepared on that basis. As a consequence savings of £196,000 will now be made in 2008/09. In the event of a no vote 40% of the £411,000 will fall to be met by the General Fund.
- The main features that account for the additional use of balances to those outlined above relate to the pension costs incurred by the HRA in respect of the TUPE transfer of staff to the Housing Partner for maintenance and capital works. Total costs of approximately £750,000 were incurred in respect of the transfer of the pension liability with 50% being reimbursed by the Housing partner.
  - Some additional costs were also incurred in connection with set up costs for the new contracting arrangements.
  - In summary, the use of balances is higher than originally planned however some of these costs were anticipated to fall as a charge against the 2008/09 HRA budget. These costs will not now be incurred in the current year and it is anticipated that a sum equal to the early costs incurred will be returned to balances by the end of the financial year 2008/09. If these costs are removed from the comparison then the HRA would have shown a saving of £336,000 in 2007-2008.

Other factors to take into account in considering the outturn financial position are: -

- Overall net Rental income was approximately £43,000 higher than original budget forecasts as a consequence of lower than anticipated Right to Buy Sales, rental loss from void properties is also down as a result of quicker turn round times on changes in tenancy and improved maintenance performance.
- As a consequence of “credit crunch” interest rates remained much higher during the latter part of 2007-2008 than was expected; this was tempered by lower investment returns due to delays in the sale of some assets and the reduced levels of RTB sales. Overall level of interest receivable in the HRA has increased.
- A significant proportion of the costs of providing the Housing Service are employee based. Each vacant post has been assessed to determine the likely date by which they will be filled and the overall impact on costs. Overall there were savings amounting to approximately £56,000 in 2007-2008.
- The repairs and maintenance budget has been adjusted to reflect the declining recovery rates in respect of rechargeable housing repairs.
- None of the contingency sum was required in 2007/08.
- It was originally planned to use £2.48m from revenue to support the Housing capital programme. The outturn requirement of £2.27m is a result of some of the spend charged initially to capital not meeting the specific definition of capital spend (such as environmental works) and consequentially it was transferred into revenue with the revenue support to capital being reduced pro rata. This adjustment partly accounts for the overspend on maintenance costs, which before the inclusion of the environmental maintenance works was showing an underspend against approved budget.
- The amount of subsidy payable to the Government increased by £121,000 to £3,461,000. Whilst overall costs in respect of managing the HRA debt portfolio fell it meant that the surplus on the notional subsidy HRA subsequently increased leading to the increased repayment.

#### **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 31<sup>st</sup> March 2008. The overall level of resources available to the Council has fallen by £2.761m compared to the balances as at 31<sup>st</sup> March 2007. The use of General Fund reserves is broadly in line with the expectations used when the 2007/2008 budgets were approved in February 2007.

		<i>Balances at</i>	
		<i>31/3/2007</i>	<i>31/3/2008</i>
		<i>£000</i>	<i>£000</i>
<b>General Fund</b>			
<b><i>Earmarked Reserves</i></b>			
	<i>Budget Support Fund</i>	1,444	908
	<i>Insurance Fund</i>	1,231	1,181
	<i>Economic Development Fund</i>	103	77
	<i>LABGI – Economic Growth Fund</i>	558	554
	<i>Asset Management Fund</i>	402	302
	<i>Private Sector Housing Fund</i>	203	103
	<i>Training Services Fund</i>	445	564
	<i>Youth Development Fund</i>	64	36
	<i>MRP (Debt Repayment) Fund</i>	256	106
	<i>Building Control Fund</i>	14	11
	<i>Other Earmarked Funds</i>	65	131
		<b>4,785</b>	<b>3,973</b>
<b><i>Non-Earmarked Reserves</i></b>			
	<i>General Reserves</i>	<b>2,240</b>	<b>2,240</b>
<b>Housing Revenue Account</b>			
	<i>HRA Working Balance</i>	<b>3,382</b>	<b>1,433</b>
	<b>Total Reserves</b>	<b>10,407</b>	<b>7,646</b>

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] anticipated that by the end of 2008/2009 all of the fund will have been utilised. As a result of the much smaller use of the Fund during 2007/2008, it is now anticipated that there will be a balance on the Fund at the end of the 2008/2009 financial year.

#### ***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 it 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 will be fully utilised by 31<sup>st</sup> March 2009.

#### ***LABGI – Economic Growth Funds***

These were set up using LABGI grant received during the last two years and are to be used to assist the Council to promote a range of initiatives to increase the economic base within the Borough. It is anticipated that by the end of 2008/2009 all of the funds will have been utilised.

### ***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 by the end of 2008/2009 all of the fund will have been utilised.

### ***Private Sector Housing Fund***

This fund was established some years ago, when Housing Association loans were repaid, to provide support to private sector housing regeneration initiatives. The MTFP anticipates that by the end of 2008/2009 all of the fund will have been utilised.

### ***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. The level of the fund is down to the activities of the training services and any surpluses or deficits directly affect its level.

### ***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 15% 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. In the event of a no vote by the Housing Tenants in respect of the Stock Transfer vote some of the costs associated with the pre ballot preparations will fall on to the General Fund. To this end £164,000 of the General Fund reserve will be earmarked to pay for this eventuality.

### ***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.

## **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 2007 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 2008/2009, that surplus was estimated at £694,900. As at the 31<sup>st</sup> March 2008 there was an accumulated surplus on the Fund of only £404,000. Whilst a higher level of funds has been distributed than is currently being held the shortfall will be collected during 2008/2009.

Sedgefield Borough Council utilised £157,000 of the assumed surplus to set its own level of Council Tax in 2008/2009 whilst the actual share of the Collection Fund balance at 31<sup>st</sup> March 2008 was £91,500.

## **4.9 CAPITAL INVESTMENT & FINANCE**

### ***(a) Capital Investment in Sedgefield Borough 2007/2008***

In preparing the Council's Capital Budgets for 2007/2008 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 2007/2008 was subsequently set at £20m with £5.36m set aside for General Fund Services, £8.4m for Council Housing Services and £6.24m for Major Regeneration Initiatives to be funded from Housing Land Capital Receipts.

Taking into account additional external funding secured during the year, brought forward commitments and approved changes for additional schemes (such as the Neighbourhood Enhancement Programme) the total gross spending target was £25.949m with £8.603m for General Fund, £8.669m for Council Housing and £8.677m for Major Regeneration Initiatives.

The figures in the tables below detail the actual gross and net capital expenditure in 2007/2008 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 2007/2008 General Fund Capital Programme (including the Major Regeneration Programme) can be summarised as follows: -

<b>Portfolio</b>	<b>Net Capital Programme Budget £000</b>	<b>Gross Capital Programme Budget £000</b>	<b>Actual Gross Spend* £000</b>	<b>Less Capital Grants and Contributions £000</b>	<b>Actual Net Spend To Finance £000</b>
<b>Strategic Leadership</b>					
ICT and E-Government	1,218	1,218	844	(12)	832
Green Lane	100	100	55	-	55
Chilton Depot	86	86	55	-	55
<b>Healthy Borough</b>					
Community Health	84	84	87	-	87
Leisure and Culture	1,874	2,084	721	(122)	599
<b>Prosperous Borough</b>					
Social Regeneration	951	1,116	748	(294)	454
Learning and Employment	362	874	795	(410)	385
Major Regeneration	8,677	8,677	4,865	-	4,865
<b>Attractive Borough</b>					
Environment	48	123	142	(76)	66
Planning and Development	157	211	201	(38)	163
<b>Strong Communities</b>					
Housing (Private Sector)	2,418	2,418	1,585	(1,485)	100
Safer Communities	131	169	120	(69)	51
<b>Contingency</b>	120	120	-	-	-
<b>TOTAL</b>	<b>16,266</b>	<b>17,280</b>	<b>10,218</b>	<b>(2,506)</b>	<b>7,712</b>

\* Net of de minimus 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 commencement or completion of a number of schemes on the Social Regeneration and Major Regeneration Initiatives Capital Programme mainly in respect of LIP projects, Cobbler's Hall redevelopment and the Arts Resource Centre.
- A number of ICT capital projects were delayed or did not go ahead as planned during the year due to the uncertainties regarding the Local Government Reorganisation.
- Leisure & Culture have overspent on the overall control total for this portfolio. This is partly as a result of additional costs on some of the projects and additional approved schemes being brought into the programme.

- 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 revitalisation of the Council's dwellings and associated land and infrastructure. The significant areas of the Programme in 2007/2008 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 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 2007/2008 Council Housing Capital Programme can be summarised as follows:

<b>Scheme</b>	<b>Capital Programme Budget £000</b>	<b>Net Spend To Finance £000*</b>
<b>Council Dwellings</b>		
<i>Tenant Led Improvements</i>	-	7
<i>Kitchen and Bathroom Improvements</i>	1,000	1,673
<i>Bathroom Replacements</i>	440	239
<i>Structural Repairs</i>	-	155
<i>Central Heating</i>	3,950	3,979
<i>P.V.C.U. Doors / External Joinery</i>	-	112
<i>Re-roofing Works</i>	416	803
<i>Other Council Housing Works</i>	1,640	196
<b>Other Works</b>		
<i>Disabled Persons Adaptations</i>	80	71
<i>Council Shops</i>	20	11
<i>Sheltered Housing</i>	793	263
<i>Other Land and Buildings</i>	330	399
<b>Total</b>	<b>8,669</b>	<b>7,908</b>

Overall the Council spent £18.126m gross on the 2007/2008 Capital Programme against a gross spending target of £25.949m. The financing of the capital programme outturn is detailed in the section below.

#### (d) Capital Financing in 2007/2008

The following table sets out how the 2007/2008 Capital Programme was financed: -

	£000
<b>Expenditure to Finance</b>	
General Fund	10,219
HRA	7,907
<b>Total</b>	<b>18,126</b>
<b>Financed By</b>	
Major Repairs Allowance (MRA)	5,061
Capital Receipts	7,837
Capital Grants	2,171
Capital Contributions	353
Direct Revenue Financing	2,491
Supported Capital Expenditure	213
<b>Total</b>	<b>18,126</b>

#### (e) Capital Programme – Carry Forward to 2008/2009

The following table highlights the outstanding commitments on each portfolio's capital programme, which will need to be carried forward into 2008/2009 to meet on-going expenditure plans. These allocations are in addition to the already approved 2008/2009 capital programme and the 2008/2009 control totals will need to be adjusted accordingly: -

<b>Portfolio / Capital Programme</b>	<b>Slippage &amp; Savings / (Overspend) 2007/08 £000</b>	<b>Commitments/ Carry Forward To 2008/09 £000</b>
<b>Strategic Leadership</b>		
ICT and E-Government	374	197
Green Lane	45	-
Chilton Depot	31	19
<b>Healthy Borough</b>		
Community Health	(4)	-
Leisure and Culture #	1,363	1,428
<b>Prosperous Borough</b>		
Social Regeneration	368	304
Learning and Employment	79	80
Major Regeneration	3,811	3,400
<b>Attractive Borough</b>		
Environment	(19)	-
Planning and Development	10	15
<b>Strong Communities</b>		
Housing (Private Sector)	833	830
Council Housing (HRA)	761	493
Safer Communities	50	48
<b>TOTAL</b>	<b>7,702</b>	<b>6,814</b>

# Includes carry forward commitments financed from Capital contributions

## **(f) Usable Capital Receipts**

As a consequence slippage and other savings on the 2007/2008 Capital Programme and the Capital Receipts generated during the year, the Council has Usable Capital Receipts available to finance future capital works, amounting to £10.978m as at 31<sup>st</sup> March 2008. In accordance with decisions taken by Council in July 2004, £9.32m 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 2007/2008 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 27<sup>th</sup> February 2007.

#### **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 2007/2008 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 2007/2008 Budget Framework.

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**Ward:** Not Ward specific  
**Key Decision:** Validation

**Background Papers:**

- ~ Report to Council 27<sup>th</sup> February 2007 – Budget Framework 2007/2008.
- ~ Report to Council 5<sup>th</sup> July 2007 – Statement of Accounts 2006/07
- ~ Reports to Cabinet 27<sup>th</sup> September 2007- Revenue & Capital Budgetary Control Report – Position at 31<sup>st</sup> July 2007
- ~ Report to Cabinet 1<sup>st</sup> November 2007 – Interim Capital Programme Review 2007/08
- ~ Reports to Cabinet 22<sup>nd</sup> November 2007- Revenue & Capital Budgetary Control Report – Position at 30<sup>th</sup> September 2007
- ~ Reports to Cabinet 28<sup>th</sup> February 2008- Revenue & Capital Budgetary Control Report – Position at 31<sup>st</sup> January 2008
- ~ Reports to Cabinet 3<sup>rd</sup> March 2008- Revenue Budgetary Control Report – Position at 31<sup>st</sup> December 2008

**Examination by Statutory Officers:**

	<b>Yes</b>	<b>Not Applicable</b>
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"/>

**SUBSTANTIVE CHANGES INTRODUCED INTO THE 2007 SORP**

In England the SORP is part of the 'proper practices' requirements governing the preparation of an authority's Statement of Accounts referred to in section 31 of the Local Government Act 2003. All authorities to which section 21 applies are required to prepare a Statement of Accounts by the Accounts and Audit Regulations and therefore have a statutory duty to comply with the SORP requirements.

The substantive changes introduced into the 2007 SORP that impact on Sedgefield borough are: -

- The replacement of the fixed asset restatement account and capital financing account by a revaluation reserve and capital adjustment account.
- Some new disclosures in respect of Local Area Agreement grant
- New disclosure requirements in respect of financial instruments, which includes loans and receivables and an assessment in respect of their fair value.

The above features have been factored into the Statement of the Accounts and where applicable corresponding figures for 2006/07 have been recast. The details of how the changes have impacted on the council's net worth are shown in Paragraph 7 of the statement of accounting practices on pages 28 and 29.

The new disclosure notes have been incorporated into the document with full details in respect of the financial instruments disclosures shown in pages 59-64